JULY 2019

ITPI IN THE PUBLIC INTEREST | public accountability initiative | THE CENTER FOR POPULAR DEMOCRACY

2019 IMPACT BRIEF

As Wall Street Banks Sever Ties, Private Prison Companies Stand to Lose Over $1.9B in Future Financing

This year, JPMorgan Chase, Wells Fargo, Bank of America, SunTrust, BNP Paribas, and Fifth Third Bancorp publicly announced that they would no longer provide any new financing to the private prison industry. **Together these six banks represent an estimated $1.93 billion, or 72% of the total current financing available to private prison companies, CoreCivic and GEO Group.** These commitments are landmark victories for the movement to end Wall Street's financing of the private prison industry. It is the result of years of coordinated action, including the hard work of the coalition of organizations working under the banners of #FamiliesBelongTogether and #BackersOfHate.

This data brief is an update to our April 2019 brief, which identified the banks that provide financing to the nation's two major private prison companies, CoreCivic and GEO Group, and disclosed how much each company receives from these financial institutions.[1] In light of the recent announcements by JPMorgan, Wells Fargo, Bank of America, SunTrust, BNP Paribas, and Fifth Third Bancorp, this data brief provides original estimates that quantify the impact of this future loss in financing on CoreCivic and GEO Group, offers context on why financing is especially critical for private prison companies, and stresses the need for continued vigilance to ensure these banks' public commitments match their private business dealings.

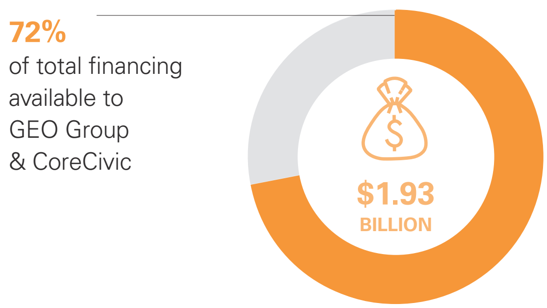
Wall Street Financing is Critical for Private Prison Companies

Financing arrangements between private prison companies and Wall Street banks have enabled CoreCivic and GEO Group to expand their business, including building new facilities, acquiring smaller companies, and paying for day-to-day business operations, while securing additional lucrative government contracts.[2] These companies rely on two critical types of financing:

- **Lines of Credit:** GEO Group and CoreCivic both have an agreement with a syndicate of banks for a revolving line of credit. The private prison companies can borrow and repay funds when they choose, up to the credit limit.
- **Term Loans:** GEO Group and CoreCivic both have an agreement for a term loan, which allows them to borrow a set amount from a group of banks that must be repaid on an agreed-upon schedule.

Private prison companies depend heavily on debt financing because they are structured as real estate investment trusts, or REITs. This structure allows CoreCivic and GEO Group to largely avoid paying income taxes. In 2017 alone, GEO Group reported receiving $44 million in tax benefits due to its REIT status.[3] However, REIT rules require them to pass on a large percentage of income to investors, which limits the amount of cash that they have on hand, and forces them to rely on short-term borrowing.[4] The recent Wall Street commitments are critical because loss of financing relationships can significantly and materially impact the companies' ability to continue regular operations, threaten their REIT status, and ultimately hamper their growth and overall viability.

Estimated Impact on CoreCivic and GEO Group's Future Financing



As of December 2018, Wall Street banks had credit arrangements of $2.692 billion—comprising $1.7 billion in lines of credit and $992 million in term loans—with CoreCivic and GEO Group. Wells Fargo, JPMorgan Chase, Bank of America, SunTrust, BNP Paribas, and Fifth Third Bancorp comprise a significant portion of this total. We find that the six banks provide an estimated combined $1.93 billion of that financing, or 72% of the total financing currently available to these private prison companies. Given the six banks' commitments to provide no new financing, GEO Group and CoreCivic will potentially face a $1.9 billion shortfall when the current agreements expire.

Banks	GEO Group	CoreCivic	CoreCivic
	Line of credit & term loan*	Line of credit	Term loan
JPMorgan Chase	$282,000,000	$112,000,000	$28,000,000
Bank of America	$282,000,000	$112,000,000	$28,000,000
SunTrust	$282,000,000	$112,000,000	$28,000,000
Wells Fargo	$282,000,000		
BNP Paribas	$282,000,000		
Fifth Third Bancorp		$80,000,000	$20,000,000
Total	$1,410,000,000	$416,000,000	$104,000,000
Grand Total		**$1,930,000,000**	

*Estimated totals

Methodology

To calculate the potential impact on future financing opportunities available to GEO Group and CoreCivic, we reviewed the total committed in credit and loans from Wells Fargo, JPMorgan Chase, Bank of America, SunTrust, BNP Paribas, and Fifth Third Bancorp. CoreCivic has an $800 million line of credit and a $200 million term loan with a syndicate of ten banks. JPMorgan Chase, Bank of America, and SunTrust are three of CoreCivic's largest lenders, each lending 14% of their $800 million credit line and 14% each of their $200 million in term loans.[5] While GEO Group reports its total credit line and loan debt, it does not make specific commitment amounts for each participating bank publicly available. Wells Fargo, JPMorgan Chase, Bank of America, SunTrust, and BNP Paribas are five of the six banks that provided $1.692 billion in financing to GEO Group.[6] We estimate that these five banks are responsible for $282 million each—83% of the total financing available to GEO Group—for a total of $1.41 billion.

Context on Wall Street Bank's Public Commitments

Not all of the banks are fulfilling their public commitments equally. According to the *Wall Street Journal*, Wells Fargo and JPMorgan Chase have already exited the line of credit for GEO Group. Meanwhile Bank of America quietly lent GEO Group an additional $90 million through its revolving line of credit and extended its availability by several years just weeks before announcing that it would no longer offer new financing to the industry.[7] Additionally the broad commitments of these banks do not detail which aspects of the private prison industry they will no longer finance. For instance, for-profit child detention company Caliburn is a private equity-controlled corporate entity that owns Comprehensive Health Services (CHS).[8] CHS runs the for-profit detention center Homestead, where immigrant children are being held in deplorable conditions without basic necessities like clean water and medical assistance.[9] Bank of America and SunTrust are the largest lenders to Caliburn, with $65 million and $60 million in revolving credit and term loans committed respectively.[10] News reports on Bank of America and SunTrust's commitments note that they include companies running immigration detention facilities like Homestead, however, neither bank has gone on record to confirm that they will also end their financing relationships with Caliburn.[11]

SUMMARY TABLE: KEY BANKS PROVIDING FINANCING TO CORECIVIC AND GEO GROUP[12]

Banks	CoreCivic	GEO Group	Public Commitment to no longer finance?
	Line of credit and term loan	Line of credit and term loan	
Bank of America	x - Lead	x	✓
SunTrust	x	x	✓
JPMorgan Chase	x	x	✓
Wells Fargo		x	✓
Barclays		x	NO
BNP Paribas		X - Lead*	✓
Regions	x		NO
Fifth Third	x		✓
Citizens	x		NO
PNC	x		NO
Pinnacle Bank	x		NO
First Tennessee Bank	x		NO
Synovus Bank	x		NO
US Bank			NO

*Lead indicates the bank serves as an administrative agent and coordinates matters related to the term loan and the line of credit

Moving Forward: How to Ensure An Expiration Date on the Private Prison Industry

In the first half of 2019, the nation's two largest private prison companies lost the ability to secure future financing from JP Morgan Chase, Wells Fargo, Bank of America, SunTrust, BNP Paribas, and Fifth Third Bancorp. This is likely to deal a serious blow to GEO Group and CoreCivic, as these banks currently provide 72% of the companies' financing, an estimated $1.93 billion. GEO Group and CoreCivic's business model and REIT status cannot be sustained without consistent and sizable Wall Street investment. As a result, this loss in financing could severely limit the private prison companies' ability to expand their businesses and meet their obligations to shareholders. Notably, both GEO Group and CoreCivic's stock prices fell immediately after each bank's announcement to cease all future financing.[13]

Private prison companies have publicly claimed this loss in financing will not impact its business. However, in filings to investors and US regulators, the private prison companies have been more candid about the significant threats posed to its business. For example, GEO Group's March 2019 quarterly report detailed:

> "Public resistance to the use of public-private partnerships for correctional, detention and community-based facilities could result in our inability to obtain new contracts or the loss of existing contracts, impact our ability to obtain or refinance debt financing or enter into commercial arrangements, which could have a material adverse effect on our business, financial condition and results of operations."[14]

Previous public filings by GEO Group did not specify that its debt financing could be impacted by growing public opposition to the private prison industry.[15] In the coming years, private prison companies could facing dwindling financing options. The remaining Wall Street financiers (see table below) will now face mounting public pressure to follow the lead of JPMorgan Chase, Wells Fargo, Bank of America, SunTrust, BNP Paribas, and Fifth Third Bancorp. GEO Group and CoreCivic's current financing agreements with these banks expire in a few years.

If Wall Street banks hold firm on their public commitments to sever ties and if the remaining financial backers follow suit, the expiration of existing financing agreements could not only negatively impact Geo Group and CoreCivic's business model but could undermine the very viability of these companies and effectively set an expiration date for private prisons.

Acknowledgments

This report was written and researched by Gin Armstrong (Public Accountability Initiative), Shahrzad Habibi (In the Public Interest), and Maggie Corser (Center for Popular Democracy).

Endnotes

1 "The Wall Street Banks Still Financing Private Prisons," The Center for Popular Democracy, April 2019, https://populardemocracy.org/news/publications/wall-street-banks-still-financing-private-prisons

2 "The Banks that Finance Private Prison Companies," In the Public Interest, November 2016, www.inthepublicinterest.org/wp-content/uploads/ITPI_BanksPrivatePrisonCompanies_Nov2016.pdf, 22.

3 "An examination of private financing for correctional and immigration detention facilities," In the Public Interest, June 2018, https://www.inthepublicinterest.org/wp-content/uploads/ITPI_PrivatePrisonP3s_June2018FINAL.pdf

4 "The Banks that Finance Private Prison Companies," In the Public Interest, November 2016, www.inthepublicinterest.org/wp-content/uploads/ITPI_BanksPrivatePrisonCompanies_Nov2016.pdf, 24.

5 CoreCivic Line of Credit Numbers and Commitment Percentage: www.sec.gov/Archives/edgar/data/1070985/000119312518120636/d568607dex101.htm; CoreCivic for Term Loan Commitment Numbers and Commitment Percentage: www.sec.gov/Archives/edgar/data/1070985/000119312518120636/d568607dex101.htm

6 List of banks involved: GEO third Amended and Restated Credit Agreement: https://www.sec.gov/Archives/edgar/data/923796/000119312517101954/d316743dex101.htm; Amendment No. 1 to Third Amended and Restated Credit Agreement: https://www.sec.gov/Archives/edgar/data/923796/000119312518152758/d564439dex101.htm

7 Rachel Louise Ensign, "Bank of America Cut Off Private Prisons Weeks After Lending to One," *Wall Street Journal*, July 2, 2019, https://www.wsj.com/articles/bank-of-america-cut-off-private-prisons-weeks-after-lending-to-one-11562059804.

8 John Burnett, "Florida Shelter Is Scrutinized For The Way It Handles Migrant Children," *NPR Morning Edition*, February 13, 2019, https://www.npr.org/2019/02/13/694175061/florida-shelter-is-scrutinized-for-the-way-it-handles-migrant-children.

9 Deniz Cam, "One In Six Migrant Children In The U.S. Are Staying At A Shelter Operated By A Private Equity Tycoon," *Forbes*, April 10, 2019, https://www.forbes.com/sites/denizcam/2019/04/10/one-in-six-migrant-children-in-the-us-are-staying-at-a-shelter-operated-by-a-private-equity-tycoon/#30477299687e.

10 US Securities and Exchange Commission, "Caliburn Holdings LLC," Exhibit 10.4, August 14, 2018, https://www.sec.gov/Archives/edgar/data/1750690/000119312518303218/d632104dex104.htm.

11 Lananh Nguyen, "Bank of America Will Stop Lending to Private-Prison Firms," *Bloomberg*, June 26, 2019, https://www.bloomberg.com/news/articles/2019-06-26/bank-of-america-will-stop-lending-to-private-prison-companies. Imani Moise, "SunTrust to stop financing companies that manage private prisons," Reuters, July 8, 2019,https://www.reuters.com/article/us-suntrust-banks-prison/suntrust-to-stop-financing-companies-that-manage-private-prisons-idUSKCN1U31WV

12 This table is updated from "The Wall Street Banks Still Financing Private Prisons," The Center for Popular Democracy, April 2019, https://www.nasdaq.com/symbol/cxw/interactive-chart

13 "CoreCivic, Inc. Stock Chart" NASDAQ, Accessed July 8, 2019, https://www.nasdaq.com/symbol/cxw/interactive-chart; "Geo Group INC (The) Interactive Stock Chart," NASDAQ, Accessed July 8, 2019, https://www.nasdaq.com/symbol/geo/interactive-chart.

14 U.S. Securities and Exchange Commission, "The GEO Group, Inc." Form 10-Q, For the quarterly period ended March 31, 2019, https://www.sec.gov/Archives/edgar/data/923796/000119312519138425/d651801d10q.htm, 52.

15 U.S. Securities and Exchange Commission, "The GEO Group, Inc." Form 10-K, For the year ended December 31, 2017, https://www.sec.gov/Archives/edgar/data/923796/000119312518058566/d494769d10k.htm, 40.