Financial Services Investment in the Next Administration

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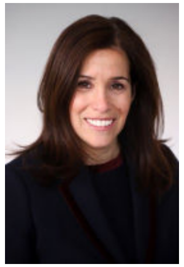
Bios



Joann Needleman, Member

Clark Hill

Joann Needleman leads Clark Hill's financial services regulatory and compliance practice group. She advises banks, financial institutions, and financial services entities on regulatory compliance matters as well as serves on the firm's Administrative Law Action Team.

Joann prepares and represents these same financial institutions during state and federal supervisory examinations and regulatory investigations before agencies such as the Consumer Financial Protection Bureau (CFPB), Federal Trade Commission (FTC) and the Office of the Comptroller of Currency (OCC) as well as state financial services regulators and attorneys general.

A former member of the Consumer Financial Protection Bureau's (CFPB) Consumer Advisory Board, Joann provides her clients with useful strategies and common-sense solutions in order to prepare for areas of regulatory scrutiny.

Michael Lamm, Managing Partner

Corporate Advisory Solutions

As a Managing Partner at CAS, Michael oversees and executes M&A engagements, investment opportunities, compliance/regulatory assessments, strategic consulting, valuation, and expert witness litigation matters. He also charts the firm's corporate direction and strategic growth plan.

Michael is actively involved in leading industry associations, including ACA (Council of Delegates), Institute for Collection Leadership (ICL – Board Advisor), Receivables Management Association (RMA), the Association for Corporate Growth – Philadelphia chapter (membership committee), the American University Alumni Association (chapter leader), and the Healthcare Financial Management Association (HFMA).

Prior to co-founding CAS, Michael served as a Director at Kaulkin Ginsberg, an M&A strategic advisory firm specializing in the ARM industry, for over 10 years.

Michael holds the Series 79, 63, and SIE registrations as a Registered Representative of Finalis Securities LLC, Member FINRA and SIPC, through whom he conducts securities transactions. He is also a FINRA arbitrator.

Agenda

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Regulatory Forecast Under a New Administration

Changes to the CFPB, OCC, and FHFA

Expected leadership changes at the CFPB, OCC, and FHFA may shift regulatory priorities, with a focus on core oversight functions and potential easing of federal financial oversight. However, states may increase their regulatory role, impacting the financial services industry.

1. Chopra will either resign or be asked to leave.
2. New OCC and FHFA Commissioners, which will impact the FDIC Board.
3. Potential replacements at the CFPB: Brian Johnson, Todd Zywicki, or Tom Pahl.
4. The new CFPB Director will focus on core functions, including supervision, examination, and investigations into clear violations of the law.
5. The OCC Director may or may not focus on federal pre-emption, which could impact banks, especially post-Chevron.
6. Opportunities for innovation exist, though likely not within the agencies.
7. While federal oversight of financial services could be eased, watch out for the states!

Congressional Impact on Financial Services

In the next administration, bipartisan Congressional focus will be on housing, AML, and fintech, with minimal major legislative changes expected due to Senate gridlock; BaaS, bank partnerships, and fee structures may see targeted scrutiny and support.

Senate Banking

Tim Scott (Chair) and Elizabeth Warren (Ranking Minority Member) share some common ground, focusing on housing and anti-money laundering (AML). Scott is supportive of payday and alternative financing if it benefits minority and working-class communities.

House Financial Services

Andy Barr or French Hill may lead, both of whom are skeptical of the CFPB. However, there is bipartisan interest in crypto and stablecoin regulations.

Legislative Gridlock

The Senate lacks the 60 votes needed to break a filibuster, so significant legislation affecting financial services agencies is unlikely.

Banking as a Service (BaaS) and Bank Partnerships

These areas face ongoing scrutiny but may see frameworks from the CFPB and FDIC to support small banks serving working-class communities.

Payments and Credit Card Fees

There is bipartisan support for addressing fees, focusing more on market correction rather than outright bans on "junk fees" or capping late fees.

Administration Priorities in the Financial Services Space

What Stays and What Goes

Under the next administration, Open Banking and interchange fee regulations are expected to remain, while changes in BNPL guidance, credit card late fees, medical debt, small business lending, FCRA rulemaking, and the Non-Bank Registry will likely be reversed.

Stays	Goes
✓ Open Banking (1033) - may be refined for standardization and bank liability	✗ Guidance on treating Buy Now, Pay Later (BNPL) like credit cards
✓ Payments and interchange fee regulations	✗ Capping credit card late fees
	✗ Medical Debt Advisory Opinion and scrutiny on medical debt *(Note: Nine states are currently banning the credit reporting of medical debt.)*
	✗ FCRA Rulemaking (for medical debt and data aggregators)
	✗ Non-Bank Registry

Current Economic Climate

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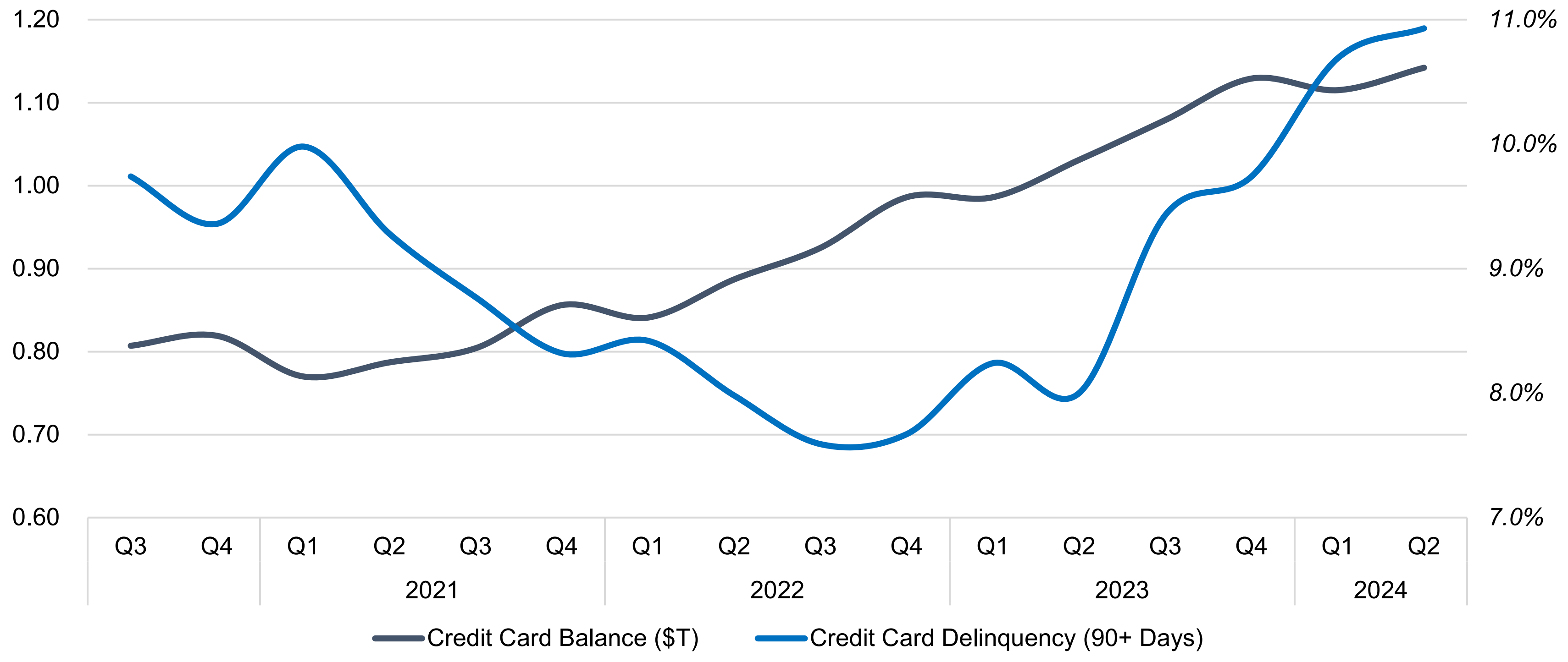
Current Economic Climate

In the Credit & Collections market, rising delinquencies and credit balances are heightening concerns about U.S. consumer financial health. The average debt per borrower hit $6,329 in Q2 2024 – a 30% increase since 2021 – signaling growing reliance on credit for daily expenses. With credit card balances steadily increasing and economic conditions worsening, delinquency rates are climbing. CAS anticipates this trend will drive more charged-off balances into collections, boosting placements and collections activity.

Trends in Credit Card Balances and Delinquency Rates



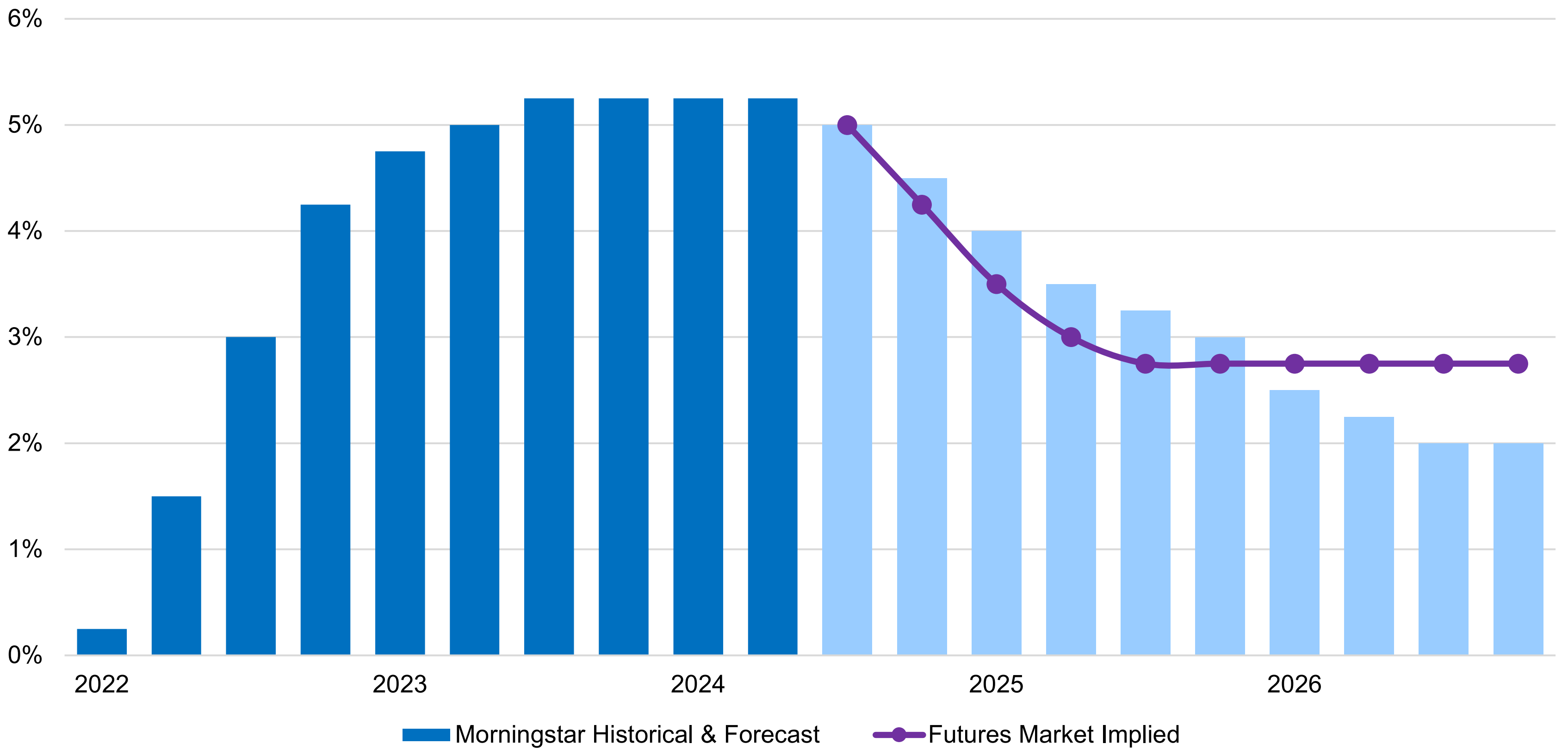
Source: Q2 2024 Household Debt and Credit Report (Federal Reserve Bank of New York).

Current Economic Climate

(Continued)

CAS anticipates that projected Fed rate cuts will significantly impact M&A in the collections space, particularly for PE firms leveraging debt in their transactions. Lower rates reduce capital costs, enhancing returns and making deals more attractive. Additionally, PE funds face pressure to deploy high levels of dry powder and avoid fund expiration, accelerating capital deployment.

Fed-Funds Rate Expectations (Bottom of Target Range)



Source: Morningstar.

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The Trump Effect

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The Trump Effect

The Trump effect is expected to accelerate M&A activity in the Financial Services industry, driven by tax cuts, deregulation, and favorable economic conditions for private equity investors.

Increased Investor Interest

- Trump's policies on tax cuts, deregulation, and reduced compliance burdens are expected to create a favorable environment for private equity and strategic investors.
- Eased regulatory requirements and potential corporate tax reductions could increase profitability and make acquisitions in the Financial Services sector more attractive.

Record Levels of Private Equity Dry Powder

- U.S. PE dry powder is at an all-time high, creating pressure for firms to deploy capital effectively.
- With the current economic climate (Increasing debt & delinquencies), the Financial Services industry offers attractive acquisition targets for PE firms seeking to deploy dry powder.

Cheaper Capital from Fed Rate Cuts

- Anticipated further Fed rate cuts would lower the cost of debt financing, making acquisitions more attractive for PE firms using leverage.
- Lower interest rates improve potential returns on acquisitions, further fueling M&A activity in the Financial Services space.

The Trump Effect

Investment Opportunities in Financial Services

Trump's election is expected to increase M&A interest across various financial services sectors, especially in debt collection, debt buying, and technology-driven collection solutions.

Debt Collections

- Rising consumer debt and delinquencies create opportunities in the debt collection space.
- Trump's deregulation efforts could reduce compliance costs and headline risk, making debt collection agencies more appealing to PE firms considering deploying capital in the space.

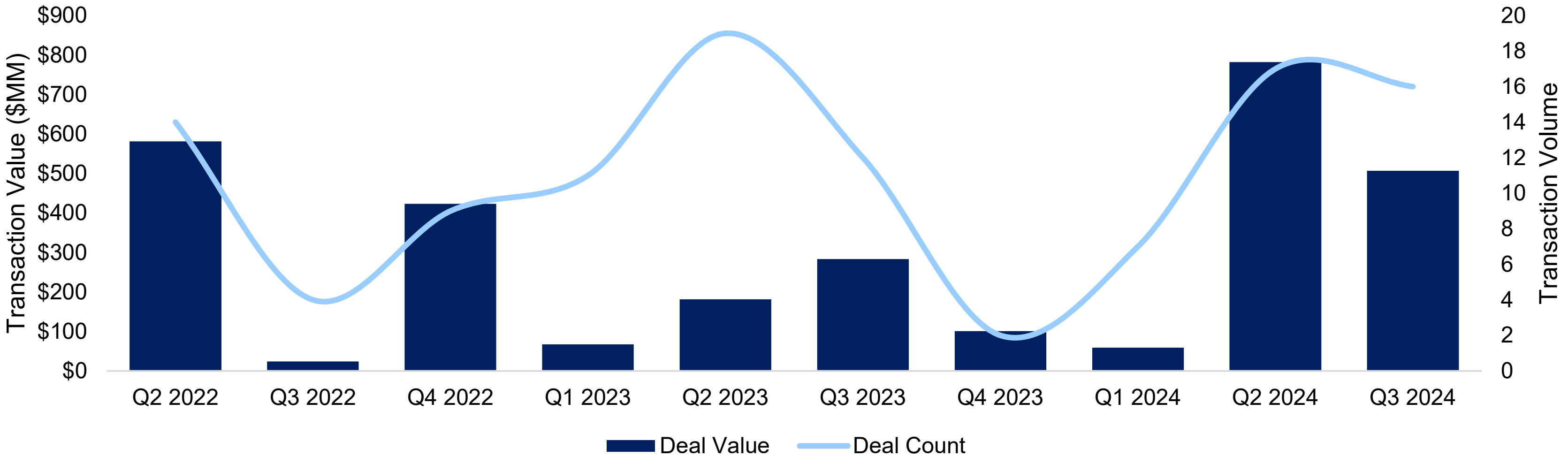
Debt Buying Companies

- Increased debt levels provide a larger pool of charged-off accounts, driving interest in debt purchasing.
- Large debt buyers with access to capital can acquire portfolios at attractive prices, potentially benefiting from expected economic conditions.

Debt Collection Software & Technology Providers

- There continues to be an ongoing need for enhanced technology that improves collection efficiency and compliance management.
- Agencies are increasingly looking for new software solutions to automate processes, track KPIs, and manage compliance, which positions debt collection tech firms as valuable acquisition targets.

ARM Historical M&A Deal Value and Transaction Volume



- In Q3 2024, the ARM vertical saw a continued trend of market consolidation, as larger capital-rich, technology-driven strategic players acquired smaller agencies to expand their geographical footprint and gain access to specialized talent and domain expertise.
- Another significant driver behind ARM M&A activity was the anticipated acquisition for technology, reflecting companies' responses to evolving digital demands.
- In Q4 2024 and FY 2025, the disparity between market leaders and smaller players in the ARM sector is expected to continue to drive deal activity, with larger firms consolidating their positions.
- The importance of scale is projected to grow within the ARM space due to downward pressure on fee rates, increasing regulatory compliance costs, and the necessity of integrating advanced technological tools for competitive parity.
- These dynamics, coupled with the incoming administration's policies, are expected to further accelerate M&A activity in the ARM sector.

Source: CAS Proprietary Data

Q&A