



Investments in Publicly Traded CDFI Banks Catalyzed by ECIP

Prepared by:

Andrew Porter, Senior Analyst, Stepping Stone Partners

andrew@steppingstonepartners.com 610-506-3376

Key points:

- In September of 2022 the Department of Treasury provided \$8.3 billion of Covid relief to CDFI and MDI banks through a program called [Emergency Capital Investment Program](#) (“ECIP”). This program provided substantial equity-like awards ranging from \$60-500 million to encourage these organizations to increase their financial services to low- and moderate-income, rural, and minority communities.
- Some recipients are publicly traded, and these large cash infusions [attracted the attention of some deep value seeking investors](#).
- ECIP awards not only strengthen balance sheets but also will drive future earnings as the funds are deployed into interest earning loans.
- We believe CDFI and MDI banks will fare relatively well in the current environment just as they did in the financial crisis and many trade at deep discounts based on book value and earnings.
- These organizations also provide responsible financial services in otherwise underserved communities, providing alternatives to predatory players.
- We evaluated a dozen publicly traded ECIP recipients based on metrics including book value, earnings and success receiving CDFI Fund grants.
- Based on current price and fundamentals we bought a basket of six we believe are the best value.

Background:

I learned about the Treasury Department’s [Emergency Capital Investment Program](#) in an unlikely place: the 3Q22 [newsletter](#) of microcap investor Dave Waters of Alluvial Capital. Waters and a number of other small cap investors, like Tim Eriksen of [Cedar Creek](#) and a Santa Monica-based person who goes by the Twitter handle @oracleof90402, all followed an anonymous Twitter personality @dirtcheapstocks into the community banking space, where I reside.¹ At [Stepping Stone Partners](#) we help wealth management firms and

¹ Because I spend a lot of time poring over the balance sheets of CDFIs, at first I felt a twinge of embarrassment at not having discovered this opportunity sooner than these hedge fund guys. At the risk of starting off on the defensive, I’ll just say that CDFIs receiving a large slug of capital from Treasury is nothing unusual, especially related to Covid-recovery. In any case I got over this feeling quickly because of what a great opportunity this might be! How often does the “Twitter-verse” present you with a basket of undervalued stocks that happen to be in your area of expertise?



foundations invest in Community Development Financial Institutions (“CDFIs”), the very recipients of the ECIP money. There are over 1350 CDFIs across the country, yet only 178 are banks and thus eligible to receive ECIP awards. Of those, only about 12-15 are publicly traded.²

In his [writeup](#), Mr. Dirtcheapstocks lists 10 publicly traded ECIP recipient banks and presents a very rosy, “can’t-miss” analysis of the program and the outlook for the banks. The other microcap investors mentioned above each had their favorites, but there was little consensus among them about which were best. Rather than get into why these other investors favored the ones they did, I will explain below how I conducted my analysis and why I believe the best buys today are: **PCB, CBOBA, BFCC, BYFC, SFDL and UBAB**.

Below are the 13 ECIP recipients that are publicly traded. The first column indicates which banks are favored by which investors, including Stepping Stone Partners (“SSP”) - our favorites are also in bold. This table illustrates the potentially transformative nature of the program for these banks: note that the ECIP amount awarded often exceeds the market cap!

Investor(s)	Bank Name	Ticker	Exg	Market Cap	ECIP Amt
Cedar Creek	M&F Bancorp	MFBP	Pink	45,096,000	80,000,000
Cedar, Santa Monica	Citizens Bancshares Corp	CZBS	Pink	82,160,000	95,700,000
Alluvial, SSP	BankFirst Capital Corporation	BFCC	OTCQX	198,362,000	175,000,000
SSP	PCB Bancorp	PCB	Nasdaq	205,765,000	69,100,000
Santa Monica, SSP	Security Federal Corp	SFDL	Pink	82,989,000	82,900,000
Alluvial, Santa Monica, SSP	United Bancorporation of Alabama	UBAB	OTCQX	141,202,000	123,750,000
	Ponce Financial Group	PDLB	Nasdaq	201,215,000	225,000,000
Alluvial, SSP	Bay Community Bancorp	CBOBA	Pink	65,541,060	119,400,000
SSP	Broadway Financial Corp	BYFC	Nasdaq	80,197,000	150,000,000
	Harbor Bancshares	HRBK	Pink	74,312,500	75,038,000
Santa Monica	Merchants and Marine Bancorp	MNMB	OTCQX	52,881,000	50,595,000
	NMB Financial Corporation	NMBF	Pink	64,862,057	40,916,000
	IBW Financial Corp	IBWC	Expert	14,858,000	81,938,000

When I first came across the [@dirtcheapstocks](#) writeup at the end of 2022 it seemed that I was late: the share prices of some stocks were up 30-50% from the date of the writeup in early October, 2022. But in the wake of the Silicon Valley Bank collapse, I thought there might be a dip to buy, so I took another look.

From my work with CDFIs, I felt the stresses affecting SVB, Signature, First Republic and others would have limited impact on the business model of CDFI banks which would make them more likely to weather the crisis affecting other banks. Why?

² CDFI Credit Unions (about 500) and Minority Depository Institutions (MDIs) (143) were also eligible to receive ECIP. Credit Unions are cooperatively owned by their members and not publicly traded. MDIs may or may not be certified as CDFIs, yet were still eligible to receive ECIP, and many did. Our analysis also included 21 MDI Banks or Bank Holding Companies that received ECIP.

1. CDFI Banks focus on customers in low income communities, where they are less likely to have a large number of customers with deposits over \$250k. Even when customers approach those levels, CDFI Banks report that they encourage their customers to open multiple accounts or take advantage of programs that spread deposits among several FDIC insured banks.³
2. CDFI Banks have performed better than their mainstream counterparts during banking crises. Most notably, during the 2008-2009 crisis, there were very few CDFI banks that went under and even at the height of the crisis, most CDFIs reported very strong loan portfolio performance. This pattern continued during Covid, when CDFIs performed well, especially with small businesses, helping their clients not only survive but also repay their loans.
3. CDFI Banks will continue to benefit from programs that provide grants and low-cost capital for economic redevelopment at the federal and state level. CDFIs have proven over 30 years that their business model is sustainable and they are effective at reaching historically underserved people and communities. Programs like New Markets Tax Credit (NMTC), Capital Magnet Fund (CMF), and Bank Enterprise Award (BEA) all provide bottom-line benefits to CDFI Banks as they direct financial products and services for community development activities.

Analysis:

So, with inspiration from Twitter and my experience working with CDFIs, here's how I selected my favorites. For the 13 CDFI/MDI Banks that are both publicly traded and received ECIP, I collected the following:⁴

1. Location, Ticker, Other Investors, FDIC #
2. Total Assets, Total Equity/Book Value, 2022 Net Income
3. Market Cap, 52-week price range, current price, Avg Daily Volume
4. Success achieving support from the CDFI Fund

Armed with this data set, I started the analysis process looking at:

1. Valuation:
 - . Book Value – Market Cap/Total Equity -- look to buy at less than total book value
 - . Earnings – Market Cap/2022 Earnings - look for decent PE ratio – recognizing earnings will go up as ECIP awards are deployed into income earning loans
 - . Price/share – would like to see at the lower end of 52 week range
2. Volume:
 - a. Be aware that it may be hard to buy shares in very thinly traded stocks. Plan to hold for longer term. Go for larger volume shares first to test the markets.
3. Other factors:

³ For example, Intrafi offers ICS and CDARS <https://www.intrafinetworkdeposits.com/>

⁴ See Appendix for the complete set of data we collected



- a. Like to see a track record of winning support from the CDFI Fund – indicates they have passed CAMEL and Impact reviews – focused on target market needs. Also provides meaningful earnings and capital boosts.

Bank Name	Ticker	Price	Market Cap	Shareholder Equity	Book Val %	P/E	52-wk High	52-wk Low
M&F Bancorp	MFBP	22.96	45,460,407	118,058,000	0.39	9.86	30.75	6.20
Citizens Bancshares Corp	CZBS	37.50	77,999,887	75,436,231	1.03	5.19	49.00	10.48
BankFirst Capital Corporation	BFCC	36.75	196,756,008	337,335,000	0.58	9.53	43.75	27.10
PCB Bancorp	PCB	14.19	203,163,616	335,442,000	0.61	7.53	21.00	12.86
Security Federal Corp	SFDL	21.56	70,139,205	160,233,000	0.44	8.11	30.00	21.56
United Bancorporation of Alabama	UBAB	34.75	125,302,592	212,606,784	0.59	6.11	44.00	25.35
Ponce Financial Group	PDLB	7.73	192,110,033	492,700,000	0.39	-7.06	10.04	6.51
Bay Community Bancorp	CBOBA	7.60	65,646,722	68,033,453	0.96	8.26	10.50	6.62
Broadway Financial Corp	BYFC	0.92	44,795,947	192,977,000	0.23	12.63	1.89	0.83
Harbor Bancshares	HRBK	23.25	28,363,255	16,737,561	1.69	0.85	26.00	3.75
Merchants and Marine Bancorp	MNMB	37.00	49,222,506	120,890,518	0.41	23.84	41.50	36.00
NMB Financial Corporation	NMBF	13.00	64,862,057	139,400,000	0.47	7.56	17.55	2.00
IBW Financial Corp	IBWC	23.00	15,372,050	94,700,000	0.16	12.85	30.00	22.00

Based on this analysis, we have prioritized the following investments:

- PCB Bancorp, California (PCB)
- BankFirst Capital, Mississippi (BFCC)
- United Bancorp of Alabama (UBAB)
- Bay Community Bancorp, California (CBOBA)
- Broadway (CityFirst) Financial, California and DC (BYFC)
- Security Federal, South Carolina (SFDL)

All of these share the following characteristics:

- Low market capitalization to shareholder equity ratio – I can buy the whole bank for a fraction of the shareholder equity, looking for the ratio of market value to book value to be below 1.00.
- Profitability – While the reported banking industry average PE⁵ over the past three years has been 12.1, I’d like to buy at or below that level. I’m bullish on future earnings increasing as the ECIP funds are deployed.
- Off the highs – While I should be comfortable investing at whatever price my analysis supports, I do prefer to see that the prices have come off the highs.

⁵ <https://simplywall.st/markets/us/financials/banks> Reports the 3 year average PE ratio for U.S. Banks is 12.1; and it has fallen recently to 8.2 as of May 24, 2023



APPENDIX: Initial Data Collection

ECIP Research

April 11, 2023

Name, Location, Other	Yahoo Finance Stats	CDFI Fund Information
M & F Bancorp Durham, North Carolina Ticker: MFBP (Pink) Investors: Cedar Total Assets: \$429million Equity: \$52.6million 2022 NI: \$4.4million FDIC#: 12266	52 wk: 6.2-30.75 3/29: 21.56 Div: 0.62% Mkt Cap: \$45million Avg Daily Vol: 2k	\$80mm ECIP – Sept 2022 MDI not a CDFI No FA or other Awards \$2.5mm ERP-Apr2023
Citizens Bancshares Atlanta, Georgia Ticker: CZBS (Pink) Investors: Cedar, S.M. Total Assets: \$807million Equity: \$62.8million 2022 NI: \$9.9million FDIC#: 8033	52 wk: 10-49 3/29: 39 Div:1.97% Mkt Cap: \$82million Avg Daily Vol: 3.5k	\$95.7mm ECIP – Sept 2022 \$1.8mm RRP – 2021 \$700k BEA - 2021 No FA BEA almost every year \$500k ERP-Apr2023
BankFirst Capital Macon/Columbus, Mississippi Ticker: BFCC (Pink) Investors: Alluvial Bot Mechanics (MS) Jan 2023 (\$500million Total Assets) Total Assets: \$2.4 Billion Equity: \$283million 2022 NI: \$25million FDIC#: 8870	52 week:27-44 3/29: 37 Div:2.24% Mkt Cap: \$198million Avg Daily Vol:2k	\$175mm ECIP – Sept2022 \$1.8mm RRP – 2021 \$700k FA – 2021 \$170k BEA- 2021 \$2.5mm ERP-Apr2023
PCB Bancorp California Focus on Korean American Ticker: PCB (Nasdaq) Total Assets: \$2.4 Billion Equity: \$329million 2022 NI: \$35.6million FDIC#: 57463	52 week:13.60-24 3/29: 14 Div: 4.3% Mkt Cap: \$207million Avg Daily Vol: 49k	\$69mm ECIP- Sept 2022 MDI not a CDFI No FA or other Awards
United Bancorp of Alabama Atmore, Alabama Ticker: UBAB (Pink) Investors: Alluvial, S.M. Repurchasing shares Total Assets: \$1.2 Billion Equity: \$212million 2022 NI: \$14.2million FDIC#: 58	52 week: 25-44 3/29: 39 Div: 1.12% Mkt Cap:\$141million Avg Daily Vol: 769	\$123mm ECIP- Sept 2022 \$718k FA – 2022 \$1.8mm RRP- 2021 BEA almost every year Recent CMF \$5mm ERP-Apr2023

<p>Ponce Financial Group Bronx, NY Ticker: PDLB (Nasdaq) Total Assets: \$2.3 Billion Equity: \$439million 2022 NI: (\$22million) – Grain write off – elending platform FDIC#: 31189</p>	<p>52 week:7.10-10.5 3/29: 7.74 Div: NA Mkt Cap:\$201million Avg Daily Vol: 100k</p>	<p>\$225mm ECIP – Sept 2022 \$1.8mm RRP – 2021 No other FA or other Awards \$3.7mm ERP-Apr2023</p>
<p>Bay Community Bancorp SF, CA Ticker: CBOBA Investors: Alluvial Repurchasing shares Total Assets: \$976 million Equity: \$184million 2022 NI: \$8.7million FDIC#: 34210</p>	<p>52 week: 6-10.5 3/29: 8.05 Div: 2.18% Mkt Cap:\$7.7million Avg Daily Vol:15k</p>	<p>\$119mm ECIP – Sept 2022 \$1.8mm RRP- 2021 \$170k BEA- 2021 \$2.5mm ERP-Apr2023</p>
<p>Broadway (CityFirst) Financial California and DC Ticker: BYFC (Nasdaq) CityFirst acquired Broadway 4/1/2021 – no gov’t assistance Total Assets: \$1.2 Billion Equity: \$193million 2022 NI: \$6.3million FDIC#: 34352</p>	<p>52 week:0.83-1.89 3/29: 1.13 Div: NA Mkt Cap:\$80million Avg Daily Vol: 130k</p>	<p>Broadway - MDI: \$150mm ECIP – Sept 2022 \$202k BEA – 2020 CityFirst Bank/Enterprises- CDFI: \$660k FA – 2022 \$625k FA – 2021 \$4mm CMF – 2021 \$1.8mm RRP – 2021 – Bank \$1.8mm RRP – 2021 – Ent. \$3.7mm ERP-Apr2023 – Bank \$3.7mm ERP-Apr2023 - Ent</p>
<p>Harbor Bankshares Baltimore Maryland Ticker: HRBK (Pink) Total Assets: \$362 Million Equity: \$36million 2022 NI: \$405k FDIC#: 24015</p>	<p>52 week:1.67-19.58 3/29: 14.5 Div: 4.37% Mkt Cap:\$743k Avg Daily Vol: 705</p>	<p>\$75mm ECIP – Sept 2022 \$125k TA – 2022 \$1.8mm RRP- 2021 \$170k BEA- 2021 \$50mm NMTC – 2021, 2020 \$6.1mm ERP-Apr2023</p>
<p>Security Federal Aiken, South Carolina Ticker: SFDL (Pink) Total Assets: \$1.3 Billion Equity: \$102million 2022 NI: \$10.7million FDIC#: 31100</p>	<p>52 week: 22-35 3/29: 25 Div: 2.04% Mkt Cap:\$83million Avg Daily Vol: 505</p>	<p>\$83mm ECIP – Sept 2022 \$660k FA – 2022 \$1.8mm RRP- 2021 \$170k+BEA- 2021, 2020, 2019</p>

<p>Merchants and Marine Bancorp Pascagoula, Mississippi Ticker: MNMB (Pink) Investors: S.M. Total Assets: \$687 Million Equity: \$88million 2022 NI: \$3.1million FDIC#: 12203</p>	<p>52 week:36.25-40.95 3/29: 38.50 Div: 3.8% Mkt Cap:\$53million Avg Daily Vol: 257</p>	<p>\$50mm ECIP – Sept 2022 \$1.8mm RRP- 2021 \$170k BEA- 2021 \$3.7mm ERP-Apr2023</p>
<p>IBW Financial/Industrial Bank Washington, DC Ticker: IBWC (Pink) Total Assets: \$723 Million Equity: \$95million 2022 NI: \$1million FDIC#: 14679</p>	<p>52 week:22-40 3/29: 23 Div: 0.74% Mkt Cap:\$14million Avg Daily Vol: 108</p>	<p>\$82mm ECIP – Sept 2022 \$1.8mm RRP- 2021 \$170k BEA- 2021 \$45mim NMTC – 2021 \$3.7mm ERP-Apr2023</p>
<p>NMB Financial/New Millenium Fort Lee, New Jersey Ticker: NMBF (Pink) Jumped from \$2 Sept 1 2022 Total Assets: \$774 Million Equity: \$61.5million 2022 NI: \$8.3million FDIC#: 35151</p>	<p>52 week: 2-17.55 3/29: 17.50 Div: NA Mkt Cap:NA Avg Daily Vol: 438</p>	<p>\$79mm ECIP – Sept 2022 MDI not a CDFI No FA or other Awards</p>
NON-ECIP RECIPIENTS		
<p>Mission Bank San Francisco, CA Ticker: MNBO</p>	<p>52 week:29-37 3/29: 29 Div: NA Mkt Cap:\$13.2million Avg Daily Vol: 15</p>	<p>No ECIP – Sept 2022 \$1.8mm RRP- 2021 \$202k BEA- 2020</p>
<p>Peoples Bancorp Mendenhall, Mississippi Ticker: PEBO</p>	<p>52 week: 25-32 3/29: 25.75 Div: 5.9% Mkt Cap:\$733million Avg Daily Vol: 132k</p>	<p>No ECIP – Sept 2022 \$718k FA – 2022 \$3.6mm HFFI – 2022 \$500k DF-FA - 2022 \$1.8mm RRP- 2021 \$170k BEA- 2021 \$280k SDL – 2021 \$6.1mm ERP-Apr2023</p>
<p>Carver Bancorp Harlem, New York City, NY Ticker: CARV</p>		<p>No ECIP</p>
<p>Guaranty Bancshares/ Guaranty Capital Mississippi Ticker: Not Public Total Assets: \$1.9 Billion Equity: \$182million FDIC#: 15953</p>	<p>52 week:26.6-38 3/29: 29 Div: 3.6% Mkt Cap:\$327million Avg Daily Vol: 22k</p>	<p>\$183mm ECIP – Sept 2022 \$766k FA – 2022 \$1.8mm RRP- 2021 \$170k BEA- 2021</p>