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List of abbreviations

Bridge-to-HUD	Refinancing a bridge loan to a HUD loan
CDS	Credit default swap
CLN	Credit-linked note
CRE	Commercial real estate
FDIC	Federal Deposit Insurance Corporation
FFIEC	Federal Financial Institutions Examination Council
GCM	Goldner Capital Management
HUD	U.S. Department of Housing and Urban Development
NPL	Non-performing loans
TBV	Tangible book value
TDL	Total delinquent loans

List of references

All citations, references, and sources are publicly available. Annual reports and other company documents were obtained through the respective issuer's website, regulatory filings, and commercial registries. Documents are cited as follows:

< url >, < page >

Some SEC filings were retrieved through direct URLs within the EDGAR system, and those filings are quoted directly.

The phrase "company data" indicates that we aggregated the specific metrics from one or several respective regulatory filings.

List of figures

If not stated otherwise, all figures are obtained through the quoted references in the footnotes and can be found in the respective source.

FFIEC data

In addition, we based our analysis on FFIEC data (as of 6/30/2024), which each bank is required to report to the FFIEC on a quarterly and standardized basis. In particular, the 'Call reports' and 'Uniform Bank Performance Reports,' available here: <https://cdr.ffiec.gov/public/>

In Figure 2 and Figure 3, we referenced a 'Peer group' for comparison. This is FFIEC's assigned 'Peer Group 2' and consists of banks with average assets between \$10 billion and \$100 billion.

Executive Summary

We are short Merchants Bancorp (NASDAQ: MBIN), because our investigation into this lender uncovered that **MBIN has been aggressively expanding its assets base by making bridge loans to mortgage fraudsters, state-barred real estate investors, and negligent landlords**. Now, the results of this amoral approach are coming home to roost.

- **Reckless expansion and commercial real estate risk**

Claiming to be different from other banks facing over-exposure to risky commercial property, at 411%, MBIN actually has one of the highest CRE concentration ratios in the US.

The most significant expansion has taken place in MBIN's multifamily and healthcare loan book, growing from \$529 million in 2017 to \$6.6bn in Mid-2024 – i.e. multiplying its bridge loan portfolio by a factor of eleven in less than seven years.

In a development which has thus far gone unnoticed, MBIN has used billions of dollars in brokered deposits to expand its loan book recklessly in the post-Covid market. Its share of brokered deposits to total deposits grew from 5% to 41% in just two years.

Given that 99.98% of MBIN's \$6 billion of brokered deposits have a maturity of less than one year, there is a maturity mismatch between MBIN's CRE loan portfolio and brokered deposits. We believe MBIN will have a significant liquidity problem if only a small percentage of the \$6 billion in brokered deposits flows out.

- **Bad credit skyrocketing – and set to shoot even higher**

When a bank focuses aggressively on expanding its loan book and relies on brokered deposits, it makes loans to people it shouldn't be making loans to. Don't take our word for it: that's an official FDIC position. And that's exactly the case with MBIN.

As a result, in just the last two years, delinquent loans have mushroomed from \$4 million to \$241 million in 2Q24 – with more to come as even poorer-quality bridge loans mature.

MBIN modified loans totaling \$186 million in 2Q24 alone and \$31 million of these modified loans are already 90 days past due again.

As if all this wasn't serious enough, the real red flag is that, at 56.5% coverage ratio, MBIN's allowance for loan losses doesn't even cover the current non-performing loans.

- **Loans granted to bad actors**

MBIN has lent money to landlords who have been sanctioned by HUD, prosecuted by State Attorneys General, and sued by previous lenders.

One borrower, Aron Puretz, has pleaded guilty to \$55 million mortgage fraud conspiracy and appears in MBIN's books with outstanding loans of \$55.8 million.

Another borrower, Green National, was held in criminal contempt of court in New York; at least one property was removed from the HUD housing assistance program in Ohio and labeled "unfit for habitation." MBIN still holds \$18 million of Bridge-to-HUD loans to Green National.

Another borrower, Goldner Capital Management, recently filed for bankruptcy after dozens of its senior living facilities ran into trouble. We believe MBIN still has \$44 million in loans to Goldner on its books.

- **Photos show mortgaged properties left in disrepair**

Left to fall into dilapidation, many properties previously owned by Puretz sold for up to 70% less than the outstanding mortgage: on this basis, we estimate a loss of around \$27.9 on MBIN's loans to Puretz alone.

Meanwhile, Green National's properties in Ohio have been condemned unsafe, with one contractor concluding that "[...] the three buildings are beyond repair or rectification" and that work "[...] will cost well over what the property is worth." In our opinion, the loans must surely end in default.

In the Dickensian real-estate portfolios of Puretz, Green et al., there are no picket fences, but rather dilapidated hallways and broken elevators.

- **Woefully inadequate provisions and hedges for loan defaults**

In our opinion, MBIN's ACL provisions and past credit risk transfers do not represent sufficient coverage and won't shield the lender from the bad decisions it has taken. We estimate a shortfall of \$150 million.

Further, we uncovered that the bank has transferred some of its riskiest loans back onto its balance sheet.

Perceived as a fiscally conservative bank with a clear moral compass, **MBIN is approaching a moment of truth.** In our opinion, due to the large amount of brokered deposits, concentration in CRE, bridge loans backed by dilapidated properties, mushrooming NPLs, and insufficient credit loss provisions, **MBIN's stock should not be trading at a 42% premium to its book value.**

1. Bulls see a reputable Midwestern bank with solid credit underwriting

Having gone public in 2017, MBIN operates in three segments: traditional banking, mortgage financing, and GSE mortgage servicing. The general public may be familiar with Merchants' CD product called 'Flex Index CD' product, offering one of the highest APYs in the US at 5.39% and promoted by Merchants' friendly mascot, a bright green frog wearing a superhero cape.

Investors, meanwhile, have been primarily focused on MBIN's growing book value, its high profitability, and almost total lack of credit losses, according it a premium over comparable banks due to these perceived strengths and its wholesome Midwestern image.

To a bull's mind, expansions in the balance sheet are *per se* good because the share price of a bank is connected to its book value per share. Growing its interest-generating loan book will therefore almost certainly lead to an increase in a bank's share price – and MBIN stock has gone up accordingly, from around \$10 per share in 2019 to \$44.72 per share in October 2024.

At present, MBIN's shareholder equity stands around \$2bn, but its total book value (TBV) is around \$1.3bn, translating into a TBV per share of \$31.44. As such, the bank is currently trading at a 42% premium to its TBV.

Since going public, **MBIN has been consistently expanding its loan book** from a modest \$1.3bn at IPO to more than \$11bn in 2Q24. The most significant expansion has taken place in the multifamily and healthcare loan book, growing from \$529 million in 2017 to \$6.6bn in 2Q24 (see Figure 1) – i.e. **multiplying this sub-portfolio of bridge loans by a factor of eleven in just seven years.**

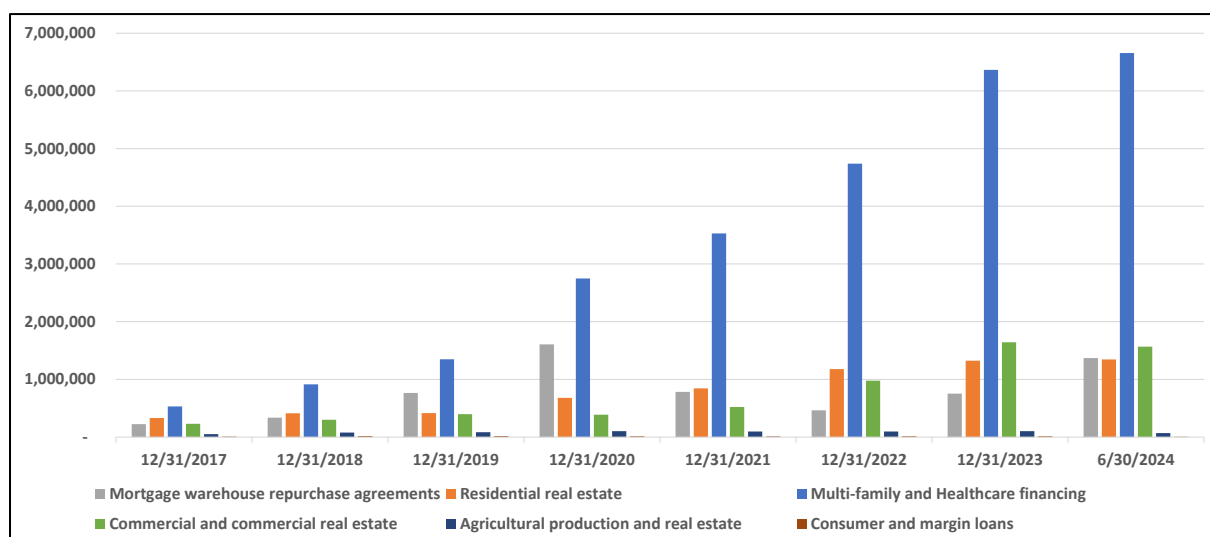


Figure 1 Merchants Bank's loan portfolio, source: NINGI Research, company data

Investors are under the impression that MBIN has reached its present size by lending to local commercial real-estate developers, scrutinizing its borrowers carefully in the conscientious way folk do things in the Midwest, and, thanks to this, avoiding large losses while allocating barely a fraction of what its competitors put aside to cover loan losses. In this narrative, while some of MBIN's peers like New York Community Bank have already suffered consequences from their high CRE exposure and the associated loan defaults¹, MBIN's supposedly circumspect approach has spared it. Peddling this story, in its IR materials, the bank highlights its *"Conservative, Low-Risk Underwriting and Track Record of Minimal Loan Losses"* on a slide titled *"Unique Operating Model."*²

So what is unique about how MBIN acts when lending money? How is it different from its peers in the market now struggling with overexposure to CRE and questionable loans?

As far as we can tell, **there is nothing unique about MBIN**. As our analysis shows, **MBIN is not doing anything differently from its peers**: it's made the same mistakes – perhaps even worse ones. As a result, after years of almost zero loan defaults in a benign zero-interest rate environment, **MBIN's total delinquencies are now skyrocketing, going up by 4,700% from \$4 million in 2Q22 to \$241 million in 2Q24**.

This is particularly critical because, while investors may assume that 'conservative' MBIN has been running a traditional mortgage lending model, the bank has in fact primarily been financing its loan book growth through bridge loans in the CRE segment, especially in multifamily, affordable housing, and senior living.

Once again, it's hard to blame investors for making assumptions here: if you search for "bridge loan" in MBIN SEC filings, the term is mentioned three times in its latest 10-Q filing and ten times in its 2023 annual report.^{3 4} That's not an awful lot in view of the fact that **MBIN recorded \$6bn in bridge loans in 2022 and \$3bn in 2023**.⁵ **The bank doesn't break down the structure of its loan book, but we think it mostly consists of bridge loans** made to investors and developers in the multifamily and senior living segments. Indeed, over the past seven years, the share of multifamily and healthcare loans has gone

¹ <https://www.reuters.com/markets/us/nycb-turnaround-faces-rocky-road-commercial-real-estate-exposure-drag-2024-03-08/>

² https://s2.q4cdn.com/179412928/files/doc_presentations/2023/Sep/06/active-presentation-rj-2q23-images.pdf, pg. 7

³ <https://www.sec.gov/Archives/edgar/data/1629019/000155837024011741/mbin-20240630x10q.htm>

⁴ <https://www.sec.gov/Archives/edgar/data/1629019/000155837024003005/mbin-20231231x10k.htm>

⁵ <https://www.sec.gov/Archives/edgar/data/1629019/000155837024003005/mbin-20231231x10k.htm>, pg. 38

from 38.5% to 60.4% of its total loan book, making MF and HC lending the main growth contributor to MBIN's loan book.^{6 7}

2. Recipe for disaster as CRE bridge loans are funded by brokered deposits

This represents a marked increase in exposure to commercial real estate (CRE), yet MBIN has not retained sufficient equity, indicated by the bank's CRE concentration going from an already elevated 313% to an astronomic 411%. The CRE concentration ratio is a measure defined by the regulatory bodies as the domestic CRE loans to a bank's Tier 1 capital and allowance for loan losses.⁸ It is widely known that any bank with a CRE concentration above 300% is closely monitored by the regulators.⁹

Currently, MBIN has one of the highest CRE concentrations in the entire US banking sector, standing at 411% for 2Q24 – and, as such, some way above the informal limit set by the regulators (see Figure 2 below).

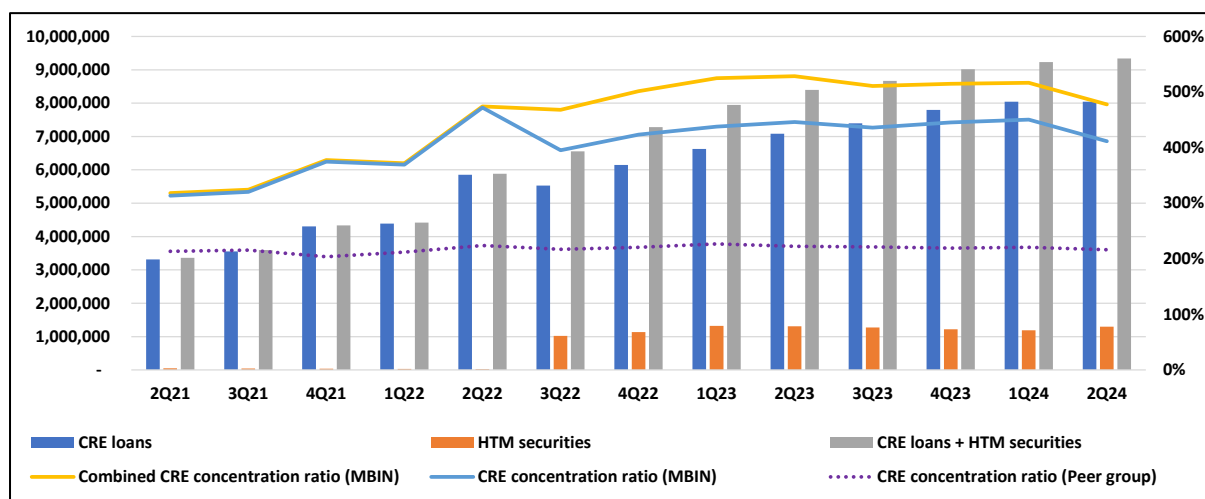


Figure 2 CRE exposure and CRE concentration ratio (MBIN and FFIEC-selected peer group), source: NINGI Research, FFIEC

In our opinion, however, the CRE concentration ratio is even higher than 411% (blue line) because, in September 2022, MBIN deconsolidated a billion-dollar bridge loan portfolio by forming a real estate mortgage investment conduit ("REMIC") but retained 86.6% of the issued mortgage-backed securities. Merchant's CRE concentration ratio, including the REMIC securities, is 478% (yellow line) for 2Q22 (see Figure 2 above). We believe that such a high CRE exposure, significantly above the regulatory guidance, poses a material risk in the current environment.

Following a wide-ranging analysis of the figures, we cannot avoid the conclusion that **a significant amount of MBIN's CRE exposure – if not all of it – has not been funded organically using core deposits but instead through brokered deposits**. Indeed, while the bank's direct CRE exposure (without the mortgage-warehousing segment) grew by \$4.7 billion since 2Q21, brokered deposits have grown by \$5.2 billion during the same period (see Figure 3 below). The share of brokered deposits relative to total deposits has risen by more than 700% over the same period. In total, 41% of MBIN's

⁶ <https://www.sec.gov/Archives/edgar/data/1629019/000155837018002483/mbin-20171231x10k.htm>, pg. 74

⁷ <https://www.sec.gov/Archives/edgar/data/1629019/000155837024011741/mbin-20240630x10q.htm>, pg. 14

⁸ CRE Loans consists of construction, multifamily and other nonfarm nonresidential loans

⁹ <https://www.cnn.com/2024/02/29/business/regional-banks-cre-exposure-explainer/index.html>

total deposits consist of brokered deposits, up from 5% in early 2022 (see Figure 3) and also significantly higher than the FFIEC peer group average of 6.7% or bank sector average of 6.2%.¹⁰

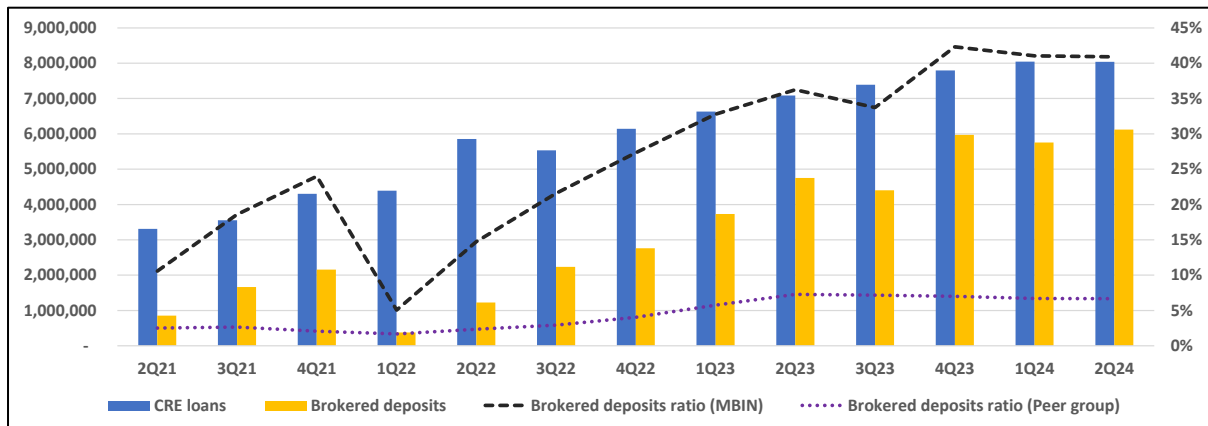
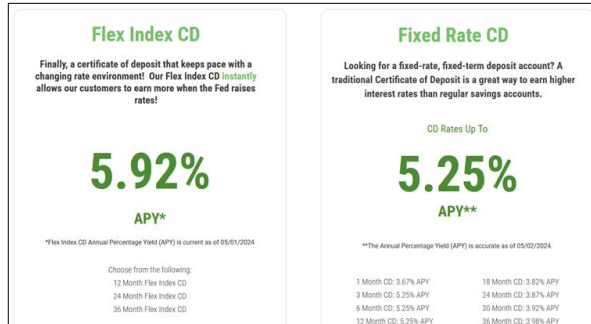


Figure 3 MBIN's CRE loan and brokered deposit growth and brokered deposit ratio (MBIN and FFIEC-selected peer group), source: NINGI Research, FFIEC

We believe that without the inflow of brokered deposits, MBIN would have never been able to expand its loan book so aggressively.

MBIN has fostered the growth in brokered deposits by offering one of the highest APY in the country.¹¹ Until the Federal Reserve cut interest rates by 50bps in September 2024, MBIN offered a 5.25% per annum fixed rate CD and a 5.92% variable rate CD.¹² As of October 2024, the product still yields 4.75% for a fixed-rate CD and 5.39% for a flexible-rate CD (see Figure 4).

June 2024:



October 2024:



Figure 4 Merchants Bank of Indiana CD products in June and October 2024, source: Merchants Bank's website

MBIN's asset growth and use of brokered deposits should alert investors because, in a 2011 research study, the Federal Deposit Insurance Corporation (FDIC) found that "[o]n average, **banks that use brokered deposits have higher nonperforming loan ratios than banks that do not use brokered deposits, and the more a bank relies on brokered deposits, the higher its nonperforming loan ratio three years later. The association between brokered deposits and higher nonperforming loan ratios suggests that institutions that are willing to use riskier funding sources are also willing to invest in higher risk loans.**"¹³

In our opinion, it looks like Merchants is now a case in point for this FDIC finding. Since MBIN began relying heavily on brokered deposits to expand its loan book more than two years ago, the bank's total

¹⁰ <https://www.spglobal.com/marketintelligence/en/news-insights/latest-news-headlines/us-banks-brokered-deposits-tick-down-bofa-morgan-stanley-post-gains-in-h1-83106442>

¹¹ <https://fortune.com/recommends/banking/the-best-money-market-accounts/>

¹² <https://merchantsbankofindiana.com/certificates-of-deposit/>

¹³ <https://www.fdic.gov/sites/default/files/2024-03/coredeposit-study.pdf>, pg. 39

delinquent loans (“TDL”) have mushroomed from a mere \$4 million in 2Q22 to an astonishing \$241 million in 2Q24 – and still haven’t peaked (see Figure 5 below).

Quarter	Non-Performing	Total Delinquent	Loss Allowance	NPLs coverage ratio	TDL coverage ratio
2Q22	4,053	4,102	36,572	902.3%	891.6%
3Q22	26,176	26,474	38,219	146.0%	144.4%
4Q22	26,265	34,521	43,310	164.9%	125.5%
1Q23	63,637	82,081	51,106	80.3%	62.3%
2Q23	67,939	92,204	62,261	91.6%	67.5%
3Q23	66,982	131,976	66,206	98.8%	50.2%
4Q23	81,457	196,120	71,159	87.4%	36.3%
1Q24	131,787	218,892	75,712	57.5%	34.6%
2Q24	143,453	240,986	81,027	56.5%	33.6%

Figure 5 Non-performing loans, total delinquent loans, and corresponding coverage ratio, source: NINGI Research, FFIEC

As if the absolute increase weren’t serious enough, the real red flag is that **MBIN’s allowance for loan losses doesn’t even cover the current NPLs, let alone future rises.**¹⁴ Against the growth in assets and brokered deposits, the loan loss allowance relative to NPLs has been declining significantly: at the end of the second quarter of 2024, **only 57% of non-performing loans appear to be covered by MBIN’s allowance for loan losses (see Figure 5 above).** Including all loans that are already 30 days due, the coverage ratio drops to 33.6% for 2Q24 (see Figure 5).

Regardless of whether NPL or TDL coverage ratio is applied, Merchants’ shortfall is significant – and material to its income statement. The seriousness of the situation is demonstrated by the fact that, after years of reporting barely any modifications, MBIN modified loans totaling \$186 million in the second quarter of 2024 alone (see Figure 6 below), and \$31 million of these modified loans are already 90 days past due again.^{15 16}

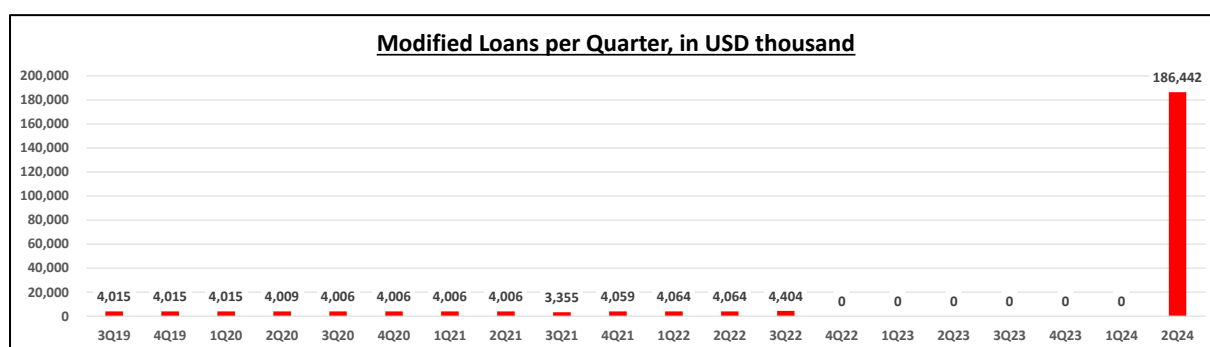


Figure 6 Loan modifications reported by Merchants Bank of Indiana, source: NINGI Research, FFIEC

¹⁴ <https://www.sec.gov/Archives/edgar/data/1629019/000155837024011741/mbin-20240630x10q.htm>, pg. 14

¹⁵ <https://www.sec.gov/Archives/edgar/data/1629019/000155837024011741/mbin-20240630x10q.htm>, pg. 24

¹⁶ <https://www.sec.gov/Archives/edgar/data/1629019/000155837024007783/mbin-20240331x10q.htm>, pg. 23

Quarter	Modified Loans	Total Delinquent	Total Delinq + Modified	Loss Allowance	Loss allowance in % of TDL+Mod
2Q22	4,064	4,102	8,166	36,572	447.86%
3Q22	4,404	26,474	30,878	38,219	123.77%
4Q22	-	34,521	34,521	43,310	125.46%
1Q23	-	82,081	82,081	51,106	62.26%
2Q23	-	92,204	92,204	62,261	67.53%
3Q23	-	131,976	131,976	66,206	50.17%
4Q23	-	196,120	196,120	71,159	36.28%
1Q24	-	218,892	218,892	75,712	34.59%
2Q24	154,709	240,986	395,695	81,027	20.48%

Figure 7 MBIN's modified loans and delinquencies¹⁷, source: NINGI Research, FFIEC

The brutal mathematics is that, **at the end of 2Q24, MBIN had \$395.7 million in delinquent and modified loans on its books, but barely \$81 million in allowance set aside** (see Figure 7 above).

Further, we found complaints filed by Merchants Bank of Indiana against several borrowers for a total loan amount of approximately \$83 million.^{18 19 20 21 22 23} These loans were made prior to 2021 and ran into trouble early in the hiking cycle, showing that these defaults are macro-driven. By the same token, we believe that there is more to come – much more. **In our opinion, the true extent of maturities and defaults of the majority of MBIN's bridge loans will transpire in 2025.**

We believe that the growth in MBIN's book value through asset growth is associated with costs that will soon have to be recognized. **The bank will have to set aside millions of dollars in additional loan loss provisions, which will have a negative impact on MBIN's bottom line.**

Since 1Q22, MBIN has been driving a different strategy for its brokered deposits. Before that, less than 80% of the brokered deposits had maturity of less than one year. **Given the \$6 billion surge in brokered deposits over the past two years to fuel the expansion of MBIN's loan portfolio, 99.98% of these deposits have a maturity of less than one year** (MBIN's peer group median is 81.28% at only 6.67% brokered deposits to total deposits), meaning that MBIN is forced to offer a high APY to maintain those brokered deposits, otherwise, the funding base of its loan book immediately disappears. There is an **inherent maturity mismatch** between the bridge loans with three to five years and the brokered deposits with a maturity of less than one year. We believe **if only a small percentage of the 6 billion dollars in brokered deposits flow out, MBIN will have a significant liquidity problem.**

The numbers don't lie. This is especially true when comparing MBIN with other banks, such as those in Morgan Stanley's Bank Coverage, see Figure 8 below.²⁴

¹⁷ As already discussed, of the \$186 million, around \$31 million was already 90 days overdue after being amended in the same quarter. This \$31 million is included in the total delinquent loans.

¹⁸ https://www.docketalarm.com/cases/Illinois_Northern_District_Court/1--24-cv-03090/Merchants_Bank_of_Indiana_v._Robert_Westerkamp_Trust_under_Trust_Agreement_dated_December_8_2008_et_al/1/

¹⁹ https://www.docketalarm.com/cases/New_York_State_New_York_County_Supreme_Court/850114---2023/Merchants_Bank_of_Indiana_v._19_W_55_LLC_et_al/211/

²⁰ https://www.docketalarm.com/cases/Indiana_Southern_District_Court/1--24-cv-00177/MERCHANTS_BANK_OF_INDIANA_v._CYPRESSWOOD_TX_REALTY_LLC_et_al/26/

²¹ https://www.docketalarm.com/cases/Indiana_Southern_District_Court/1--22-cv-01803/MERCHANTS_BANK_OF_INDIANA_v._AVENIR_MEMORY_CARE_%40_KNOXVILLE_LP_et_al/1/

²² https://www.docketalarm.com/cases/New_York_State_Suffolk_County_Supreme_Court/600888---2024/Merchants_Bank_of_Indiana_v._Daryl_A._Goodman_et_al/6/

²³ https://www.docketalarm.com/cases/Pennsylvania_Western_District_Court/1--24-cv-00235/Merchants_Bank_of_Indiana_v._Paex_Landmark_Square_PA_LP/

²⁴ The list of covered banks is taken from Morgan Stanley, but the data is from FFIEC.

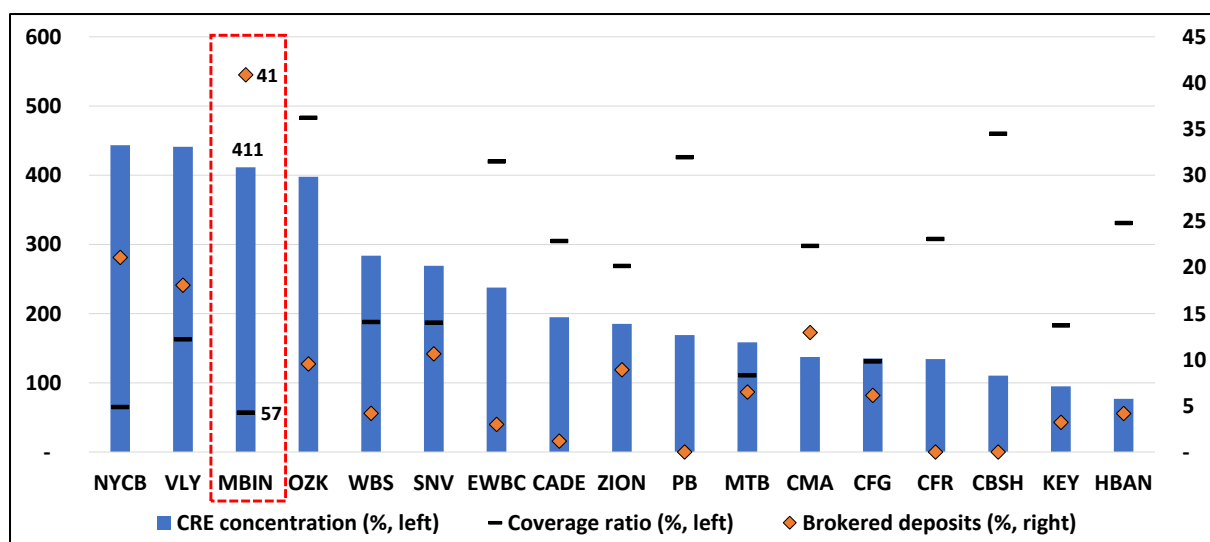


Figure 8 CRE concentration, coverage ratio, and share of brokered deposits for banks under Morgan Stanley's coverage, source: NINGI Research, Morgan Stanley, FFIEC

The bank has the **highest percentage of brokered deposits** (40.9% vs. 5.2% median), the **lowest NPL coverage ratio** (56.5% vs. 283.5% median), and one of the **highest CRE exposures** (411% vs. 177% median). Basically, only New York Community Bank (“NYCB”) is in a similar position to MBIN, with an NPL coverage ratio of 65% and a CRE concentration of 443% (see Figure 8). However, NYCB's share price is down 60% year-to-date and the stock is trading at a 40% discount to its book value per share – due to a loan book deteriorating in a similar fashion to MBIN's.²⁵

MBIN is approaching a moment of truth. In our opinion, due to the large amount of brokered deposits, concentration in CRE and bridge financing, mushrooming NPLs, and insufficient credit loss provisions, **MBIN stock should not be trading at a premium to book value.**

Not only is the bank now feeling the first effects of its aggressive loan growth in the CRE bubble and macro-driven setbacks, but we further believe that **Merchants Bank of Indiana's underwriting practices have lagged behind its asset growth.** In contrast to its squeaky-clean image, **in 2022, the bank started lending money to very dubious real estate investors – some criminals.** Whether this was due to poor due diligence or a complete lack of compunction, in our opinion, MBIN will soon have to start paying for these dodgy deals.

3. Bankrolling bad actors doesn't yield long-term returns

3.1 Poretz family

In addition to the sharp rises in non-performing loans and delinquencies currently driven by macroeconomic factors, MBIN is now being haunted by bad discretionary decisions. In June and August 2024, Aron and Eli Poretz, real estate investors from New Jersey, pleaded guilty to mortgage fraud totaling \$170 million (see Figure 9 below).^{26 27}

²⁵ <https://app.koyfin.com/snapshot/s/eq-4w3umg>

²⁶ <https://www.justice.gov/opa/pr/real-estate-investor-pleads-guilty-547m-mortgage-fraud-conspiracy>

²⁷ <https://www.justice.gov/opa/pr/three-real-estate-investors-plead-guilty-119m-mortgage-fraud-conspiracy>

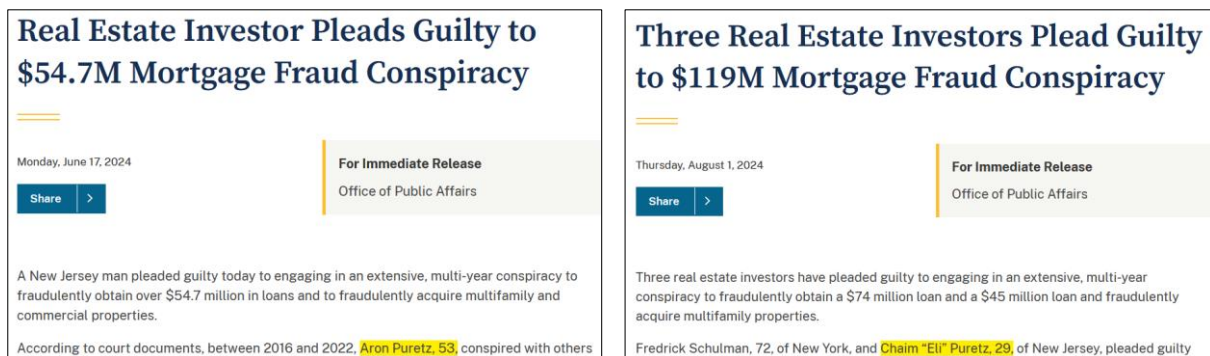


Figure 9 Press release by DoJ on Aron and Eli Poretz, source: Department of Justice

Both belong to the Poretz family (“Poretz”), and their plea bargain marks a real low point in years of fraudulent actions by Poretz, its company Apex Equity Group, and its affiliates.²⁸

In the commercial real estate industry, this story has been the talk of the town, but bank investors have not yet caught up with it. **According to the DoJ, for years, Aron Poretz’s modus operandi was to acquire run-down multifamily and senior living facilities, using fictitious documents, including purchase contracts with inflated purchase prices and fake financial statements, to obtain loans far higher than the properties’ value or the true sale price.**²⁹

Aron Poretz’s son, Eli, operated a similar fraudulent scheme with co-conspirators on two multifamily properties, obtaining a \$74-million and a \$45-million loan on false pretenses; Eli Poretz et al. provided lenders with forged documents and, in one case, even used a stolen identity.³⁰

Further, the DoJ, HUD, state attorneys general, and several counties allege that Poretz and their affiliates took as much money as possible out of the mortgaged properties by foregoing essential maintenance or siphoning off utility payments into personal accounts.^{31 32 33 34} Poretz even went as far as setting up nominally charitable organizations in order to avoid taxes and benefit from tax-exempt bonds.^{35 36}

If this sounds brazen, that’s because it was. Indeed, this scheme didn’t remain unnoticed as tenants of the Poretz-owned properties suffered significantly: several apartment complexes went into receivership, a dozen properties were shut down by local authorities or HUD, and **the attorneys general of Arkansas, Indiana, and Massachusetts began investigations into Poretz, initiating legal proceedings against the fraudsters by 2018.**^{37 38 39 40}

In separate investigations, the DoJ, Indiana Attorney General, and the HUD uncovered how Poretz used a complex web of shell companies, tax-exempt charities, stooges, undisclosed Poretz-owned

²⁸ <https://www.inquirer.com/real-estate/housing/inq2/poretz-family-apex-equity-affordable-senior-housing-conditions-20240716.html>

²⁹ <https://www.justice.gov/opa/pr/real-estate-investor-pleads-guilty-547m-mortgage-fraud-conspiracy>

³⁰ <https://www.justice.gov/opa/pr/three-real-estate-investors-plead-guilty-119m-mortgage-fraud-conspiracy>

³¹ <https://www.wishtv.com/news/crime-watch-8/man-charged-with-stealing-millions-in-renters-funds-from-indianapolis-apartments/>

³² <https://www.inquirer.com/real-estate/housing/inq2/poretz-family-apex-equity-affordable-senior-housing-conditions-20240716.html>

³³ <https://www.courtlistener.com/docket/65406690/wilmington-trust-national-association-as-trustee-of-the-29615000/>

³⁴ <https://www.wthr.com/article/news/local/landlord-accused-of-pocketing-utility-payments-appears-in-court-chaim-poretz/531-bd119b95-0c0c-487f-9f4a-de82c2185067>

³⁵ <https://www.inquirer.com/real-estate/housing/inq2/poretz-family-apex-equity-affordable-senior-housing-conditions-20240716.html>

³⁶ <https://www.inquirer.com/real-estate/poretz-family-brith-sholom-house-investigation-20240723.html>

³⁷ <https://www.inquirer.com/real-estate/housing/inq2/poretz-family-apex-equity-affordable-senior-housing-conditions-20240716.html>

³⁸ <https://www.indystar.com/story/news/local/indianapolis/2022/09/08/indiana-landlord-affordable-housing-sell-properties/66769075007/>

³⁹ https://arkansasag.gov/news_releases/attorney-general-reacts-to-big-country-chateau-owners-being-found-in-contempt/

⁴⁰ <https://www.patriotledger.com/story/news/local/2017/11/12/ag-steps-in-to-address/17072928007/>

property management companies, and single-purpose LLCs incorporated at different addresses to conceal ownership of the properties.^{41 42 43 44}

HUD filed three separate actions and imposed millions of dollars in penalties against Puretz's entities and their affiliates alleging dozens of violations, **in one case stating that "[...] Respondents [Puretz] knowingly failed to provide housing units that are decent, safe, and sanitary."**^{45 46 47} Based on government documents, we believe that **Apex and Puretz have been flagged as "bad actors" at other lenders, servicing companies, HUD, Freddie Mac, and Fannie Mae for years.**^{48 49 50 51 52} According to the DoJ, Aron Puretz knew in 2019 that Freddie Mac wouldn't approve him as an owner, concealing his ownership of properties to apply for credit.^{53 54}

Puretz's methods of concealment range from the childishly simple – like using anagrams of its 'Apex' brand such as 'Paex' and 'Paxe' – through to craftier non-descriptive entity names like 'JPC,' 'PF,' 'Pure,' or 'BH' with stooges acting for them; in some instances, there is no mention of Puretz or Apex at all in the operating agreements.^{55 56} In two cases, the unknowing stooges sued Puretz family members for fraud and embezzlement in 2019 and 2023.^{57 58}

In Indiana, the Puretz-controlled 'JPC Affordable Housing Foundation' and 'JPC Charities' were dissolved after years of legal battles with Indiana's attorney general for severe safety violations in JPC-owned and ultimately Puretz-controlled properties and for siphoning tenant's utility payments into personal accounts.^{59 60} At first, Indiana did not sue Puretz personally because he used non-profit organizations fronted by henchmen like Oron Zarum.⁶¹ However, after investigators found who the real owner of the bank accounts was, Puretz was charged with corrupt business influence and theft in April 2024.⁶² Ultimately, the DoJ charged Aron Puretz for fraud related to the JPC Charities in June 2024.⁶³

In Illinois, meanwhile, Puretz properties fronted by Zarum were foreclosed by Freddie Mac in April 2024, and there are now several other Puretz properties under foreclosure.^{64 65 66 67 68}

⁴¹ <https://www.hud.gov/sites/dfiles/OCHCO/documents/22-AF-0129-CM-007.pdf>

⁴² <https://www.hud.gov/sites/dfiles/OCHCO/documents/21-JM-0180-CM-007-2021.pdf>

⁴³ <https://www.hud.gov/sites/dfiles/OCHCO/documents/21-JM-0121-CM-005-2021.pdf>

⁴⁴ <https://www.justice.gov/opa/pr/real-estate-investor-pleads-guilty-547m-mortgage-fraud-conspiracy>

⁴⁵ <https://www.hud.gov/sites/dfiles/OCHCO/documents/22-AF-0129-CM-007.pdf>

⁴⁶ <https://www.hud.gov/sites/dfiles/OCHCO/documents/21-JM-0180-CM-007-2021.pdf>

⁴⁷ <https://www.hud.gov/sites/dfiles/OCHCO/documents/21-JM-0121-CM-005-2021.pdf>

⁴⁸ <https://www.hud.gov/sites/dfiles/OCHCO/documents/22-AF-0129-CM-007.pdf>

⁴⁹ <https://www.hud.gov/sites/dfiles/OCHCO/documents/21-JM-0121-CM-005-2021.pdf>

⁵⁰ <https://www.hud.gov/sites/dfiles/OCHCO/documents/21-JM-0180-CM-007-2021.pdf>

⁵¹ https://www.courtlistener.com/opinion/4644386/federal-natl-mtge-assn-v-puretz/?q=aron+Puretz&type=o&order_by=score+desc&stat_Precedential=on

⁵² <https://www.justice.gov/opa/pr/real-estate-investor-pleads-guilty-547m-mortgage-fraud-conspiracy>

⁵³ <https://www.justice.gov/opa/pr/real-estate-investor-pleads-guilty-547m-mortgage-fraud-conspiracy>

⁵⁴ <https://www.justice.gov/opa/pr/real-estate-investor-pleads-guilty-547m-mortgage-fraud-conspiracy>

⁵⁵ <https://www.inquirer.com/real-estate/housing/inq2/puretz-family-apex-equity-affordable-senior-housing-conditions-20240716.html>

⁵⁶ https://www.docketalarm.com/cases/New_York_State_Monroe_County_Supreme_Court/E2023001856/Moshe_Rothman_et_al_v._Chaim_Puretz/

⁵⁷

https://www.docketalarm.com/cases/California_State_Los_Angeles_County_Superior_Court/LC107151/DAVID_LANE%3B_DAVID_SKYLINE_LLC_VS._PURE_SKYLINE_LLC/

⁵⁸ https://www.docketalarm.com/cases/New_York_State_Monroe_County_Supreme_Court/E2023001856/Moshe_Rothman_et_al_v._Chaim_Puretz/

⁵⁹ <https://www.indystar.com/story/news/local/indianapolis/2022/09/08/indiana-landlord-affordable-housing-sell-properties/66769075007/>

⁶⁰ <https://www.indystar.com/story/news/local/indianapolis/2022/08/05/todd-rokita-attorney-general-indiana-landlords-office-lawsuit-jpc-leaders/65393255007/>

⁶¹ <https://www.justice.gov/opa/pr/real-estate-investor-pleads-guilty-547m-mortgage-fraud-conspiracy>

⁶² <https://www.wishtv.com/news/crime-watch-8/man-charged-with-stealing-millions-in-renters-funds-from-indianapolis-apartments/>

⁶³ <https://storage.courtlistener.com/recap/gov.uscourts.njd.550282/gov.uscourts.njd.550282.6.0.pdf>

⁶⁴ <https://storage.courtlistener.com/recap/gov.uscourts.ctd.155077/gov.uscourts.ctd.155077.1.0.pdf>

⁶⁵ https://www.pacermonitor.com/view/MIL434A/Apex_North_Broad_LLC_njbke-23-16137_0046.0.pdf

⁶⁶ https://www.docketalarm.com/cases/Connecticut_State_Superior_Court/HHD-CV24-6181102-S/TOORAK_CAPITAL_PARTNERS_LLC_v._PAXE_HARTFORD_PORTFOLIO_LP_Et_Al/

⁶⁷ <https://www.courtlistener.com/docket/68463084/bethpage-commercial-llc-v-apex-rosewood-in-llc/>

⁶⁸ <https://blockclubchicago.org/2024/04/19/feds-move-to-foreclose-on-troubled-kenwood-apartments-after-landlord-goes-awol/>

In Ohio, the Columbus City Attorney General prosecuted Aron Poretz, Oron Zarum, and their affiliates for housing and safety violations in August 2021 and other properties were shut down in 2022.^{69 70}

Poretz and its affiliates ventured into multifamily as well as senior living, but only parts of the entities related to Poretz's multifamily properties were identified, and most of its senior living properties remain undetected by lenders.⁷¹

In this context, Merchants Bank of Indiana's connection to Poretz is as straightforward as it is worrying. The very day after Poretz-controlled JPC Charities agreed on the suspension of a civil lawsuit filed by the city of Indianapolis, to whom it had failed to pay utility bills so that residents' water would not be cut off, **Merchants lent Poretz more than \$10 million.**⁷²

It's staggering how many times Poretz and its affiliates have been sued by almost everyone in the last ten years – and even more staggering that Carmel-based MBIN decided to grant loans to such individuals just one day after their entities strong-armed the neighboring state capital into not repaying debt deliberately accrued by allegedly misappropriating tenants' service charges.⁷³

While, as outlined above, Poretz used various henchmen, shell companies, and different addresses to obtain loans – including, in some cases, from Merchants – in this case, pertaining to Emerick Manor, Highland Woods, and Landmark Square Apartments, the loan documents were actually signed by Aron Poretz himself (see Figure 10 below).

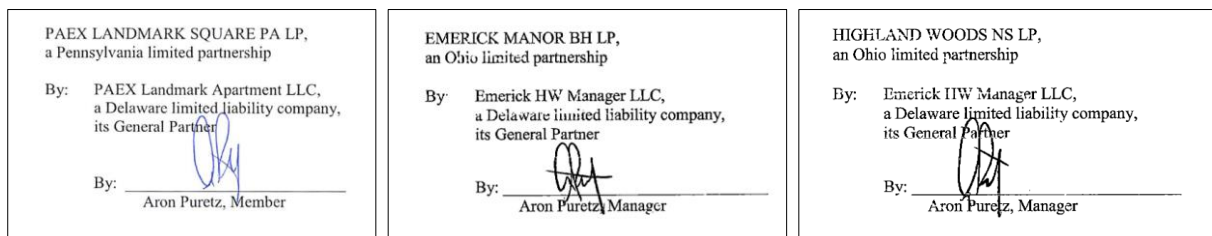


Figure 10 Aron Poretz signature on loan documents from Merchants Bank, source: Cuyahoga County, 1:24-cv-00235 No.1

So why did MBIN grant loans to Aron Poretz at a time when he and his companies had already been sued by several state attorneys general, HUD, several local housing authorities, previous lenders, and investors? Indeed, one day after, barely 10 miles south, Poretz's JPC Charities had just acted so brazenly in dealings with the city of Indianapolis, Carmel-based MBIN's nearby state capital?

To be frank, a brief Google search would have sufficed to reveal Poretz's dodgy past and various run-ins with local housing authorities in Arkansas, Ohio, Indianapolis, Georgia, and Illinois.⁷⁴ So was this a simple lack of due diligence – an unfortunate oversight? Or was it just another risk worth taking in order to add another new deal to the growing balance sheet? Whatever the case, **Poretz and his entity 'Paex Landmark Square PA, LP' have since defaulted on the \$10 million loan**, and on August 27, 2024, Merchants Bank began proceedings to sue them for repayment.⁷⁵

⁶⁹ <https://www.dispatch.com/story/news/local/2024/07/08/problem-properties-columbus-top-code-violating-landlords-housing-code-inspectors/73840651007/>

⁷⁰ https://city-attorney.columbus.gov/pdf/press/motion_for_contempt-apex_colonial_oh_llc_2021_evh_60155.pdf

⁷¹ https://www.pacermonitor.com/public/case/52607584/REVERE_TACTICAL_OPPORTUNITIES_REIT,_LLC_v_JEFFERSON_HILLS_ACQUISITION_LL_C_et_al

⁷² <https://www.indystar.com/story/news/local/marion-county/2022/09/01/indianapolis-pushes-deal-to-keep-water-running-at-jpc-affordable-housing-apartments/65466383007/>

⁷³ <https://indystar.com/story/news/local/marion-county/2022/09/01/indianapolis-pushes-deal-to-keep-water-running-at-jpc-affordable-housing-apartments/65466383007/>

⁷⁴ <https://www.dispatch.com/story/news/local/2024/07/08/problem-properties-columbus-top-code-violating-landlords-housing-code-inspectors/73840651007/>

⁷⁵ https://www.docketalarm.com/cases/Pennsylvania_Western_District_Court/1--24-cv-00235/Merchants_Bank_of_Indiana_v._Paex_Landmark_Square_PA_LP/

We have, however, been able to identify at least three other MBIN bridge loans for properties directly controlled by Puretz. In total, these three loans amount to **\$45.1 million in additional capital at significant risk** (see Figure 11 below).

Address	City	Lender	Record Date	Amount	Owner
26 PASS RD	GULFPORT, MS	MERCHANTS BK/IN	1/4/2022	8,985	GULF MIST MS LP
4671 COUNTRY LN	WARRENSVILLE HEIGHTS, OH	MERCHANTS BK/IN	3/15/2022	2,600	EMERICK MANOR BH LP
4800 COUNTRY LN	WARRENSVILLE HEIGHTS, OH	MERCHANTS BK/IN	3/15/2022	33,480	HIGHLAND WOODS NS LP
1426 W 10 ST	ERIE, PA	MERCHANTS BK/IN	2/9/2022	10,736	PAEX LANDMARK SQUARE PA, LP
Total				55,801	

Figure 11 Loans made by Merchants Bank to Puretz entities, source: NINGI Research, Washington County, Cuyahoga County, 1:24-cv-00235

You might ask why we see the capital in such jeopardy even though it is backed by the underlying real estate. The answer is as simple as it is shocking: **these exploitative landlords neglect their properties to squeeze every last penny out of them, resulting in an impaired property value worth significantly less than the original loan balance.**⁷⁶

In Warrensville Heights, Ohio, a quiet suburb east of Cleveland, MBIN has its largest cluster of loans tied to controversial landlord Puretz. The bank provided \$36.1 million in financing for two adjacent properties, Highland Woods and Emerick Manor, both of which have become emblematic of a larger problem (see Figure 12 below).

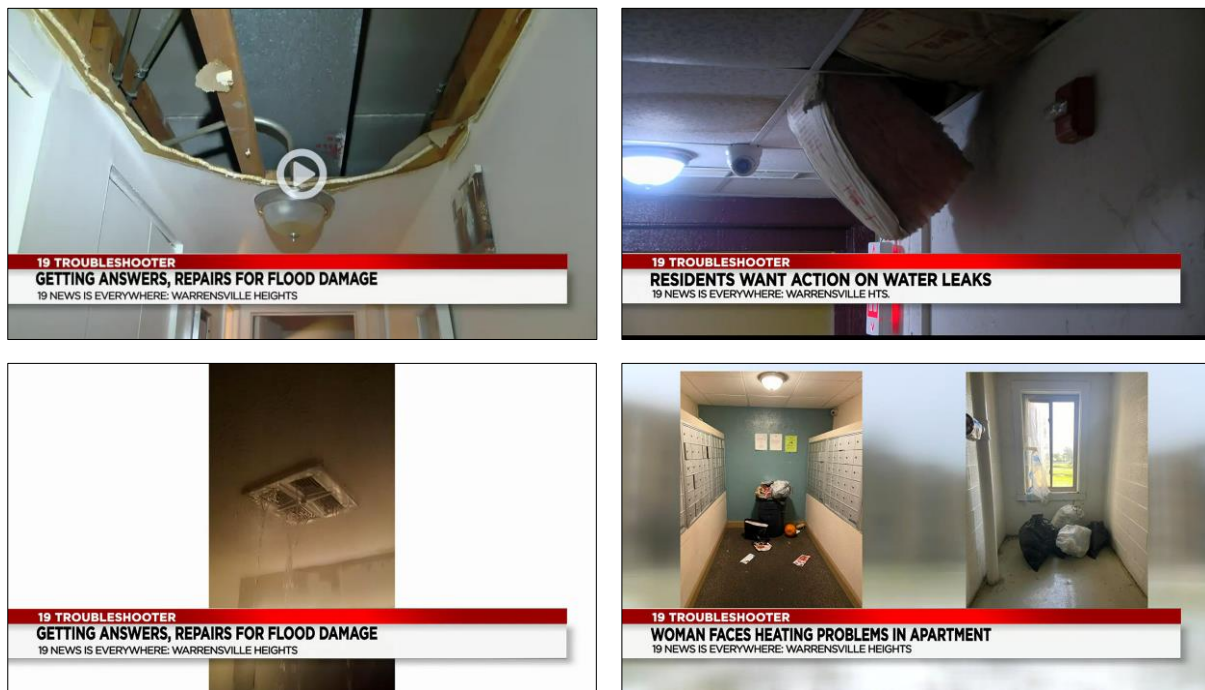


Figure 12 Water damage from burst pipes and damaged roof at Highland Woods, source: Cleveland19.com

Since Puretz took over, the local news has repeatedly highlighted shocking conditions at his properties, reporting collapsed ceilings, extensive water damage, heating failures, and other serious construction issues (see Figure 12 and Figure 13).^{77 78} At Highland Woods Apartments, managed by Puretz's firm, Integra Affordable Management, **tenants describe a nightmare of neglect**. "Nothing but trouble," an investigative reporter said, citing falling ceilings in hallways, exposed insulation, broken elevators, malfunctioning fire alarms, filthy stairwells, overflowing dumpsters, and rampant vermin

⁷⁶ <https://www.inquirer.com/real-estate/puretz-family-brith-sholom-house-investigation-20240723.html?query=puretz>

⁷⁷ <https://www.cleveland19.com/2022/07/23/warrensville-heights-man-demands-action-after-water-leak-collapses-apartment-ceiling/>

⁷⁸ <https://www.cleveland19.com/2022/12/20/apartment-tenant-battles-broken-heating-system-ahead-winter-storm/>

infestations.^{79 80} In the past twelve months, tenants have alleged water leakages, a collapsed garage, carpet mildew, rats, roaches, and trapped animals inside the buildings.⁸¹



Figure 13 Flooding on the ground floor in one of the buildings at Highland Woods in October 2023, source: yelp.com

The Philadelphia Inquirer aptly titled an investigative story on Poretz's dilapidated real estate portfolio "Empire of Neglect."⁸²

Accordingly, other lenders, HUD, and city officials have found that **most items in the Poretz portfolio are valued at far less than the loans that were taken out against them.** In one case, the true value of a reappraised property was a full 65% lower than what Poretz and its affiliates had declared at loan origination, resulting in a \$18 million loss for the lender on that single loan.⁸³ Another Poretz property located in Connecticut was mortgaged for \$1.2 million in February 2022, but an August 2024 appraisal came in at a \$370,000 sale value, a 70% write-down for the loan.⁸⁴ Meanwhile, a property in Arkansas that Poretz affiliates acquired for \$6.4 million in 2019 was auctioned for \$3.3 million in 2024, which corresponds to a 48% reduction in value and is 36.5% below the outstanding mortgage.^{85 86 87} In another case, a receiver took over the property management and valued the property 22% lower than the loan amount,⁸⁸ and in Philadelphia, a Poretz complex was purchased at 33% below loan value by the city's housing authority; it is our opinion that, if the Philadelphia Housing Authority hadn't stepped in, the sales price would have been significantly lower as the property has been described as *"dilapidated."*⁸⁹

According to The Inquirer, ***"The family's [Poretz] companies have a long history of failing to repay their loans."***⁹⁰ MBIN's current identifiable exposure to the Poretz family is at least \$55.8 million, and **we estimate that, even on a generous assumption that the three properties' true values are 50% of**

⁷⁹ <https://www.cleveland19.com/2022/07/23/warrensville-heights-man-demands-action-after-water-leak-collapses-apartment-ceiling/>

⁸⁰ <https://www.cleveland19.com/2022/12/20/apartment-tenant-battles-broken-heating-system-ahead-winter-storm/>

⁸¹ <https://maps.app.goo.gl/d6Wc48g5kF9YyfjE9>

⁸² <https://www.inquirer.com/real-estate/housing/inq2/poretz-family-apex-equity-affordable-senior-housing-conditions-20240716.html>

⁸³ <https://www.costar.com/article/734402619/ill-says-it-takes-18-million-loss-in-multifamily-loan-fraud>

⁸⁴ The appraisal dated August 23, 2024 was prepared for the potential sale of the property at 28-32 Girard Avenue, Hartford, CT, and the property was consolidated with two other properties for a mortgage. The mortgage amounted to \$2.7 million in 2022, and based on the pro rata share of the units, the estimated mortgage for 28-32 Girard Avenue is \$1.2 million.

⁸⁵ <https://www.thv11.com/article/news/local/big-country-chateau-mortgage-foreclosed/91-05044767-29fc-42d0-bbdd-ac3618c5f43e>

⁸⁶ <https://www.arkansasonline.com/news/2024/mar/14/troubled-little-rock-apartment-complex-big/>

⁸⁷ <https://www.nwaonline.com/news/2023/feb/12/big-country-chateau-still-heading-into/>

⁸⁸ <https://www.nbc4i.com/wp-content/uploads/sites/18/2022/05/2022-04-25-First-Report-of-Receiver.pdf>

⁸⁹ <https://therealdeal.com/national/philadelphia/2024/09/05/philly-housing-complex-ensnared-in-poretz-mortgage-scam-sold/>

⁹⁰ <https://www.inquirer.com/real-estate/brith-sholom-housing-fraud-guilty-eli-poretz-20240802.html>

the loan amounts, this will lead to an additional \$27.9 million loss for MBIN. In our opinion, this loss has not yet been provisioned for.

Moreover, we have reason to believe that MBIN's total exposure to Puretz could be larger as Puretz and their entities also ventured into senior living facilities – a key niche for MBIN as it's the second largest loan receivable for the bank – but remains undetected as Puretz family may have used its regular methods of concealment.

3.2 Green National

Puretz is by no means an outlier in MBIN's loan book: another frequent MBIN mortgage customer is Green National, headed by Troy Green. In July 2023, the New York Attorney General secured a court order that *"permanently bans Green from owning, operating, or managing affordable housing properties in New York [state]."*⁹¹

Merchants Bank of Indiana has lent more than \$18.5 million to Green National (see Figure 14 below) – in some cases, even after Green National was held in criminal contempt of court after the New York State Attorney General sought an order.⁹²

Address	City	Lender	Record Date	Amount	Owner
318 WILLIAMS ST	FAIRBORN, OH	MERCHANTS BK/IN	8/11/2023	4,960	GREEN FAIRBORN LLC
425 MISSION LN	FRANKLIN, OH	MERCHANTS BK/IN	4/12/2024	2,760	GREEN HARDING HOUSE LLC
N 9TH ST	MCCONNELSVILLE, OH	MERCHANTS BK/IN	8/25/2021	2,648	GREEN MCCONNEL MANOR LLC
2515 CULVER RD	ROCHESTER, NY	MERCHANTS BK/IN	2/2/2022	2,143	GREEN SOUTH VILLAGE LLC
6 DOROTHY CT	CINCINNATI, OH	MERCHANTS BK/IN	4/12/2024	3,480	GREEN WHITE CLIFF LLC
1206 LIPPERT RD NE	CANTON, OH	MERCHANTS BK/IN	4/2/2021	2,560	GREEN VICTORY SQUARE LLC
Total				18,551	

Figure 14 Loans made to Green National by Merchants Bank, source: NINGI Research, Stark County, Greene County, Morgan County, Warren County, Hamilton County, Monroe County

We analyzed the real estate and mortgage transactions of Green National and MBIN and noticed that a loan to Green National, which was previously securitized in a Freddie Mac Q-Series, was repaid with a bridge loan from MBIN to Green National on August 10, 2023. Specifically, Merchants stepped in to fund the refinancing for the underlying property in Fairborn, Ohio (see Figure 15 below), less than two weeks after the New York court order on July 28, 2023.⁹³

July 2020:

THIS OPEN-END MORTGAGE, SECURITY AGREEMENT AND ASSIGNMENT OF LEASES AND FIXTURE FILING (this "Mortgage"), is executed to be effective as of the **31st day of July, 2020** by GREEN FAIRBORN, LLC, a Delaware limited liability company having a mailing address of 753 James Street, Suite 5, Syracuse, New York 13203 (hereinafter referred to as "Mortgagor"), in favor of MERCHANTS BANK OF INDIANA, having banking offices at 410 Monon Blvd., 4th Floor, Carmel, Indiana 46032 (hereinafter referred to as "Lender").

RECITALS:

I. Mortgagor has requested that Lender extend to Mortgagor a loan in the principal amount of Four Million Nine Hundred Sixty Thousand and 00/100 Dollars (\$4,960,000.00) (such loan as from time to time modified or amended is herein referred to as the "Loan").

August 2023:

THIS OPEN-END MORTGAGE, SECURITY AGREEMENT AND ASSIGNMENT OF LEASES AND FIXTURE FILING (this "Mortgage"), is executed to be effective as of the **10th day of August, 2023** by GREEN FAIRBORN, LLC, a Delaware limited liability company having a mailing address of P.O. Box 60967, Fort Myers, Florida 33906 (hereinafter referred to as "Mortgagor"), in favor of MERCHANTS BANK OF INDIANA, having banking offices at 410 Monon Boulevard, 2nd Floor, Carmel, Indiana 46032 (hereinafter referred to as "Lender").

RECITALS:

I. Mortgagor has requested that Lender extend to Mortgagor a loan in the principal amount of Four Million Nine Hundred Sixty Thousand and 00/100 Dollars (\$4,960,000.00) (such loan as from time to time modified or amended is herein referred to as the "Loan").

Figure 15 Extract from the Fairborn Apartment loan documents, source: NINGI Research, Greene County

The 2023 bridge loan for the Fairborn property was recorded on Merchants' balance sheet with the same loan amount as in 2020 (see Figure 15 above), indicating that the underlying property value has not changed. Even ignoring macro-driven factors, this is odd given that city officials labeled the Fairborn Apartments *"unfit for habitation"* in October 2022 and an investigation by a local news

⁹¹ <https://ag.ny.gov/press-release/2023/attorney-general-james-secures-court-order-against-syracuse-landlord-green>

⁹² <https://ag.ny.gov/press-release/2023/attorney-general-james-secures-court-order-against-syracuse-landlord-green>

⁹³ <https://ag.ny.gov/press-release/2023/attorney-general-james-secures-court-order-against-syracuse-landlord-green>

station in October 2023 showed no signs of improvement.^{94 95} In January 2024, the local police rescued a three-year-old from one of the cockroach-infested apartments, later condemned unsafe and dangerous (see Figure 16).⁹⁶



Figure 16 TV reports on the situation at Fairborn Apartments from January 2024 and October 2022, source: WHIO-TV7

According to the local newspaper Canton Repository, another property called Victory Square Apartments in Canton, Ohio, underwritten by MBIN for \$2.5 million, was removed from the HUD's housing assistance program in January 2024.⁹⁷ In view of the conditions documented by HUD inspectors there (see Figure 17 below), it is unsurprising that the City has since also sued Green for the deplorable conditions at the apartments in Canton.^{98 99}

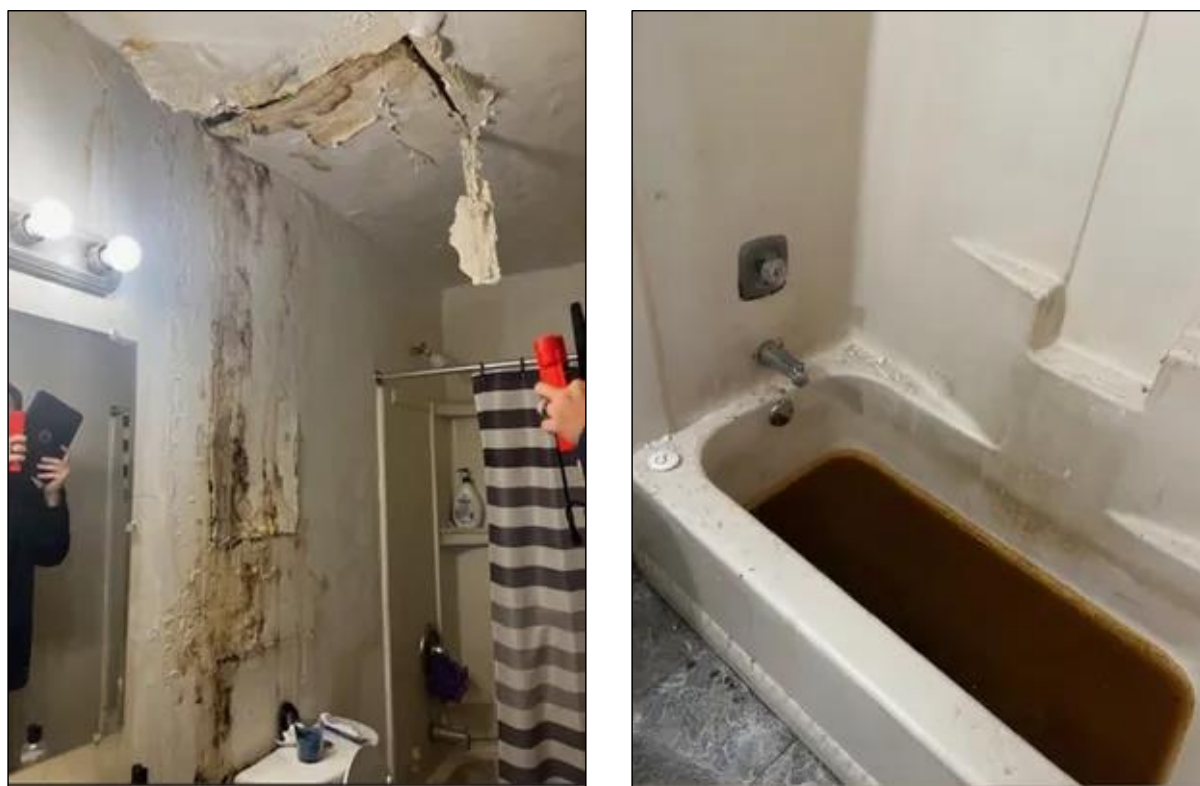


Figure 17 Damages at Victory Square Apartments in Canton, Ohio, source: US Department of Housing and Urban Development

⁹⁴ <https://www.whio.com/news/local/woman-forced-out-condemned-fairborn-apartment-due-it-being-unfit-habitation/YDXE7VS36NBVXF7S5QHQHB2EIU/>
⁹⁵ <https://www.whio.com/news/local/thats-dangerous-cracked-sinks-suspected-mold-plague-local-troubled-housing-complex/XYI7W3DKAJHFTFGKUTRJE7B76I/>
⁹⁶ <https://nbcmontana.com/news/nation-world/malnourished-3-year-old-found-in-squalid-ohio-apartment-improving-at-hospital-police-say-health-toddler-fairborn-police-department-greene-county-jail-child-endangerment-felony-assault-animal-feces-bed-bugs-rodents-rabiah-muballigh-first-responders-rescue>
⁹⁷ <https://cantonrep.com/story/opinion/editorials/2024/02/25/victory-square-apartments-is-a-mess-hud-should-be-embarrassed/72683002007/>
⁹⁸ <https://cantonrep.com/story/news/local/canton/2024/02/16/canton-sues-owners-of-victory-square-apartments-for-not-fixing-hazards/72626765007/>
⁹⁹ <https://www.cantonrep.com/story/news/local/canton/2023/10/18/canton-victory-square-tenants-demand-better-living-conditions-plumbing-heating-mold-hud/70770607007/>

An experienced contractor, approached by Green National to quote on remedial works for the units at the Victoria Square Apartments, was so dismayed by the conditions that she contacted the city's building and health inspectors: *"It is my professional opinion that the three buildings are beyond repair or rectification"*, she stated, adding that *"cleaning out the vacant units, decontaminating the biohazard units and doing a mold remediation treatment between the three buildings will cost well over what the property is worth."*¹⁰⁰ In our opinion, that sounds like an immediate loss of \$2.5 million for MBIN.

With Green National held in criminal contempt in New York, their associated loans being struck from Freddie Mac's Q-Series notes, and the HUD removing at least one Ohio property from their housing assistance program, **we believe it is safe to assume that all of Green National's properties were or will be removed from the HUD's housing assistance program, including the rest for which Merchants has lent money.** Consequently, we posit that the Green National properties will not be eligible for a Bridge-to-HUD conversion, placing the repayment of the bridge loans at risk.

The HUD removal is no trifling matter because, put simply, affordable housing investments are only economically viable for an investor because the owner receives the rent on time every month from the government agencies and the mortgage has a lower interest rate because the loan is underwritten by a government-sponsored lender.^{101 102 103} However, investment properties that previously made sense from a business perspective are quite a different prospect when the rent isn't paid by government agencies, impeding recurring monthly cash flow while servicing the loan costs more because it is no longer backed by government-sponsored entities. **In our opinion, receipts from these properties will very quickly prove insufficient to service the debt outstanding – and as is evident from multiple reports, the underlying properties are most likely not worth the original loan amount. Just like with the deals with Puretz, this will ultimately lead to a loss for MBIN.**

3.3 Samuel Goldner

Besides these missteps in its multifamily segment, we believe MBIN also failed to do its due diligence in the senior living niche the bank carved out for itself. Meet Mr. Samuel Goldner, another of MBIN's borrowers. Major players in the senior living space Goldner and his firm Goldner Capital Management ("GCM") have accumulated a portfolio of dozens of facilities around the US.^{104 105 106} However, with these assets, **Mr. Goldner and his affiliated entities have also accumulated a significant number of lawsuits from vendors, patients, and lenders.**^{107 108} A consumer advocacy group called GCM operations of senior living facilities "a blueprint for poor care."¹⁰⁹ In Missouri, at least four wrongful death lawsuits were filed against GCM-owned facilities.¹¹⁰

In addition to scrutiny from civil-society organizations, **Mr. Goldner's facilities have come under governmental watch as well: Medicare terminated contracts** for three of his facilities, stating in the

¹⁰⁰ <https://www.cantonrep.com/story/news/local/canton/2023/10/18/canton-victory-square-tenants-demand-better-living-conditions-plumbing-heating-mold-hud/70770607007/>

¹⁰¹ https://www.hud.gov/topics/housing_choice_voucher_program_section_8

¹⁰² <https://sf.freddiemac.com/working-with-us/affordable-lending/solutions>

¹⁰³ As said, that's

¹⁰⁴ <https://www.ksdk.com/article/news/investigations/goldner-capital-management-nursing-home-mismanagement-unpaid-contractors-industry-flaws/63-ee988f39-047b-4ffa-a220-5c0a96574355>

¹⁰⁵ <https://www.mcknights.com/news/even-as-prevalence-shrinks-pe-chaos-tarnishes-nursing-home-sector/>

¹⁰⁶ https://theconsumervoice.org/uploads/files/issues/RFI-6-3-24.pdf#xd_co_f=MTEzMmU1OGEtMzk2Yy00NTQxLTk1ZDEtMWRIMjY0NTIxMDgx~

¹⁰⁷ https://www.docketalarm.com/cases/Indiana_Southern_District_Court/1--24-cv-00177/MERCHANTS_BANK_OF_INDIANA_v._CYPRESSWOOD_TX_REALTY_LLC_et_al/

¹⁰⁸ <https://casetext.com/case/pca-corr-llc-v-akron-healthcare-llc-2>

¹⁰⁹ https://theconsumervoice.org/uploads/files/issues/RFI-6-3-24.pdf#xd_co_f=MTEzMmU1OGEtMzk2Yy00NTQxLTk1ZDEtMWRIMjY0NTIxMDgx~

¹¹⁰ <https://fox4kc.com/news/problem-solvers/family-sues-after-man-found-dead-alone-outside-kansas-city-area-nursing-home/>

termination letter that “has failed to substantially comply with Medicare and Medicaid health and safety participation requirements.”^{111 112 113 114} In November 2023, the lender asked the court to appoint a receiver for these properties, alleging **Goldner and his entities were “insolvent on both a cash flow and a balance sheet basis, inasmuch as they are unable to pay their debts.”**¹¹⁵ In March 2024, industry experts already questioned Goldner’s solvency.¹¹⁶ **In early October 2024, GCM and its affiliates filed for bankruptcy.**¹¹⁷

MBIN was also informed by the court about Goldner’s bankruptcy. Why? Because **MBIN lent Goldner and his GCM affiliates \$60 million in 2021 and 2022.** We were able to identify MBIN’s loans to Goldner and his affiliates with at least \$44 million outstanding (see Figure 18 below).¹¹⁸

Address	City	Lender		Amount	Owner
10851 CRESCENT MOON DR 202	HOUSTON, TX	MERCHANTS BK/IN	5/5/2021	9,327	CYPRESSWOOD TX REALTY LLC
80 SW 2ND ST	RENTON, WA	MERCHANTS BK/IN	5/10/2022	35,000	WA3 PROPERTIES RENTON LLC
4430 TALBOT RD S	RENTON, WA	MERCHANTS BK/IN	5/10/2022	35,000	WA3 PROPERTIES TALBOT LLC
Total				44,327	

Figure 18 Identified loans made by Merchants Bank of Indiana to Goldner entities, source: NINGI Research, King County, 1:24-cv-00177-1

Since January 2024, MBIN has already sued Mr. Goldner for repayment of \$9.3 million relating to a Texas senior living home.¹¹⁹ However, we believe that, with Goldner’s bankruptcy on October 2, 2024, MBIN’s additional loans are now in jeopardy as well.

As with the other borrowers in MBIN’s veritable rogues’ gallery, there is a pressing question: **Why did Indiana-based MBIN make \$60 million bridge loans to a then 25-year-old New Yorker for properties in faraway Washington state and Texas? Was it sheer naivety or in pursuit of some greater goal – like forcing the growth of its loan book at any cost?**

3.4 The Writing On The Wall

In light of our analysis, Poretz et al. can hardly be outliers in MBIN's loan portfolio. On examination, we found that loan agreements where Merchants Bank of Indiana is the lender contained an industry-standard clause requiring the borrower to comply with laws and regulations; specifically, that the borrower must not violate or permit violations of any law, regulation, ordinance, or contract affecting the property. However, by the time MBIN made its first loans to Green National, the real estate firm was already subject to judgment for housing code violations.¹²⁰ The same is true for Poretz, whose properties had hundreds of building code violations at the time MBIN first issued the loan; what is more, the family had a long history of publicly-documented court battles with previous lenders for failing to repay their loans.^{121 122 123} A quick Google search would have revealed that these potential borrowers do not take compliance with laws that form the basis of a loan agreement seriously.

¹¹¹ <https://www.cms.gov/files/document/tennessee-vivianthealthcareofbristol-11-08-2023pdf.pdf>

¹¹² <https://www.cms.gov/files/document/tennessee-viviant-healthcare-murfreesboro-12-12-2023.pdf>

¹¹³ <https://www.mcknights.com/news/even-as-prevalence-shrinks-pe-chaos-tarnishes-nursing-home-sector/>

¹¹⁴ <https://www.wjhl.com/news/investigations/viviant-owner-has-multiple-closed-nursing-homes/>

¹¹⁵ <https://www.mcknights.com/news/even-as-prevalence-shrinks-pe-chaos-tarnishes-nursing-home-sector/>

¹¹⁶ <https://www.ksdk.com/article/news/investigations/goldner-capital-management-nursing-home-mismanagement-unpaid-contractors-industry-flaws/63-ee988f39-047b-4ffa-a220-5c0a96574355>

¹¹⁷ <https://www.mcknights.com/news/private-equity-firm-with-nursing-home-holdings-files-for-bankruptcy-claims-it-was-duped-by-lender/>

¹¹⁸ The \$35 million loan was made to both Washington entities as a whole.

¹¹⁹ https://www.docketalarm.com/cases/Indiana_Southern_District_Court/1--24-cv-00177/MERCHANTS_BANK_OF_INDIANA_v._CYPRESSWOOD_TX_REALTY_LLC_et_al/

¹²⁰ <https://www.syracuse.com/news/2019/08/police-tenants-push-football-legend-tim-greens-firm-to-fix-nightmare-apartments.html>

¹²¹ <https://www.inquirer.com/real-estate/brith-sholom-housing-fraud-guilty-eli-poretz-20240802.html>

¹²² [https://city-attorney.columbus.gov/pdf/press/efm_transfer_agent-joint_motion_for_appointment_of_a_receiver_\(final\).pdf](https://city-attorney.columbus.gov/pdf/press/efm_transfer_agent-joint_motion_for_appointment_of_a_receiver_(final).pdf)

¹²³ <https://www.inquirer.com/real-estate/housing/inq2/poretz-family-apex-equity-affordable-senior-housing-conditions-20240716.html>

If the bank has failed to do its homework on such individuals – or worse: if Merchants Bank has deliberately made loans to sanctioned landlords and shady individuals – **we wonder how many other rogue traders on MBIN's balance sheet are yet to emerge?**

How do you value a bank's stock whose borrowers are being prosecuted in relation to the mortgaged properties? In our opinion, certainly not above book value. MBIN's loan growth will surely prove to have been unsustainable – and toxic.

4. Hedging Fails to Prevent \$150 Million Shortfall

After reading this part of our report, bullish investors in Merchants may well point to the hedges and alleged credit risk transfers carried out by MBIN in the last twenty-four months:

- October 2024: \$630 million securitization of healthcare CRE bridge loans
- March 2024: Credit default swap with a notional value of \$543 million
- March 2023: \$1.13bn synthetic securitization with a credit-linked note
- September 2022: \$1.2bn private securitization of multifamily bridge loans,

At first glance, these transactions look like a compelling argument not to worry about any loan losses that may arise.

However, we believe that the 2024 transactions can be disregarded as they took place at a time when MBIN already had USD 218m in overdue loans due to the 2021 and 2022 vintages, excluding these from any protection. **In our opinion, no institutional investor would touch the Puretz, Green et al. loans with a ten-foot pole, let alone take the other side of a CDS or CLN trade** – provided they, in probable contrast to MBIN's underwriting department, did even a cursory Google search on the borrowers of the referenced loans.

Further, the March 2023 securitization has a first loss cap for the third-party investor through the credit-linked note at around \$158 million, meaning any losses from the referenced pool of loans exceeding \$158 million are accrued by Merchants and not for the third-party investor. **The disclosures in MBIN's latest 10-Q form indicate that, already, \$45.7 million in loans have already defaulted**, lowering MBIN's credit loss protection to \$112.4 million at the end of the second quarter of 2024.¹²⁴ Moreover, the September 2022 securitization was structured as a REMIC and MBIN retained 86.6% of the issued securities while a third-party investor purchased the first loss position worth around \$155 million.¹²⁵

Based on this information, we crunched the numbers (see in Figure 19 below). As we show, the 2022 and 2023 securitizations protect the bank from credit losses of up to \$313.1 million. According to the bank's disclosure, at least \$45.7 million has already been used up, leaving \$348.3 million in protection against credit losses made up of \$267.3 million from the securitizations and the \$81 million in loan loss allowance already set aside. However, this is currently offset by NPLs and modified loans of \$395.7 million, and in our opinion, this does not include the additional \$103.1 million of loans we revealed in Chapter 3.¹²⁶ **This results in a shortfall in the CECL provision of at least \$150.4 million.**

¹²⁴ <https://www.sec.gov/Archives/edgar/data/1629019/000155837024011741/mbin-20240630x10q.htm>, pg. 9

¹²⁵ <https://www.sec.gov/Archives/edgar/data/1629019/000155837024003005/mbin-20231231x10k.htm>, pg. 93

¹²⁶ We assume that one Goldner loan (Cypresswood) is already reported under delinquent loans and two Green National loans (Harding House and White Cliff) under modified loans (as at 2Q24).

Item	Amount	Source
First loss protection through securitizations	313,140	SEC filings
Depleted first-loss protection	(45,700)	SEC filings
Reported allowance for credit losses	81,028	Call reports - Schedule RI-B Part II
Unused protection	348,468	
Reported total delinquent loans	(240,986)	Call reports - Schedule RC-N
Reported modified loans	(154,709)	Call reports - Schedule RC-M
Uncovered loans by us (Poretz, Goldner, Green et al.)	(103,112)	see Chapter 3
Shortfall	(150,339)	

Figure 19 Estimated shortfall on MBIN's CECL provision, source: NINGI Research

What does all this mean? That, in essence, **the 2022 and 2023 securitizations are little more than a comfort blanket.**

Furthermore, we have found that certain loans first transferred to the REMIC in the 2022 securitization were later paid off by the borrowers and that, simultaneously, the borrowers were given new loans by MBIN for the same properties and for the same amount. But the new loans are no longer recorded on the REMIC, but on MBIN's balance sheet, indicating a back-transfer of credit.

In particular, MBIN applied this switcheroo – some might call it a 'credit carousel' – to a Green National bridge-to-HUD loan for their Harding House property (see Figure 20 below).

Loan origination - July 31, 2020:

THIS OPEN-END MORTGAGE, SECURITY AGREEMENT AND ASSIGNMENT OF LEASES AND FIXTURE FILING (this "Mortgage"), is executed to be effective as of the **31st day of July, 2020** by **GREEN HARDING HOUSE LLC**, a Delaware limited liability company having a mailing address of 753 James Street, Suite 5, Syracuse, New York 13203 (hereinafter referred to as "Mortgagor"), in favor of **MERCHANTS BANK OF INDIANA**, having banking offices at 410 Monon Blvd., 4th Floor, Carmel, Indiana 46032 (hereinafter referred to as "Lender").

RECITALS:

I. Mortgagor has requested that Lender extend to Mortgagor a loan in the principal amount of Two Million Seven Hundred Sixty Thousand and 00/100 Dollars (**\$2,760,000.00**) (such loan as from time to time modified or amended is herein referred to as the "Loan").

Loan transfer to REMIC - September 22, 2022:

Effective as of the **22nd day of September, 2022**, **MERCHANTS BANK OF INDIANA**, having an address at 410 Monon Blvd., 4th Floor, Carmel, IN 46032 ("Assignor"), as the holder of the instrument hereinafter described and for valuable consideration hereby assigns, sells, transfers and delivers to **COMPUTERSHARE TRUST COMPANY, NATIONAL ASSOCIATION**, AS TRUSTEE FOR THE BENEFIT OF THE REGISTERED HOLDERS OF MERCHANTS MULTIFAMILY TRUST 2022-RSS1, MULTIFAMILY MORTGAGE PASS-THROUGH CERTIFICATES, SERIES 2022-RSS1, having an address at 9062 Old Annapolis Road, Columbia, MD 21045 ("Assignee"), its successors, participants and assigns, without recourse or warranty, all right, title and interest of Assignor in and to that certain:

OPEN-END MORTGAGE, SECURITY AGREEMENT AND ASSIGNMENT OF LEASES AND FIXTURE FILING made by **GREEN HARDING HOUSE LLC**, a Delaware limited liability company to Assignor, dated as of July 31, 2020 and recorded on August 17, 2020, as Document Number 2020-030975 in the Recorder's Office of Warren County, Ohio (as the same may have been amended, modified, restated, supplemented, renewed or extended), securing payment of note(s) of even date therewith, in the original principal amount of **\$2,760,000.00**, and creating a first lien on the property described in Exhibit A attached hereto and by this reference made a part hereof.

Loan repayment to REMIC - April 10, 2024:

The undersigned certifies that it is the owner of the original indebtedness in the amount of Two Million Seven Hundred Sixty Thousand and 00/100 Dollars (**\$2,760,000.00**) secured by the Open-End Mortgage and Security Agreement and Fixture Financing Statement, recorded on **July 31, 2020** as Document No. 2020-030975 in the Official Records of Warren County ("Mortgage"), executed by **GREEN HARDING HOUSE LLC**, a Delaware limited liability company ("Borrower") in favor of **MERCHANTS BANK OF INDIANA**, an Indiana chartered bank ("Lender"), as assigned by that certain Assignment of Open-End Mortgage, Security Agreement and Fixture Filing from Lender to **Computershare Trust Company, National Association**, dated September 22, 2022, and recorded on October 3, 2022 in the Official Records of Warren County as Document No. 2022-030981; such indebtedness also being secured by an Assignment of Leases and Rents, executed by Borrower in favor of Lender, recorded August 17, 2020 as Document No. 2020-030978 in the Official Records of Warren County ("Assignment of Leases"), as assigned by that certain Assignment of Assignment of Leases and Rents from Lender to **Computershare Trust Company, National Association** dated September 22, 2022 and recorded on October 3, 2022 as Document No. 2022-030982 in the Official Records of Warren County, and **that such indebtedness was satisfied on or about April 10, 2024**.

Loan origination - April 10, 2024:

THIS OPEN-END MORTGAGE, SECURITY AGREEMENT AND ASSIGNMENT OF LEASES AND FIXTURE FILING (this "Mortgage") is executed to be effective as of the **10th day of April, 2024** by **GREEN HARDING HOUSE LLC**, a Delaware limited liability company having a mailing address of 753 James Street, Suite 5, Syracuse, New York 13203 (hereinafter referred to as "Mortgagor"), in favor of **MERCHANTS BANK OF INDIANA**, an Indiana chartered bank, having banking offices at 410 Monon Boulevard, 4th Floor, Carmel, Indiana 46032 (hereinafter referred to as "Lender").

RECITALS:

I. Mortgagor has requested that Lender extend to Mortgagor a loan in the principal amount of Two Million Seven Hundred Sixty Thousand and 00/100 Dollars (**\$2,760,000.00**) (such loan as from time to time modified or amended is herein referred to as the "Loan").

Figure 20 "Credit carousel" for the Harding House properties, source: NINGI Research, Warren County

Assigned to the REMIC on September 22, 2022, the mortgage was then repaid on April 10, 2024, with the proceeds from a loan MBIN granted to Green National on the same day. In addition, we found a similar transaction for Green National's White Cliff Apartment, where the credit risk went back onto MBIN's balance sheet. These bridge loans have a term of only one year, and it is our contention that, after that point, the loans will no longer be capable of refinancing because the underlying properties are in an advanced state of dilapidation and now lacking the housing contracts terminated by the HUD.

So ultimately, MBIN took some of its riskiest loans back onto its balance sheet. This isn't a credit risk transfer – or rather, it is a credit risk transfer, but in the wrong direction.

In our opinion, these so-called securitizations and hedges are just smoke and mirrors – and are woefully insufficient to cover rising losses from the 2021 and 2022 loans.

Conclusion

As laid out in this report, MBIN is trading on the wholesome public image as small-town heartland America's lender of choice – the friendly local bank helping Jane and Jim to live their dream of picket fences and apple pies on window sills. This rosy-cheeked Midwestern number has enabled Merchants to appear different to, to look better than comparable banks, dogged down by their dangerous exposure to commercial real estate in challenging macroeconomic conditions.

The reality, though, is far grittier – and much darker. In our opinion, MBIN has been pursuing expansion in just as aggressive a way as its peers – and, potentially, in a manner even more amoral. Whether deliberately or by omission, we believe Merchants has certainly failed to carry out sufficient due diligence on the shady slumlords to whom it has been lending millions of dollars of late. **And in the Dickensian real-estate portfolios of Puretz, Green et al., there are no picket fences, but rather dilapidated hallways and broken elevators.** Due to infestations of vermin, their tenants would be ill-advised to leave an apple pie out to cool.

On lending, MBIN failed to secure sufficient insurance for credit this risky – and in today's market, there is no one willing to take it on. As a result, it has been forced into the kind of bookkeeping sleights of hand that see the bank's worst credit ending up back on its own balance sheet. As such, it is our considered opinion that Merchants' press releases of recent months rechristening previous deals as "credit risk transfers" are nothing but smoke and mirrors. To put it bluntly: Merchant's hedging strategy is just window-dressing in a house of cards which is now visibly wobbling.

What is the moral of the story? In the end, lending money to anyone and everyone just to grow a business does not yield long-term returns. In fact, it could lead to severe losses. MBIN is about to learn this lesson the hard way.

For all information herein, we are short Merchants Bancorp (NASDAQ: MBIN).