EJF Investments Manager LLC
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December 30, 2020

Dear EJFI Shareholders:

On December 27, 2020 President Donald Trump signed a COVID-19 relief package and government funding bill ("COVID-19 Relief Bill"), which establishes a multitude of stimulus measures to further reinvigorate the economy and American consumer spending.

Given EJFI's large exposures to the U.S. banking and insurance sectors, and its commitment to the U.S. consumer via its mortgage servicing rights ("MSRs") investment program, we view the COVID-19 Relief Bill as being extremely supportive. Furthermore, we wish to emphasize that EJFI is yet to experience any notable credit pressure on its bank and insurance debt holdings, and, crucially, we believe the passage of the COVID-19 Relief Bill makes that risk even more remote.

The COVID-19 Relief Bill provisions that may have an immediate impact on EJFIs existing and anticipated exposures include: a new round of Paycheck Protection Program ("PPP") loans and small business support, a temporary extension of the Center for Disease Control and Prevention's eviction moratorium, emergency rental assistance, and emergency support for Community Development Financial Institutions and Minority Depository Institutions ("CDFIs" and "MDIs", respectively).

Described below are several of the more salient provisions of the COVID-19 Relief Bill pertaining to the U.S. banking sector.

Paycheck Protection Program & Other Small Business Support

An additional $284.5 billion of government support will be earmarked for PPP loans as well as $20 billion in COVID-19 Economic Injury Disaster Loans for small businesses.

Borrowers eligible for a second draw PPP loan are those with 300 or fewer employees that can demonstrate a reduction in revenue of 25% in any single fiscal quarter during 2020. We expect companies operating within the hospitality, lodging, food and entertainment sectors to benefit from this legislation in particular. In fact, accommodation and food service businesses qualify for loans up to 3.5x payroll costs compared to other businesses at 2.5x. The maximum loan size is $2 million and loans less than $150,000 qualify for a simplified forgiveness process. In addition, borrowers can deduct expenses that are funded by PPP from their tax bill, amplifying the effects of the program. We anticipate that this will be of great support to certain loans made by various community banks to which EJFI has exposure.

The bill also expands eligible expenses that count toward forgiveness for borrowers. Lender origination fees remain robust as per the first round of PPP, with fees of 5% for loan sizes between $50,000 and $350,000 and fees of 3% for loan sizes greater than $350,000. In addition, the new legislation also creates a legal safe harbor for lenders participating in the program if they act in good faith and fulfill the basic requirements of the program. Again, we believe these provisions will be of great benefit to EJFI's community bank investments particularly given their focus on smaller loans in comparison to many of the larger regional and money center banks.

Also contemplated in the COVID-19 Relief Bill is an extension of government backing for Small Business Administration ("SBA") loans. Businesses with SBA microloans, 7(a) Community Advantage loans, and 7(a) or 504 loans will receive an additional three months of principal and interest payments from the SBA beginning February 2021. After the three-month period expires, those borrowers in the hardest hit sectors will be eligible to receive an additional five months of principal and interest payments from the SBA. Within the 7(a) loan program, the SBA will increase its guarantee to cover 90% of the loan, up from 75-85%, through October 2021. This is yet another powerful underpinning of the US community banking sector and a clear demonstration that political backing for it remains extremely strong.

Emergency Support for CDFIs & MDIs

The COVID-19 Relief Bill provides for a historic investment in CDFIs and MDIs. Approximately 10% of the TruPS universe of issuers are CDFIs and MDIs, so there is an impact on EJF sponsored securitizations. The funding for CDFIs and MDIs in the Relief Bill is primarily composed of two parts: 1) a $9 billion Emergency Capital Investment Program administered by the Department of the Treasury ("Treasury") and 2) $3 billion in emergency support through the CDFI Fund, a Treasury entity which finances CDFIs.

The $9 billion Emergency Capital Investment Program aims to expand significant lending activity in minority communities, especially those disproportionately impacted by COVID-19 and those with unmet financial services needs. The Treasury-led capital initiative will consist of a cumulative preferred stock issued by qualifying MDI and CDFI institutions. The amount of capital requested may be up to 30% of risk-weighted assets, depending upon the size of the institution. Although the preferred stock will have a 2% dividend (de facto coupon) cap, the cap can be reduced to 0.5% if loans to targeted segments are at least 4x the amount of capital issued. The preferred stock will also carry a 24-month initial dividend payment deferral for the issuer.

Although full program terms have yet to be released, we view the program as more powerful in some ways than the Troubled Asset Relief Program's Capital Purchase Program or Community Development Capital Initiative programs from the 2008 Global Financial Crisis. Those programs only allowed for preferred stock to be issued at 3%-5% of risk-weighted assets. With the ability to lower coupons to 0.5%, we believe that the Emergency Capital Investment Program would produce the lowest cost of capital instrument in the U.S. banking industry.

The legislation also endows the CDFI Fund with $3 billion in grants and other financial and technical assistance. Of the $3 billion, $1.25 billion will be immediately set aside for use in the current fiscal year. Of the remaining $1.75 billion, $1.25 billion will be set aside specifically for MDIs. We believe this is a step in the right direction and broadly positive for CDFIs and MDIs.

If you have any questions, or would like to discuss this in further detail, please contact EJF Investments Manager LLC at info@ejfi.com.

Thank you for your continued confidence in EJFI.

Neal J. Wilson
Chief Executive Officer
EJF Investments Manager LLC

APPENDIX

What are CDFIs & MDIs?

The CDFI certification is a designation given by the CDFI Fund to specialized organizations that provide financial services in low-income communities and to people who lack access to financing.[1]

The FDIC's Statement of Policy Regarding Minority Depository Institutions (MDIs)[2] outlines two definitions of how FDIC-insured commercial banks and savings associations may qualify for MDI status. An MDI may be a federal insured depository institution for which: 1) 51% or more of the voting stock is owned by minority individuals; or 2) a majority of the board of directors is minority and the community that the institution serves is predominantly minority. Ownership must be by U.S. citizens or permanent legal U.S. residents to be counted in determining minority ownership.

EJF believes that there are significant opportunities for CDFIs and MDIs to leverage the capital support provided by the COVID-19 relief legislation to create value for shareholders. Of the approximately 1,175 CDFI and MDI institutions, we estimate that there are approximately 42 public companies comprising approximately $25 billion in market capitalization that will be able to take advantage of the capital program.

[1] Source: U.S. Department of the Treasury's CDFI Fund Fact Sheet, https://www.cdfifund.gov/Documents/CDFI_PROGRAM_FACT_SHEET_CERTIFICATION_updatedJAN2016.pdf

[2] Source: Federal Deposit Insurance Corporation's Statement of Policy Regarding Minority Depository Institutions, https://www.fdic.gov/news/board/2020/2020-08-21-notational-fr-b.pdf