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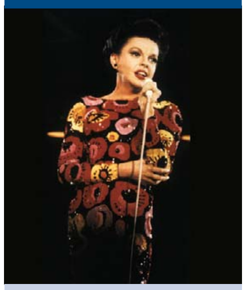
Up Front



Somewhere, over the rainbow, Judy goes back on tour.
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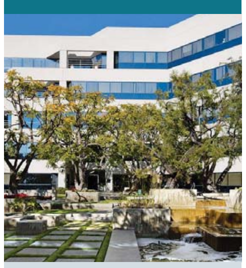

Culver City offices change hands as tech boom creeps east.
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Hanjin's Troubles at Home Making Waves in L.A.

SHIPPING: Concern grows at port; air, real estate appear solid.

By HENRY MEIER *Staff Reporter*

South Korean behemoth **Hanjin Shipping** is in trouble, and that could set off a scramble at the ports of Los Angeles and Long Beach.

The company said last week that it is partnering with creditors in an attempt to restructure $4.9 billion in debt and avoid a government takeover. While negotiations over the company's future take place across the Pacific Ocean, the company's turmoil – and the broader impact of a global shipping slowdown – could soon be felt in Los Angeles as Hanjin and competitors also experiencing losses look for ways to increase revenue by limiting the amount of space on ships.

$4.9 billion
Amount of Hanjin Shipping's debt.

The most tangible impact is likely to occur at the **Port of Long Beach**, where Hanjin Shipping operates one of the port's six cargo terminals. Hanjin's terminal operations, run by a subsidiary called **Total Terminals International**, could reportedly be sold as part of the reorganization plan.

While exact numbers for Hanjin are proprietary, the shipping line is one of Long Beach's largest operators and handles about 1 million of the roughly 6 million 20-foot equivalent units (TEUs) that pass through the port each year.

Hanjin has been particularly hard hit by its ship costs. The company operates 95 freight ships, 58 of which are chartered and 37 owned. The leases are proving particularly problematic and the company is seeking to lower the rates it pays to ship owners by 30 percent, in addition to restructuring its bank debt.

Noel Hacegaba, chief commercial officer for the Port of Long Beach, acknowledged the Hanjin situation is in flux but said the company has a long-term

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BOXED IN

Stepping Up: Frank Vafaee of Proto Homes at his firm's downtown manufacturing plant.

RINGO H.W. CHIU/LABJ

REAL ESTATE: Pre-built homes struggle to settle in as scale eludes.

By DAINA BETH SOLOMON
Staff Reporter

THE 70-year-old Rancho Park home had deteriorated beyond repair, damaged by leaks, asbestos, and a sinking foundation.

Rather than fix it, architect **Frank Vafaee** began anew, building a sleek contemporary home out of factory-made pieces.

"There was nothing there to salvage," said Vafaee, founder of home-parts designer and manufacturer **Proto Homes**.

His six-year-old maker of components for prefab homes is banking on manufacturing efficiencies and appealing designs to draw customers, but it's entering a relatively mature market that hasn't gained the traction some thought it would when prefab became a design darling a decade ago.

"Architects and designers have been trying to figure out economies of scale for decades," said **Amanda Dameron**, editor-in-chief of architecture magazine Dwell. And the process

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Denim Vets Button Up New Look

APPAREL: Former Guess trio sees future in retro inspiration.

By SUBRINA HUDSON *Staff Reporter*

Guess who's back in town?

The Marciano brothers are stitching together a new look inside a spacious design studio in the heart of the Fashion District in downtown Los Angeles.

Armand and **Georges Marciano**, who co-founded **Guess** with their brothers **Paul** and **Maurice** in 1981, have linked up with former Guess design director **Cinzia Simone** to launch upscale contemporary label **GM Studio** next month.

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RINGO H.W. CHIU/LABJ

Putting It Together: Armand Marciano and Cinzia Simone at GM Studio's headquarters.

Lender Gives Youths Credit

By MARNI USHEROFF *Staff Reporter*

Millennials often find themselves in a credit card Catch-22.

Since the financial crisis hit, cards have been harder to come by for the college aged, but it's tough to get one after graduation without a credit history.

Lenny Credit Inc., a Santa Monica startup, has taken aim at that conundrum with the launch of a mobile app in March that offers kids in their late teens and 20s small-dollar loans, peer-to-peer payments, and credit-score education – all while reporting

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Shipping: Hanjin Finances Weigh on L.A. Interests

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lease at the port until 2027. Port officials, he said, are monitoring the situation closely.

"We meet regularly with our terminal operators to review business," he said. "Operationally, things are moving smoothly through the port," he said regarding Hanjin's situation.

The impact of Hanjin Shipping's restructuring could stretch much farther. The company is part of **Hanjin Group**, a type of huge, multifaceted conglomerate known in South Korea as a "chaebol." The Hanjin chaebol includes **Korean Air**, which has a huge footprint at **Los Angeles World Airport** and is financing the $1.2 billion, 73-story Wilshire Grand Tower downtown. It also owns a 33 percent stake in Hanjin Shipping. Whether the debt restructuring of Hanjin Shipping bleeds into Korean Air's bottom line was not addressed in a recent statement by a company spokeswoman regarding its financial situation.

"The Hanjin Group will fully cooperate with creditors to alleviate the issues at Hanjin Shipping, and Korean Air has no plans for future investment," the statement reads.

For its part, Hanjin said in a statement that its discussions with creditor banks regarding a voluntary restructuring plan are progressing.

"We will put our utmost effort and work closely with the creditors to achieve business normalization within nearest future," the statement reads.

Asked if Hanjin's financial woes would affect either the construction of the downtown tower or Korean Air operations at Los Angeles Interna tional Airport, a spokeswoman issued only a brief comment: "The answer to both of these is no."

Global downturn

Hanjin's precarious financial position is not an isolated one. **Hyundai Merchant Marine**, another South Korean shipping giant that's part of the Hyundai chaebol, is also involved in a debt restructuring led by its creditors. Additionally, Danish shipping

RINGO H.W. CHIU/LABJ

Towering: Downtown's Wilshire Grand.

conglomerate **Maersk Group**, the world's leading cargo shipper by volume, reported a 2015 fourth-quarter net loss of $2.5 billion. China's two leading shipping companies, **Cosco Group** and **China Shipping**, received approval to merge in December.

The volatility in the shipping industry is a product of several factors, according to **Paul Bingham**, vice president of Boston's **Economic Development Research Group** and head of the firm's logistics and trade division. He said shipping companies became obsessed in the last decade with lowering the cost to ship each TEU, and to do that commissioned bigger and bigger vessels. These super ships – typically more than three times larger than previous max-capacity freighters – have come online at the wrong time, he said.

The economic slowdowns in China and Europe have significantly reduced shipping demands and driven freight rates well below the $1,000-per-container rate generally accepted to be the price shippers need to break even.

In the eight years following the Great Recession, Bingham said shipping companies have only turned a profit once: in 2010.

"Every other year they've lost money," he said.

Bingham and other shipping insiders said mergers and acquisitions are likely on the horizon. **Miguel Reyes**, a manager at the **Port of San Diego** trade development office, said everyone in the industry was bracing for change.

"There's going to be a lot of consolidation," he said. "Across the board the container business is in rough shape."

Bingham also explained that as the industry reshuffles, a battle could emerge between the two local ports for business. That's because even if no formal mergers take place, shipping firms are forming inter-company agreements known as alliances in order to better control the supply of freight space on their vessels and drive up the cost per container. That reduced shipping volume could have a knock-on effect at the ports.

"With freight rates going down, mergers and alliances are definitely possible," said the Port of Long Beach's Hacegaba.

Hanjin's much-rumored potential alliance with Hyundai Merchant Marine could set off a scramble between the Los Angeles and Long Beach ports should Hanjin and Hyundai decide to decrease shipping volume in the region.

"It's somewhat of a competition between the **Port of Los Angeles** and the Port of Long Beach," Bingham said. "It's unlikely that you'll see terminals with no customers, but in the long run there could be some consolidation of terminal operators."

Chaebol Rules

South Korean conglomerates, known as chaebols, are unique to that country and play by a set of rules more complex than do most U.S. multinationals.

The primary distinction is that these companies operate, essentially, as family dynasties. While companies such as **Samsung**, **Hyundai** and **LG** all have dozens of subsidiaries, they are controlled by a single chairman who handpicks chief executives and makes sweeping decisions that can make or break the fortunes of multiple businesses. Loans can be made between companies controlled by a chaebol, which sometimes blur traditional corporate lines.

Most of the chaebols were formed in the 1960s and '70s as a means to spur economic recovery in the wake of World War II and the Korean War, which left the country impoverished. The state orchestrated transactions and awarded contracts to both established companies such as Samsung and upstarts including Hyundai.

The chaebol model has been criticized in recent years, however, for not operating as some Western investors would like. Samsung weathered a challenge from activist investor **Elliot Associates** in 2015, which attempted to block an heir from being installed as a company leader.

Hanjin Group's travails also have elements of family drama: **Cho Yang-ho**, chairman of Hanjin Group and Korean Air, was forced to apologize in 2014 for his eldest daughter, a former executive at the airline, after she ordered a flight to return to its gate at New York's JFK International Airport because she was unhappy with how her macadamia nuts were served; his sister-in-law is now under investigation for dumping a huge number of shares before a massive stock-price drop. *– Henry Meier*

Finance: Mobile App Gives Credit to Millennials

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Bayen

users' payment activity to credit bureaus to help establish a history. The firm uses alternative metrics such as a student's grade point average, major, and school to help vet a borrower's credit risk. Lenny has extended about 1,400 lines of credit in California so far totaling $215,000, according to **Joe Bayen**, 40, its founder and chief executive. The firm plans on expanding to Texas, New York, and Florida in the next six weeks.

"We're not reinventing the wheel; we're modernizing it," Bayens said.

Millennials' lack of credit might be due to a few different factors. First, they shoulder a heavier debt burden after college than their parents – perhaps even their older siblings. Between 2004 and 2014 alone, average debt at graduation rose 56 percent to nearly $29,000 – more than double the rate of inflation over the same period, according to the Institute for College Access and Success.

And on top of new regulations limiting how credit card companies can market to college-age students, consumer credit has tightened. Some millennials might also be eschewing credit cards on purpose, using cash and banks accounts until they buy a home. While only 35 percent of adults 30 and older don't have a credit card, 63 percent of millennials (those between 18 to 29) lack one, according to a 2014 study by New York consumer finance website Bankrate Inc.

"It's a pretty underserved niche in the financial markets," said Alex Johnson, director of Boston-based Mercator Advisory Group Inc.'s credit advisory service.

Despite that need, a key to success might be figuring out how to keep customers and grow with them as their credit improves and they can access traditional products from big banks, according to **Colleen Poynton**, vice president of Hollywood venture capital firm **Core Innovation Capital**, which specializes in financial tech investments.

"There's still a lot to be proven as to how to acquire and retain customers as they mature," she said.

Loan lessons

Paris-born Bayen got his first credit card while attending the **University of Miami** in 2000, and it only took a couple of late payments to leave a seven-year smudge on his credit report.

Regulators sought to protect young borrowers from such hard-learned lessons through the 2009 Credit Card Accountability Responsibility and Disclosure Act, but the law had a knock-on effect, said John Thompson, a senior vice president at Chicago nonprofit Center for Financial Services Innovation.

"It also changed the path that people might have typically followed to … build a score in ways done a generation before," he said.

After working in business development in Los Angeles for French firm **Allegorithmic**, which makes software for video-game makers and film studios, Bayen founded a mobile app promotion network in 2007 called **ICS Mobile Inc.**, which he said generated about $18 million in revenue over a three-year period leading up to 2013. But he closed ICS later that year after **Apple Inc.** changed app store rules, eliminating applications that promoted other apps. Bayen joined Santa Monica startup studio **Science Inc.** in 2014 and spent two years as an entrepreneur-in-residence consulting on mobile initiatives.

He came up with the idea for Lenny in fall 2014 after realizing millennial friends were using **PayPal Inc.** app Venmo to transfer money to each other. Bayen said he pulled together about $700,000 from savings, friends, and family and started building his team a year ago. Lenny now has 14 employees and advisers such as Science Chief Executive **Mike Jones** and **Paul Spiller**, former chief operating officer of Newport Beach investing app **Acorns Grow Inc.**

Building credit

The platform starts out users with a $100 loan, but can lend as much as $10,000 and tends to charge annual interest rates of about 9.8 percent, depending on a customer's credit risk. No interest is due when a user repays the loan in full within 30 days, somewhat similar to charging purchases to a credit card.

Borrowers must link a bank account to access their loan and can also pay friends directly through the app. Any qualified borrower can use Lenny for a loan, though it's mostly marketed to millennials through blog-based content marketing and Facebook ads. The firm reports users' payment activity to credit bureaus while educating customers about how late payments negatively impact a credit score.

Lenny generates revenue from loan interest and $2 monthly fees charged to all users.

Bayen said the firm could self-finance operations for an extended period of time, but recently started approaching financial tech-oriented venture capital firms to close a Series-A round in order to accelerate nationwide growth.

"It's a very narrow market that they're trying to target but they're doing it in a pretty unique way," said Mercator's Johnson, adding that one drawback might be the lack of an actual card to make online purchases.

Lenny could also face problems if popular financial technology services providers catering to millennials – such as online lender **Social Finance Inc.** or Venmo – decide to jump into the small-dollar loan or revolving-credit market, said Poynton, though she hasn't heard of any plans.

Regardless, she said Lenny could help consumers who might otherwise be forced to overdraw their bank accounts and pay a heavy fee.

"If you don't have access to a revolving credit instrument, and you're living out of your checking account, it's very easy for you to experience a mismatch in timing of cash flows," Poynton said, noting this could be a pain point for an increasing number of millennials who've become freelancers. "Overdraft is effectively really expensive short-term credit."