

Reputational Risk Memorandum – CAF – NAVARRO
Sponsorship and referral

Business Division(s) involved: DB Private Wealth Management
Global Unit Sponsor: Fabrizio Campelli
Unit Sponsor: Patrick Campion
Deal Sponsor (MD minimum): Joanne Jensen
Committee/Unit requesting referral:
Principal business contacts: Joanne Jensen, Jessica Wilbur

Statement of matter

There are three points to be considered by the CAF:
Sherman Financial Group – RDC alert, 5/2014 – Press release from NY State Attorney General detailing a settlement due to filing debt collection actions outside of the required statute of limitations, \$175K (see “RDC_Sherman_NY” attached)

Resurgent Capital – Article found in internet search, 7/11/2012 – Baltimore Business Journal article detailing a voluntary settlement between Resurgent Capital and the Maryland State Collection Agency regarding debt collection cases, \$1MM (see “Article_Resurgent_BBS” attached)

Resurgent Capital - RDC alerts and research – included 2 settled court cases, which are due to the nature of the entity’s business, distressed consumer debt:
NY, 2013 - Resurgent pays \$50K for mortgage license violation and agrees to get/stay in compliance with state laws (see “RDC_Resurgent_NY” attached)
AZ, 2014 - Resurgent pays \$95K for a disclosure violation on license renewal applications and a mislabelled trust account and agrees to get/stay in compliance with state laws (see “RDC_Resurgent_AZ” attached)

Rationale for referral

Research was run on all relevant parties and generated most of the aforementioned material. Given the timely nature of the subject transaction (detailed in point 7), we flagged these points to Andrew Gallivan and Kim Hart and a CAF meeting was recommended.

Statement of support

We confirm that Andrew Gallivan has reviewed the financial and non-financial risks of the transaction, including the reputational risks, and supports proceeding with the transaction.

Impact

DBAG, DBTCA

Details of the proposed action or transaction

The proposed transaction is a credit facility of up to \$500MM, to finance the acquisition of a 60% stake in the Carolina Panthers National Football League (NFL) Franchise, preliminary terms and conditions are as follows:

Lender

Deutsche Bank AG, NY & JP Morgan

DB Commitment

Up to \$500MM

Borrower

TBD – Newly formed Holding Company to be 100% owned by Ben Navarro and affiliates

Guarantors / Pledgors

Ben Navarro & 5 family trusts

Maturity

5 years

Repayments

2 Years I/O

Amortization to begin on the second anniversary, and continue on each anniversary in an amount equal to 20% of the original loan balance

Bullet of \$200MM at maturity

Sale Proceeds

Purchase the Carolina Panthers

Security

First priority secured interest of the Pledgor's \$4.6B equity interest in Sherman Financial Group's business assets:

Credit One Bank

\$3.9B

Resurgent Capital

\$0.5B

Kroll Bond Rating Agency (KBRA)

\$0.1B

Wharf Real Estate

\$0.1B

+ Wharf Street Ratings Acquisition, LLC and Fulton Street, LLC (collectively "the OpCos")

+The liquidating distributions due to the Borrower in the event of a sale of its ownership in the team

Comps and Margin Calculation

Lending has determined the following companies to be acceptable comparables to Credit One:

Capital One (NYSE: COF)

Synchrony Financial (NYSE: SYF)

Alliance Data Systems (NYSE: ADS)

Discover Financial (NYSE: DFS)

American Express (NYSE: AXP)

On a quarterly basis, Lending will review Credit One against the median P/E multiple of these comparables and re-adjust the LTV of the collateral, requesting additional margin be posted if/when necessary.

Covenants

Guarantor: Minimum Net Worth, Minimum Liquidity, Minimum Liquidity at DB

Borrower: To main 100% ownership of Navarro interest in the Carolina Panthers at all times. No additional indebtedness.

Credit One : [TBD]

Other Assets: Net Worth, [XX%] decline in earnings

Reporting Covenants

Financial Statements - 45 Days after Quarter End

Audited Financial Statements - 90 Days after Quarter End

TBD Reporting covenants on Guarantor

Client details

Navarro Relationship Overview:

Joanne Jensen has known Ben Navarro since 1993, when she worked for him on the Institutional Fixed Income Sales desk at Citi

In 2008, Joanne provided Ben with \$440MM for the acquisition MGIC and Radian's interest in Sherman

In 2013, Joanne introduce Ben to DB WM client Jules Kroll as a potential investor in Kroll Bond Rating Agency (KBRA). Ben acquired a 10% interest in the company. In 2015, Deutsche Bank advised Kroll on the sale of his remaining stake in KBRA, which Ben acquired for \$320MM.

Client Background:

Ben Navarro is the Founder and CEO of Sherman Financial Group ("SFG").

Prior to SFG, he was the Co-Head of Mortgage Sales and Trading for Citicorp, with responsibility for the firm's purchases, securitizations, and sales of residential mortgages to institutional clients

Top 10 salesperson on Wall Street, focused on credit-sensitive assets

Navarro spent three years with Goldman Sachs on the Whole Loan and Agency MBS desks

Started his career at Chemical Bank, where he completed the credit-training program and spent two years issuing loans to mortgage banks and thrifts

Active philanthropist, establishing a \$90MM foundation for education related endeavours

Prominent member of the Charleston community, funding three schools in the area and residing on the board of the Medical University of South Carolina

Sherman Financial Group:

The nation's largest privately held consumer finance company, generating over \$2B in revenue in 2017

Major underlying companies are: Credit One Bank, Resurgent Capital Services, Kroll Bond Rating Agency, and a small Real Estate business (not included in this transaction):

Credit One Bank:

OCC-regulated national bank, issues and services near-prime credit cards, operates under a CEBA charter (no bank holding company treatment)

"Highly (OCC) rated institution" with no Matters Requiring Attention (MRA)s

in the past 8 years

Credit One has been extraordinarily successful, generating \$956.9MM pre-tax earnings in 2017 and an estimated \$1.1B and \$1.2B in 2018 and 2019, respectively. JP Morgan recently valued them at \$1.1B.

9th largest MasterCard/Visa issuer, with over 9 million customers, portfolio totalling approximately \$5.8B

The Bank exclusively originates and services the portfolio, then sells it at par to a SPV under Sherman's ownership

The company employs low leverage, with a Debt/Equity of 2.1x, which is below 2.4x of comparable public companies

Resurgent Capital Partners

Resurgent is a CFPB-regulated purchaser of distressed consumer debt. They have spent \$5.8B purchasing over \$280B of distressed consumer debt, and have generated cash recoveries of \$12.6B.

In 2017, Resurgent saw revenues of \$515MM and pre-tax earnings of \$109MM

KBRA

One of 10 Nationally Recognized Statistical Rating Organizations (NRSROs) and one of only 5 fully licensed in all rating categories

Navarro purchased KBRA in 2015. Since acquisition the company has expanded its areas of ratings and increased revenue 30%

Has issued 9,000+ ratings to date, rating over \$775BN in bond issuance

Currently expanding internationally into Europe and Canada

2017 Revenue of \$93MM and EBITDA of \$13MM, no debt

Wharf RE

Opportunistic real estate investment entity, with assets in Delaware, Florida and Ireland

Partners with experienced operators and developers to pursue opportunistic acquisition of off-market real estate assets

Value is currently estimated to be \$410MM, with a cost basis of \$250MM

Property is all owned outright, without the use of debt

Reputational risk(s) identified

Sherman Financial Group – RDC alert re: NY Settlement

On 5/9/2014 SFG settled with the NY Attorney General on what were considered improper debt collection actions, given they were filed with the courts outside of the required statute of limitations.

In NY state debt collectors are required to file default judgements subject to the statute of limitations in the state where the credit accrual occurred (i.e. if it occurred in DE, statute is 3 years, while NY is 6 – the shorter statute governs)

In April 2010 – NY Court of Appeals reaffirmed the required compliance with these statutes. Per the article SFG complied from then on, but still proceeded with the approximate 400 judgements obtained prior to.

Settlement terms mainly included: vacating the 400 improper judgements,

paying civil/state penalties of \$175K and making key enhancements to their debt collection practices in NY (namely updating disclosures).

Resurgent Capital – Baltimore Business Journal article found in internet search

On 7/11/2012 the Baltimore Business Journal published an article detailing a voluntary settlement reached between Resurgent Capital Services, LP and the Maryland State Collection Agency.

The agreement resolved allegations that Resurgent had violated fed and state debt collection laws – however did not constitute an admission of guilt, rather the company cooperated and denied any liability and wrongdoing.

Resurgent, and a second company paid \$1MM penalty, exited the 3,600 subject cases and agreed to give \$3.8MM in credits to 6,200 cases already concluded.

Resurgent Capital - RDC alerts and research – included 2 settled court cases due to the nature of the entity's business:

NY – Resurgent pays \$50K for mortgage license violation and agrees to get/- stay in compliance with state laws, 2013

AZ – Resurgent pays \$95K for a disclosure violation on license renewal applications and a mislabelled trust account and agrees to get/stay in compliance with state laws, 2014

Mitigating factor(s)

Sherman Financial Group

RDC alert re: NY Settlement

Mitigants:

On 3/6/2018, Navarro confirmed to MD Joanne Jensen that everything has been settled for this case – fines are paid, subject cases were exited accordingly and they continue to comply with the enhancements required by the courts.

400 cases is minimal in scale/impact in comparison to the overall debt managed by SFG and its underlying entities. SFG has purchased over 50MM cases.

Navarro also confirmed that he was unaware that the 400 cases were still being pursued following the 2010 reaffirmation.

Resurgent Capital

Resurgent Mitigants:

Resurgent contracts out all debt collection to debt collection agencies. They can terminate them if they are not upholding their legal/compliance standards.

Resurgent retains:

A group of approximately 30 compliance officers, whose job it is to monitor state and federal regulations. Per Navarro – this is an advantage that most competitors do not have given the expense.

A group specifically designated to monitor and address all customer complaints

We also note that Resurgent and Credit One Bank are completely separate entities. While Credit One does sell delinquent accounts, Resurgent must

compete to win this business.

Baltimore Business Journal article found in internet search, 7/11/2012

Mitigants:

On 3/6/2018, Navarro confirmed to MD Joanne Jensen that at the onset of Resurgent's debt collection in MD, they had written a letter to the state inquiring as to whether a certain license to collect debt was required. They received a return letter from the state saying that they did not. However when Navarro's attorneys referenced the letter in the subject court case it was thrown out by the judge, who stated that they should have been aware regardless.

As referenced above – this case did not constitute any admission of guilt, but rather was an "agreement," likely involving the aforementioned circumstance.

Navarro also confirmed that everything has been settled for this case as well – fine was paid and relevant debt-collection cases were exited.

Resurgent Capital – RDC Alerts and Research

Both alerts for cases are settled over three years ago, and are due to the normal course of Resurgent's business. The company paid fairly minimal fees and is in compliance with NY and AZ state laws.

Relationship Mitigants:

As detailed above, Navarro has had a storied career and is a very public, upstanding figure, in both business and community

Ben Navarro has been vetted and approved by the NFL to bid for the team
The majority of Navarro's businesses are heavily monitored, i.e. Credit One, KBRA

Sherman and its entities have upheld the requirements to continue to hold the aforementioned bond licenses for KBRA

Business rationale

Given the mitigants detailed herein, Joanne Jensen's 25+ year relationship with Navarro, and his pristine reputation, we feel comfortable proceeding with the potential client and the proposed transaction.

Internal processes

Compliance - Research has been run on all of the OpCos and Navarro. Results produced minimal Fircosoft/RDC hits, which are all detailed herein. Full KYC will be completed/approved and research will be run on the trusts ahead of the close of this transaction.

Appendix – Feedback from Subject Matter Experts

For internal use only

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The term Unit collectively refers to Business Divisions, Infrastructure Functions and Regional Management at all levels.