

Case Study: Pine Brook's Bet on the 'Unbankable'

David Sederholt, Strategic Funding Source:

We are big believers in small business – the average guy who's out there banging out a living every day – and it's a totally and complete underserved market.

William Spiegel, Pine Brook Partners:

Small businesses account for two-thirds of our job creation. They're 99% of the businesses in the United States, and with large banks exiting the small business space, with credit cards not a form of financing anymore and with mortgages not being a piggy bank, there is a huge opportunity to lend to small business in the United States.

JP Morgan's and Goldman Sachs' and Well Fargo's aren't making many loans to companies that need \$1 million or less – restaurants, dry cleaners, landscapers. Most of the people who we interact with in our daily lives are small businesses, sole proprietorships or people that employ less than 50 people. Let's use the example of a pizza restaurant. It may need to buy some chairs to build a sidewalk café in New York. Maybe it wants to add another pizza oven. Or a landscaper, maybe the landscaper wants to add another lawn mower – double his volume. So these businesses need capital in order to grow and to employ people.

Before we invested in SFS, we were focused as a firm on lending – and small business lending in particular – because we felt that the re-regulation of the financial services system was going to force small business lending out of the banking system, creating a huge opportunity for us. This was a big theme that we had. When we develop of theme, we're in search of a team.

Andrew Reiser, Strategic Fund Source:

What we were really looking for was not just a group with capital, cause there are a lot of groups with capital. We wanted a group with capital and expertise. Pine Brook is much more than just an investor. They are very active in our business, from helping us work on understanding different data source, introducing different opportunities to us, as well as helping us set direction for the company. And we have a triage team. The triage team automatically

looks at deals and says yes or no based on data that we have developed internally in different forms of algorithms and risk-based pricing. From there, we send out a contract.

Ben Johnston, Strategic Fund Source:

We need to keep up by building the best systems that allow for the fastest throughput, that allow us to integrate the best data to make a quick decision – first on pricing, and then ultimately on underwriting – which will allow us to not only keep up with the leaders in the space, but hopefully surpass everyone else.

Sederholt:

We've been growing, but there's that point where you're too big to be small, too small to be big. And Pine Brook has enabled us to go across that gulf in a very, very quick way.

Reiser:

Happy to say that since we did the investment with Pine Brook, revenue is up almost 70% in one year, and profit's up 100%. And I think they have something to do with that.