

A PUBLICATION OF THE INTERNATIONAL FACTORING ASSOCIATION

COMMERCIAL

FACTOR

..... AUGUST 2018 | VOL 20 | No. 4

FRAUD



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FROM THE MANAGING DIRECTOR

BY HEATHER VILLA



As summer comes to an end, we look ahead to the coming months and the end of the year.

The change in seasons reminds us that change is inevitable in all areas of life. Just like we prepare our children for their return to school and we prepare our homes for the winter months, we also need to focus on preparing our businesses for the future ahead.

Our Think Ahead or Be Left Behind Training Class, taking place October 18-19, is designed to help you plan for and prosper during the changes that are occurring now and expected in the future. Some of the topics that we will be covering are M&A activity, valuations, financing, corporate structure, tax implications, technology, add-on products and staffing. If you are not planning for the future, the odds of survival are greatly reduced, so take advantage of this opportunity to prepare your business for the changes ahead.

Our Small Factors Meeting is taking place October 15-16. Small Factors have unique needs, so this meeting is designed to give Small Factors a forum to discuss relevant ideas and challenges of operating in today's economy. This meeting is limited to 45 participants so that attendees can take advantage of the intimate roundtable setting and discussion time. A past attendee stated, "Excellent vehicle for networking with other Small Factors. So much is gained from discussion amongst the attendees."

Our last training class in October will be the Construction Factoring Training Class taking place October 25-26. Industry experts will lead the class on the benefits and burdens of construction factoring, construction law, marketing, due diligence, case studies, lien and bond rights, estoppel letters and risks involved.

The IFA also offers various webinars and other training and meetings to support the Factoring industry. Information on our upcoming events can be found at www.factoring.org. Planning for the 2019 Annual Factoring Conference, taking place April 3-6 in San Diego, CA, is well underway. The schedule will be released soon.

The American Factoring Association (AFA) continues to monitor legislation and meet with lawmakers in order to protect the Factoring community. We need your support so that our industry is not affected by intended and unintended consequences in legislation. More information can be found on page 28.

I would also like to welcome four new members to the IFA's Advisory Board. These individuals help design training programs, assist the IFA with current challenges within the Factoring industry and foster new ideas to benefit IFA member organizations. Each member serves a two-year term. The newly appointed Advisory Board members include:

- Kee Kim, President & CEO at Finance One, Inc.
- Paul Schuldiner, Senior Vice President at Rosenthal & Rosenthal
- Nel Somarriba, President at New Century Financial
- Kevin Wood, Managing Director and Senior Vice President of Chesapeake Bank's Cash Flow Division

Returning members are:

- Eric Belk, Vice President at Match Factors, Inc.
- Melissa Donald, President at LDI Growth Partners, LLC
- John Martin, Executive Counsel - Finance at General Electric Company
- Fred Moss, President at Accord Financial Corp.

Through their support, as well as the support from preferred vendors, sponsors and everyone contributing to our training classes and conferences, the IFA has become the leading organization for the receivables finance community, with over 465 corporate members. We strive to keep you informed with current events, educated with quality training, and help you prepare for the future.

A handwritten signature in black ink, appearing to read "Heather Villa".

COMMERCIAL FACTOR



THE INTERNATIONAL FACTORING ASSOCIATION

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Kevin Wood

Chesapeake Bank, Cash Flow Division, Gloucester, VA

The International Factoring Association's (IFA) goal is to assist the factoring community by providing information, training, purchasing power and a resource for factors. The IFA provides a way for commercial factors to get together and discuss a variety of issues and concerns about the industry. Membership is open to all banks and finance companies that perform financing through the purchase of invoices or other types of accounts receivable.

The *Commercial Factor* is published bi-monthly by the International Factoring Association. To subscribe, please email info@factoring.org.

The *Commercial Factor* magazine invites the submission of articles and news of interest to the factoring industry. For more information on submitting articles or advertisements, email news@factoring.org, or call 805-773-0011.

The views expressed in the *Commercial Factor* are those of the authors and do not necessarily represent the views of, and should not be attributed to, the International Factoring Association.

NEWS

INDUSTRY NEWS

Ansonia Credit Data Endorsed as Credit Source by Euler Hermes Credit Insurance

Ansonia Credit Data and Euler Hermes North America Insurance Company are pleased to announce the approval of Ansonia as a new source of real-time credit data and powerful business credit technology. Ansonia's suite of solutions will help clients of Euler Hermes better manage credit risk, payment practices and cash flow, and automate decision-making.

Euler Hermes clients now have the option to transition out of conventional long-term contracts and use Ansonia reports and products on an as-needed basis to assist in complying with the terms of their credit insurance policy. Euler Hermes policyholders can now use discretionary credit limits in conjunction with Ansonia's information and recommendations to help mutual clients make rapid and insurable credit decisions. In fast-paced industries such as transportation and logistics, the ability to make real-time credit decisions can greatly enhance a company's bottom line.

Interstate Capital Focuses On Factoring Speed

Interstate Capital is focusing on speed with its latest enhancements.

The firm is offering an expedited factoring process to accelerate the time it takes for businesses to access capital when they're waiting for their invoices to be paid. The solution provides financing within 48 hours.

The service provides an online application portal. After approval, companies can see their invoices financed within 24 hours of submission, with funds landing directly in a company's bank account.

INDUSTRY TRANSACTIONS

Global Trading Partners Completes 155 Purchase Order & Trade Finance Transactions during the First Six Months of 2018, a 26% Increase Over the Same Period in 2017

Global Trading Partners has completed 155 transactions during the first six months of 2018. For over 26 years, Global Trading Partners has provided Purchase Order and Trade Financing solutions to a broad spectrum of clients. In 2018, Global has supported clients in government contracting, healthcare, back-to-school, apparel, food and beverage, general contracting materials, industrial products, and various general import and export industries. Global provides transactional financing that covers up to 100% of the cost of goods.

Sallyport Commercial Finance Participates in a \$1.5MM Credit Facility to a Distributor of Gaming and Consumer Electronics

Sallyport Commercial Finance provided a \$1,500,000 accounts receivable facility to a company that manufactures accessories and software such as PC games and interactive toys.

NEWS

Sallyport Commercial Finance is pleased to provide working capital solutions to companies facing constrained and seasonal cash flow issues that can frustrate business owners.

Crossroads Provides \$3.5MM Inventory Financing Revolver to Flooring Wholesaler

Crossroads Financial provided a \$3,500,000 Inventory Revolving Line of Credit for the benefit of a wholesaler of wood flooring and vinyl products and accessories.

The company, an importer and distributor of pre-finished/pre-stained wood flooring planks sold under both its own brands as well as private label brands, was asked to vacate their current bank facility after experiencing year over year losses.

Crossroads partnered with a factoring company to replace the company's

current line of credit while also providing \$800,000 in working capital for the organization. This debt capacity will ensure that sufficient capital is available to support the seasonality of the business.

Utica Leaseco, LLC Completes Four Transactions Totaling \$4,200,000 during the week of July 23, 2018

Utica Leaseco completed the funding of a \$1,150,000 Capital Lease secured by Laboratory equipment for a Pharmaceutical company in California.

Utica Leaseco completed the funding of a \$2,000,000 Loan secured by machinery and equipment for a fabrication company in North Carolina.

Utica completed a \$700,000 refinance secured by machinery and equipment for a food packaging company located in Oklahoma.

Utica Leaseco completed the funding of a \$350,000 Lease secured by machinery and equipment for a farm located in Michigan. The customer was particularly grateful for Utica Leaseco's

ability to provide the needed financing within 3 days of the initial request. This brings the total funding for this customer to over \$6,000,000.

Gateway Trade Funding Provided a \$1.5 Million PO Finance Facility to Help a Global Sourcing Company Optimize Their Cash Flow

Gateway Trade Funding provided a \$1.5 Million PO Finance Facility to help a global sourcing company optimize cash flow for a large piece of new business. After receiving a large order from two US-based companies, the global sourcing company, based in Kentucky, needed to improve cash flow and minimize their cash out of pocket. This financing has allowed them to accept the order and grow their business.

Crestmark Closes 15 Transactions Totaling More Than \$22 Million in the First Half of July

Crestmark secured a total of \$22,028,384 in financial solutions for 15 new clients in the first half of July.

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Gibraltar Business Capital Recently Closed Two New Credit Facilities to Assist Businesses with Growth and Seasonal Challenge

The first was a \$2 million credit facility with Commoneo, a veteran-owned staffing company located outside of Detroit, Michigan. Building on staffing industry expertise, Gibraltar established the new financing needed to support the company's rapid growth now and into the future.

For the second time this year, Gibraltar renewed a relationship with a previous client. Based in Lansdale, Pennsylvania, Cherry Bros. offers fundraising services to schools and other non-profit organizations. The company was facing seasonal fluctuations that typically occur when partnering with school systems. Gibraltar closed a \$3 million credit facility to fill in seasonal cash flow gaps experienced by the company.

King Trade Capital Helps a Telecommunications Company Get Back On Its Feet with a \$5,000,000 Trade Finance Facility

King Trade Capital ("KTC") announced the completion of a \$5,000,000 trade finance facility for a telecommunications equipment company with operations throughout the US and Canada.

King Trade Capital was introduced to the client by an investment bank that was hired to raise capital for the acquisition, recovery and growth capital of the Client. The Client recently filed for bankruptcy and was purchased by a new owner with industry experience. The new ownership wanted to refocus the equipment sales and grow the business again.

With KTC's trade finance facility in place the company is able to grow without giving up equity to investors in order to finance sales growth.

White Oak Asset Finance Commits £90 Million to British Steel

White Oak Asset Finance GP, LLC ("WOAF"), an affiliate of White Oak Global Advisors, LLC ("White Oak"), has committed £90 million to British Steel Limited ("British Steel" or "the Company"), a leading UK-based, fully-

integrated producer of carbon steel. Proceeds of the financing will be used to provide working capital and to fuel capital investment projects. Ian Corfield, a Managing Director for White Oak Asset Finance in London, led the transaction.

PERSONNEL

Axiom Bank, N.A. Hires Pete Longo as VP, AxiomGO Product Manager

Axiom Bank N.A. recently hired Pete Longo as VP, AxiomGO Product Manager in Orlando. Pete will oversee the technology, operations and new accounts for AxiomGO, the bank's checkless checking account and cutting edge mobile app.

Pete has more than a decade of experience in banking, business development and financial software vendor management.

Since the launch of AxiomGO in January, the app has generated 3,500 downloads. The app allows customers to conduct all their banking needs including setting their budget, savings goals and spending limits from the convenience of their smartphone.

ENGs Commercial Finance Co. Welcomes Andrew Osborn to its Working Capital Subsidiary

ENGs Commercial Finance Co. ("ENGs") is pleased to announce that Andrew Osborn has joined its subsidiary, ENGs Commercial Capital ("ECC"), as Executive Vice President, Director of Sales.

Andrew will oversee the company's new business origination and marketing efforts including ECC's overall sales strategy, recruiting and management of the sales team, and product development. Prior to joining ENGs, Andrew held Sales Management and Business Development positions at Federal National Commercial Credit and Summit Financial Resources.

Leigh Lones Joins EQ to Lead US Riskfactor Business Expansion

Equiniti Riskfactor, a global provider of risk management and fraud prevention analytics for commercial finance lenders, is excited to announce the

CANADA CHAPTER EVENTS

August 15

Tee Off 4:00pm

Summer Gathering Golf Tournament
Angus Glenn

September 11

8:30am-11:00am

Generating Business in Today's New World

October 9

Lunch

Cybersecurity and Your Company

November 13

8:30am-11:00am

Legal Panel—Bankruptcy Matters

December 11

TBD

End of Year Gathering

Meetings Location:

Mississauga Living Arts Centre
Scotia McLeod Room
4141 Living Arts Drive
Mississauga ON L5B 4B8

For more information, call
Oscar Rombolà at (905) 603-6284
or email
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Visit IFA Canada's website at
www.FactoringAssociationCanada.com.

selection of Leigh Lones as Director, to lead the launch of its new US business expansion.

This decision demonstrates Equiniti Riskfactor's commitment to the US market and is part of its strategy to expand EQ Riskfactor to a wider global audience. Leigh will help develop and shape the core EQ Riskfactor proposition for the US market and expand upon US efforts to drive business growth and further product developments.

Leigh has significant experience in the financial services industry and

NORTHEAST CHAPTER EVENTS

August 14

9:00am-10:00am Breakfast, 10:00am-11:00am Presentation

Northern New Jersey Networking Group Breakfast & Presentation

Speaker: TBA

Coach Diner, Hackensack, NJ

For more information, call Harvey Gross at (732) 672-8410 or hgross4@verizon.net or visit www.ifanortheast.org.

August 15

11:30am-12:15pm Presentation, Followed by Lunch

Lenders Club Presentation & Luncheon

Speaker: TBA

Allora by Da Soli, Marlton, NJ

For more information, and to RSVP, contact radamo@jdfactors.com.

October 16

11:30am-6:00pm

NYIC, IFA Northeast, DeBanked & AFBA 2018 Lending Conference
Arno Ristorante, New York, NY

Ongoing

Bucks County Business Association Weekly Networking Luncheon

Every Thursday: 12:00pm-1:00pm

Giuseppe's Restaurant, Warminster, PA

Regional Entrepreneur Business Network Weekly Luncheon

Every Thursday: 12:00pm-1:00pm

Cafe Michelangelo, Philadelphia, PA
For information, contact Carmine Verrecchia at cverrecchia@ft.newyorklife.com.

For more information, call Harvey Gross at (732) 672-8410 or hgross4@verizon.net or visit www.ifanortheast.org.

specializes in the asset-based lending and factoring space. Prior to her employment at Equiniti Riskfactor, she was Chief Executive Officer of Bibby Financial Services' North American businesses and held strategic roles within Congress Financial and Citizens Business Capital.

Peter Zone Joins White Oak Healthcare Finance to Deepen Leveraged Lending Expertise

White Oak Healthcare Finance, LLC ("White Oak"), an affiliate of White Oak Global Advisors, LLC, announced that healthcare industry veteran Peter Zone has joined the team as a Director. Peter will focus on supporting the expansion of their business development efforts across specialized healthcare subsectors.

He has over 18 years of experience in corporate finance, including 12 years focused exclusively in healthcare, where he managed and contributed to deal teams instrumental in the closing of over 100 debt transactions investing over \$5 billion of capital.

FSW Funding Hires Fortunato as Underwriting Manager

FSW Funding recently hired Anthony Fortunato for the position of Underwriting Manager. Anthony will oversee the underwriting process as well as manage the asset based lending portfolio.

Prior to joining FSW Funding, Anthony worked for Rexford Funding as Senior Vice President of Operations and Bibby Financial Services serving as vice president of underwriting.

Helen Ku Promoted to Senior Vice-President and Client Portfolio Manager

Express Trade Capital, Inc. announced the promotion of Helen Ku to Senior Vice-President and Client Portfolio Manager. The announcement was made by Mark Bienstock, Managing Director.

"We are extremely pleased to recognize the significant talents that Helen has exhibited during her tenure at ETC. Her client-centric approach, attention to detail, and ability to rec-

ognize and react to all client and prospect-related challenges in a timely and creative manner, uniquely qualifies Helen for this significant promotion. At ETC, we emphasize recognizing and promoting talented individuals while empowering them with the authority to achieve goals as a team."

AmeriFactors Financial Group Announces New Hires

AmeriFactors Financial Group announced the addition of Kerri Farrell as its new vice president and chief marketing officer. Kerri comes to AmeriFactors with over 20 years of experience in the marketing and media fields. She has spent her career marketing world-class brands, launching new initiatives, leading digital transformations and innovating classic marketing campaigns.

Prior to AmeriFactors, Kerri worked at several advertising agencies, including BBDO, and then spent over 17 years in marketing at The Walt Disney Company. At AmeriFactors, she is leading the marketing team in research, analytics and strategizing the effective mix of media, digital, website, CRM, public relations and community affairs to keep the community, clients, and potential clients involved and aware of the company's services and its commitment to the community.

AmeriFactors Financial Group announced the addition of Angela Fiorentino, senior vice president/general counsel, to its team. Angela began her career in the financial industry, where she worked for nearly 10 years as a stockbroker and later as chief compliance officer for an SEC and FINRA-registered broker dealer.

In 2010, she graduated cum laude with her J.D. degree from the University of Miami and began working for the law firm Bast Amron LLP, where she handled complex commercial litigation and creditors' rights matters in state, federal and bankruptcy courts. In 2015, she joined the law firm Baker Donelson Bearman Caldwell & Berkowitz, PC, where she continued to handle complex commercial disputes for multinational clients.

As general counsel for AmeriFactors, Angela oversees the firm's litigation matters, negotiates and documents agreements, and develops creative solutions to help clients overcome obstacles to obtain the funding they need.

Hana Financial Hires Several Industry Veterans to Fuel Its Continuing Growth

Hana Financial, Inc. and its factoring and asset-based lending subsidiary, Hana Commercial Finance, Inc., are continuing their growth by hiring several seasoned industry veterans for their factoring and asset-based lending businesses, and expanding into new industries.

In December 2017, Hana Financial, Inc. hired Michael Gardner as First Senior Vice President and Chief Credit Officer & Portfolio Manager. He has more than thirty years of experience in banking and commercial finance, and held various senior positions at East West Bank, MUFG Union Bank, Summit Financial Resources and GE Capital.

In April 2018, Tae Chung joined Hana Commercial Finance, Inc. as Senior Vice President and Marketing Director. He has nearly twenty years of experience in the factoring industry, and recently held a similar role at Finance One, Inc. for sixteen years.

In July 2018, Austin Sohn joined Hana Commercial Finance, Inc. as First Senior Vice President and New York Branch Manager. He has an extensive background in commercial finance, and will focus on the company's continuing growth on the East Coast.

Also in July 2018, Yvonne Gonzales joined Hana Commercial Finance, Inc. as Vice President and Team Leader of its Transportation Factoring Team. He has over twenty years of experience in transportation factoring, and recently held positions as Senior Account Executive and Team Leader for Riviera Finance.

Sallyport Commercial Finance Welcomes William Garcia

William Garcia brings experience from multiple summer internships in the factoring/asset-based lending industry

working in both Operations and Underwriting. William has recently relocated from Southern California to Houston, Texas to assist in Underwriting at Sallyport's corporate office.

Hitachi Business Finance Expands Business Development Team

Hitachi Business Finance announced that Scott Brown has joined their business development team, concentrating his efforts on attracting new

factoring and asset-based lending clients across the United States.

Scott is based in the Atlanta, GA region and is responsible for connecting with business owners and trusted advisors and communicating the variety of flexible financing options offered by Hitachi Business Finance. He will act as a resource to help determine the most effective means to accessing capital for growing businesses. •

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Defining Top Originators

As a consultant, I meet and work with sales professionals who are involved in a variety of different markets, industries, and sectors of the commercial finance industry. I interact with new originators as well as twenty-year veterans who are committed to improving their results.

It is always obvious in the first or second conversation who are the top producers and who are average originators, without even reviewing their production numbers. Top producers are fully engaged and have a dynamic approach to building a network of relationships that interconnect with their personal value proposition (PVP). Average producers are transaction-oriented and one-dimensional; they lack a holistic approach to building their individual business models. To defend the average salesperson – the transactional approach does produce some results, but it takes double the effort to produce half of the results. Top producers are seeking to double, triple, or quadruple their sales results by working smarter and harder. They leverage every opportunity into multiple transactions and relationships by connecting the dots and proactively asking and receiving referrals. They take a large-picture approach to their marketing efforts and inject specific and meaningful benefits that provide the “real” distinguishable uniqueness of their services. Top producers are not satisfied with an average 15-30% growth; they seek triple digit increases as they build new relationships with the “right” partners and customers. Top producers are never satisfied with the status quo; they never impose self-limitations. The sky’s the limit.

Top producers are quality driven. Long-term sustainability in the commercial finance industry is defined by quality (i.e. quality

transactions, quality business partners, quality service, etc.). With the increase of commercial finance activity, some less savvy originators have been seduced by lower quality relationships to obtain immediate increases in fundings – taking advantage of reduced credit criteria and commodity-driven products available for the “get rich” mentality crowd. However, top producers are thinking long term and are prospecting and winning the highest quality relationships and transactions. Top producers learned during the last economic downturn that quality always trumps quantity in the long term; and that the best, highest quality relationships will sustain the top producer in all economies. Top producers understand that the best relationships are worth earning over time – they embrace the challenge of developing stronger clients and business partners because of their self-confidence, expertise, and willingness to succeed. Top producers know how to allocate their resources to maximize their marketing effectiveness while delivering short-term results and long-term potential. The strongest producers are opportunistic

and are consistently prospecting for new and stronger relationships.

Managing a successful sales team has many challenges. Recruiting, training, coaching, and supporting the “right” professionals requires leadership and a commitment of excellence. It is hard to justify mediocrity within a sales team, when so much potential exists in the market. Therefore, the challenge is to move away from the historic 80/20 rule (twenty percent of the sales team producing eighty percent of the results) and to build more effective sales teams with 100% superior participation. Managers are seeking and finding greater efficiencies by recruiting, developing, and supporting top producers. The real market value of an organization is its ability to develop talent. A manager’s primary responsibility is to take every professional to the next level and to develop top producers. Successful sales managers are working closely with their team members to align personal attributes with organizational goals and objectives – efficiencies are improved when the team has common objectives and work in



Scott A. Wheeler, CLFP has been active in the commercial financing industry since 1982. With over thirty years of experience, Scott is the president of Wheeler Business Consulting LLC; providing consultative services to finance companies, banks, origination firms, and investors in the commercial finance industry. Prior to starting Wheeler Business Consulting, Scott led several leasing operations and has held executive positions with publicly held banks, and privately held finance companies. Scott is the author of the book, *“Call To Action—For Equipment Leasing and Finance Professionals”* published in 2015. Scott can be contacted by phone at 410-877-0428 or by email at scott@wheelerbusinessconsulting.com.

conjunction with one another to achieve superior service and results. Sales management is a full-time proposition and leading managers are heavily investing in training, coaching, and supporting all of their sales professionals. They are measuring multiple matrices to help their team succeed. They inspect what they expect. All managers measure bottom-line results (deals funded in the quarter). Top managers also measure: personal growth, the ability to develop new clients and partners, the ability to build a wider network, the ability to add value to the organization and its clients, and the ability to open new channels of opportunities for the organization. Top producers deliver more than transactions – they deliver future value and future opportunities.

Achieving optimal marketing results is a process that requires strong originators, strong managerial leadership, and well thought-out marketing strategies. Although it is never too late to build an effective sales team, the top producing companies are several years into the process and have been making critical investments in their marketing teams, efficiencies, and processes. These organizations are the ones that are leading the industry in producing the greatest results with the highest quality originators, external partners, and customers.

Top performers are exceeding their own expectations, because they have a plan. They leave nothing to chance. Top performers are taking advantage of the current opportunities in the market; but more importantly, they are positioning themselves for the coming years to be players in the industry. By working smarter, top performers are creating new markets for themselves, they are looking forward, attaching themselves to new trends, and they are leading, rather than following. The opportunity for success has never been greater in the commercial finance arena and the strongest organizations and sales professionals are quickly emerging as industry leaders. •

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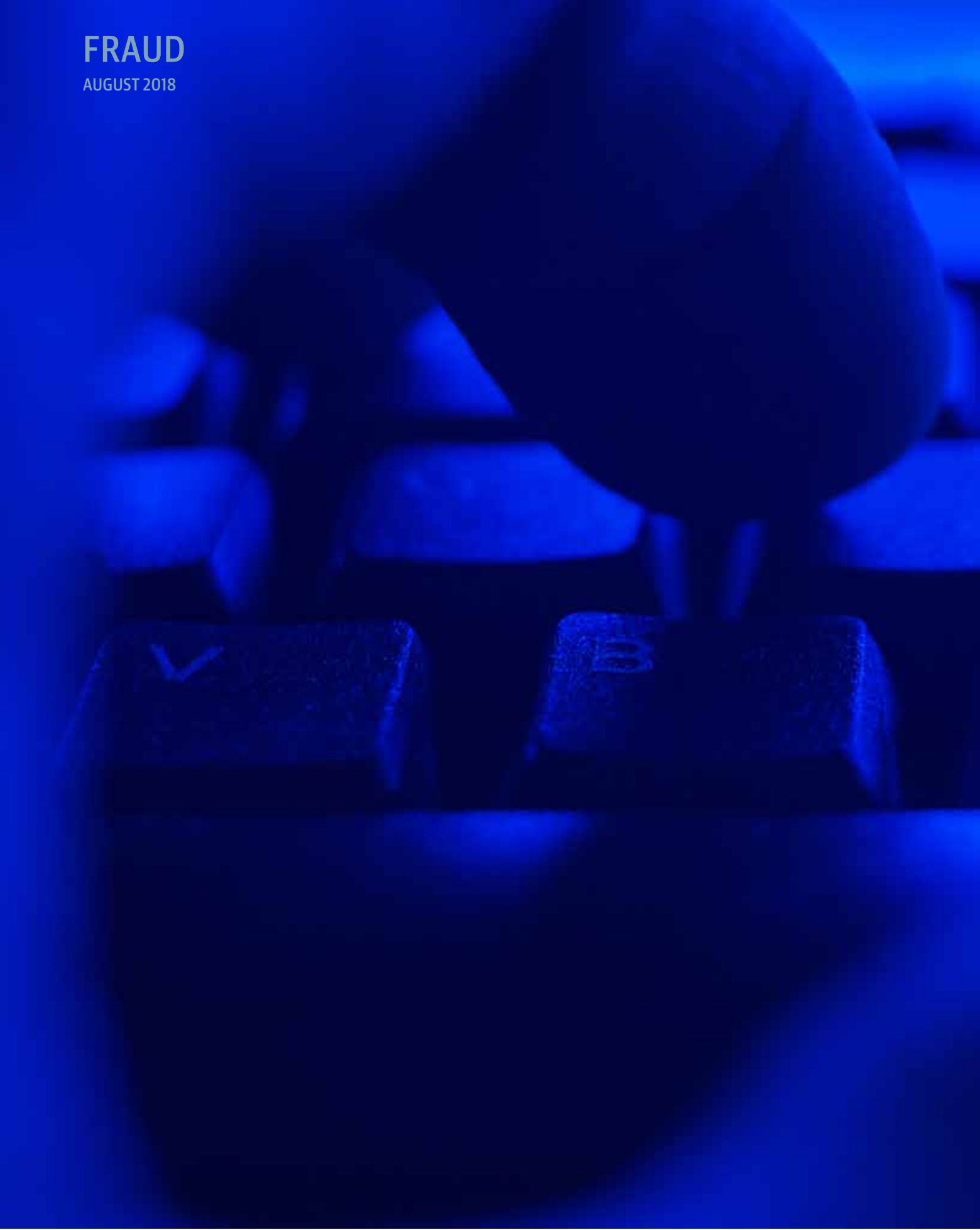
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FRAUD

AUGUST 2018





Can You Detect a Prospect that Doesn't Exist? The New Age of Fraud & How to Protect Yourself.

Fraud is something no factoring company wants to experience but it unfortunately happens, and when it does, it can be very costly.

BY RAUL VELARDE

I've heard many factoring professionals say "trust but verify, then verify again!" and that's probably because the only way to mitigate or avoid fraud is through an efficient due diligence process. Ideally, a sound due diligence process is designed to catch intentional fraud, and most of the time it does, but nowadays, there are sophisticated schemes under way that many aren't aware of. Technology and the Dark web marketplaces are enabling more sophisticated fraud schemes.

Dark Web marketplaces are websites designed not to be visible to search engines like Google or Bing, where criminals can buy sensitive business and personal data, illegal drugs, counterfeiting services, and much more. Much like eBay but for criminals. A study on the Dark Web conducted by Top10vpn.com found that, on average, an email user-name and password sells for \$9.53, Facebook and LinkedIn credentials are \$10.21, online banking \$160.15 and a bundle with your entire identity (IDs, SSN, birthdate, banks, Amazon, etc.) goes for less than \$1,200. Close to nothing, considering the average credit facility in the factoring industry.

According to the Federal Trade Commission, in many instances, data stolen from businesses ends up on the Dark Web where criminals buy and sell it to commit fraud. Hackers see small businesses as easier prey because their data breaches, for the most part, go unnoticed. Identity thieves can also get compromised bank accounts, credentials, and forged documents. They can buy entire wallets, complete with credit cards, drivers' licenses, web email passwords, and documents like Social Security numbers and birth certificates—everything criminals need to create a new identity and apply for a credit facility.

Identity theft, phony account debtors, fake invoices or made up documents are all part of Intentional Fraud. This type of fraud is premeditated and carefully planned before applying for a credit facility and the sole intent is to steal from the Factor. Thanks to the Dark Web, Intentional Fraud schemes can now involve a complete set of fake identities, fake financials, aged shell companies posing as clients or account debtors, phony call centers posing as debtors, and can even involve collusion with true account debtor employees. These schemes are harder to detect but can be caught during the underwriting phase.

During the underwriting of new clients, some cautionary signs of intentional fraud are:

- Suspicious urgency to fund without caring much about factoring rates or advance rates.
- Unwillingness to present personal identification that includes their picture.
- Reluctance to provide financial statements, bank statements or tax returns.
- Persistent promises of quick growth coupled with a large invoice for the first funding.

So what can be done to detect prospects that are willing to present personal identification, financial statements and bank statements that are purchased and are real but just not theirs? Traditional underwriting looks at people search, court records, liens, judgments, bankruptcies, etc. but how do you know the people you are dealing with haven't stolen an entire identity? There are several ways that Factors can detect this type of fraud by using technology.

By adding Two-Factor Authentication (TFA) during the application process, you can confirm your prospect's phone number as well as gather other types of revealing data. TFA is an extra layer of protection that requires not only a password and username but also something that the user alone has on them at that moment. Using a username and password together with a piece of information only that user knows makes it harder for potential fraudsters to steal someone's identity. Many companies use this already, but Factors have been slow to adopt this technology.

Another technology that has the potential for fraud detection and identification is the use of face recognition. It's becoming possible

How do you know the people you are dealing with haven't stolen an entire identity? There are several ways that Factors can detect this type of fraud by using technology.

to ask your prospect to take a picture of their driver's license and a picture or "selfie" from the same device and use face recognition to compare them and confirm identity. Law enforcement has been using this technology successfully for many years. The state of NY alone has identified over 20,000 potential identity or fraud cases since adopting driver's license facial recognition technology in 2010.

In addition, cell phone "metadata" can help identify if the person that is applying is the same one you are dealing with. Metadata achieved buzzword status in 2013 with whistleblower Edward Snowden leaking NSA documents showing collection of data from cell phones. Metadata is transactional information not visible to regular users. While there are restrictions on access to location of cell phone users, other identifying data is also collected and stored as you go through your day and interact with your device. This metadata is accessible and has the promise to help identify the person you are dealing with.

New technology also allows you to sift and synthesize more data which can identify trends and pinpoint fraudulent accounts and patterns which might not be readily apparent due to the volume of information needed to be processed in underwriting. Technology can correlate and cross-reference this information, revealing potential for fraud

all at the touch of a button. There are also sophisticated systems that correlate social security numbers, social media, and addresses, detecting inconsistencies.

During underwriting, Factors traditionally ask prospects to submit their financials. Many of them send an Excel spreadsheet with information that might not be reliable. For these real clients who may not have great financial information, a new tactic can be applied. Technology allows us to extract financial data directly from the applicant's accounting system. This provides better information. Going a step further, analytics of metadata in accounting information can be performed revealing transaction details, such as dates transactions were entered into the accounting system and changes in invoice amounts. For example, statistically comparing the date the transaction was entered into the accounting system (metadata) vs the actual date of the transaction can quickly detect fraud. Asking prospects to connect directly to their accounting systems is becoming more and more mainstream.

Another powerful way to detect fraud is to connect directly to your prospects' banks. Instead of asking for bank statements, why not directly connect to their banks and pull the information? This is almost impossible to fake and even allows Factors to monitor the account during the life of the factoring relationship and compare banking and accounting system information.

Still another way to prevent fraud is to make sure that your underwriting process follows the same method every single time. The best way to ensure that every box is ticked off each time and to reduce errors is to use technology. We are all human and even the most experienced

Continued on page 34



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Financing Individuals—Worth the Risk? If Not, Here's The Fix.

Factoring has traditionally been a vehicle for small businesses to have ready access to capital. Many small businesses are operated as a sole proprietorship. The trend, as partially exemplified by the gig economy, is for more people to earn their livelihood as a small business.



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litigation matters. He can be reached by phone at 818-382-3434 or by email at skurtz@laklawyers.com.

There are also a number of consumer protection laws on the books, at both the state and federal levels, designed to protect individuals when they borrow money. Entrepreneurs who run small business will need access to capital, and factoring is a viable option for those small businesses that sell their goods and services to qualified customers. However, problems will invariably happen when laws designated to protect consumer borrowers, who incur traditional consumer debt, bump into the rights of Factors and lenders, who provide working capital to small businesses. This problem will likely get worse as government regulators, especially at the state level, become more aggressive as politics becomes more polarized.

Although not in the context of a business loan, the recent case of Consumer Financial Protection Bureau and The People of the State of New York, by Eric T. Schneiderman, Attorney General for the State of New York vs. RD Legal Funding, etc., 2018 WL 3094916 (S.D. New York, 2018) (the "RD Legal Case"), reflects what can happen when financing transactions, set up as true sales, are undone by federal and state regulators. In the RD Legal Case, three legal funding companies and their common owner financed the early payments of multiple settlements for class action members in an NFL concussion class action suit. The legal funders purchased existing settlements. The settlements were already agreed upon and each class member who financed with the companies in the RD Legal Case, received an early payment of their settlement amounts, through a sale of the settlement rights, without recourse, coupled with an assignment of the settlement payments to the legal funding companies—in other words, a non-recourse sale.

The defendants in the RD Legal Case received fees that were calculated based upon the time it took to receive the settlement payment after the funds were advanced. The agreements provided that the legal funding companies received the settlement monies, paid themselves their agreed upon fees, and remitted the remainder of the funds, if any, to their customers. In what was a very complicated 104-page decision, the U.S. District Court for the Southern District of New York, went through a very detailed analysis (which may be the subject of a different article) ultimately finding that the transactions were not true sales, violated New York criminal usury laws, and exposed all of the defendants to all sorts of liabilities on several theories of recovery. Interestingly, the District Court actually held that Consumer Financial Protection Bureau was unconstitutional and dismissed that entity as a plaintiff, but left the defendants exposed to massive liabilities on claims brought by the State of New York. Although this case was in the context of the legal funding business, the court transformed the parties' deals, which both sides clearly intended to be true non-recourse sales, and instead found them to be criminal, usurious loans.

The risk of financing individuals can be significant, both at the federal and state level, with each set of government entities, having separate rules regulating consumer credit. For instance, there are federal and state truth-in-lending laws, which require disclosure on multiple aspects of a consumer financing contract, including detailed explanation and breakdown of the financing costs, and how much the consumer borrower will pay back. There are also state usury laws. Moreover, many states, like California, have separate financing laws, which sets interest rate limits, which can be paid, as it is tied into the amount advanced to the consumer. It can

be easy for a state regulator to consider each small advance in a factoring relationship to be a separate loan, subject to the state's consumer financing disclosure rules. Furthermore, several states have laws which prohibit the assignment of wages. A state official can easily make the leap that the sole proprietorship-factoring client's advances, are an assignment of that individual's wages. This logic has been used against certain real estate commission Factors that advanced against an individual agent's commissions. In addition, all states have exemption laws, which protect an individual's assets in the context of a judgment enforcement action or a bankruptcy case. This means that it's possible that assets which one might think of as collateral are exempt from enforcement efforts or protected in a bankruptcy case. Finally, many states do not allow people to encumber their personal household goods, beyond perhaps a purchase money security interest.

All factoring transactions require compliance with Article 9 of Uniform Commercial Code (the "UCC") which governs secured transactions. This means, among other things, that the Factor must have a grant of a security interest in its collateral (which you all do, hopefully) and perfection of the security interest, with most items of collateral perfected by the UCC-1 financing statement (not all assets are perfected by UCC-1, but that's the subject of a different discussion). To perfect your security interest with the UCC-1, you must file the financing statement in the state where your debtor is registered/incorporated, using that entity's exact name. For an individual, that essentially means using the name on the official identification document, like a driver's license, exactly as it appears on the document, in the state where the person resides. If a certified search in the state reflects the filing under the correct name, you are perfected. If the certified

search using the correct name does not show the filing, you are not perfected. Nicknames for individuals don't work and will often result in a bad filing. The same holds true if you file under the trade name of the sole proprietor's business. Using the author as an example, filing the UCC-1 under the name Steve Kurtz, which is what I go by, will not likely work, when my driver's license says Steven Neil Kurtz (please don't steal my identity). If some person tries Stephen Neil Kurtz, not only will I be offended, but the creditor will not be perfected. Often, one can think that they have their financing statement right, only to learn that they forgot to re-file or amend the financing statement when the person moved to a different state, or the factor-client changed her name because she got married. And, what happens if the individual owns two homes in different states, but decides she likes her beach house in New Jersey better than her home in Philadelphia? So, it's fairly easy to lose perfection on an individual or get it wrong out of the gate.

Here's the easy fix. Require the individual to incorporate the business or form a limited liability company. This is not a complicated process, and there are many entities that sell simple forms that will work to accomplish this basic task. This immediately moves the financing transaction away from financing an individual to financing a registered business. This should serve to eliminate the risk of compliance with state and federal consumer protection-related laws by the mere fact that you are now financing a corporation or limited liability company. You now have a state in which the business is registered, so you don't have to worry about the small business owner moving

Here's the easy fix. Require the individual to incorporate the business or form a limited liability company.

across the state line or changing her name when she gets married. Your financing statement will still operate to perfect your collateral, notwithstanding the changes in names or states of residence.

Forming a corporation or limited liability company should be an easy selling point. One can tell the prospect that it provides better protection to them, personally. Why expose personal assets to a business problem? Also, it may be easier to write off more business expenses with a corporation or limited liability company. The business can be incorporated or the limited liability company registered under the individual's trade name, or even the real name such as Name of Factor Client, Inc.

It is also advisable for small business transactions to have language in your agreements which state that the client is using the funds for business or working capital purposes,

and not for personal or household expenses. This is actually a safe harbor statement in many consumer protection statutes. In addition, if you are financing a sole proprietorship, consider doing the deal as a non-recourse factoring transaction, which—if done right—will be a true sale, which takes the transaction outside the purview of state usury laws, provided you stay away from funding legal settlements.

The current highly charged political climate may serve to complicate small business financing, especially for individuals. Many state governments are actively resisting federal government policy, the most prominent example being immigration policies. States are actively in litigation with the federal government over differences in policies. This mindset can easily spill over into different state government departments and likely result in greater state protections for consumers and small business borrowers. The IFA is already dealing with this issue in California over financing costs and other disclosures in business financing transactions (to be reported later, once the law is set and before it goes into effect). The current trend, especially in New York and California with other states to follow, is for greater state enforcement powers in small business financing. Therefore, since it may be a little more challenging for small business financing in the near future, it makes sense to do what is necessary to avoid having your agreements misconstrued as consumer financing transactions. •

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Don't Be a Victim—9 Signs of Invoice Finance Fraud

Financial services as a whole, and invoice finance in particular, are becoming victims of fraud more often. The fraudsters are becoming more determined and more sophisticated. But there are several signs that can warn the lender that a fraud has started.

BY LEIGH LONES

EARLY INTERVENTION CAN STOP ENORMOUS IRRECOVERABLE LOSSES.

By their very nature, invoice finance facilities, particularly confidential facilities, appear attractive to fraudsters. New invoices tend to

be funded without any checks. Verification is sporadic, and accounts receivable agings may only be reconciled once a month.

There are many ways a facility can be manipulated to obtain funding illegitimately. These include false

invoicing, diverting collections, failure to submit credits, moving aged balances to current, and other more complicated systems of false accounting.

It is perhaps stating the obvious, but the best way to avoid fraud losses is

to avoid lending to a fraudster. So, thorough due diligence is essential.

This is particularly relevant when “winning” new business from another lender. You could simply be inheriting a fraudulent position. If a competitor wants to exit a relationship, the reasons need to be clearly understood and the accounts receivables aging thoroughly tested.

Aside from taking over a fraudulent account from another lender—and in the process doing them a massive favor—it is unusual for a business to seek a new funding facility for the deliberate purpose of embarking on a fraud. The barriers for entry stopping businesses obtaining facilities are significant, and usually include needing a positive net worth, current profitability, strong management team and a good track record. Fraudsters do not tend to go to that amount of trouble.

But the adage that “good people can do bad things” applies—particularly if the business begins to suffer and cash flow pressure builds. If the choice is between not paying wages or “pushing the boundaries” of the facility by invoicing a bit early, then business owners may manipulate the facility rather than face their staff.

When sales are strong and growing, invoice finance is the best mechanism for funding that growth—lending rises directly in line with sales. Where overheads are high and fixed, cash flow pressure can be felt immediately.

Strong management can respond to that in a number of ways; for example, generating new sales, cutting overheads or negotiating additional loans. Frequently, lenders are willing to assist if presented with realistic cash flow projections and an achievable business plan, but often, the temptation to apply a short-term fix through manipulation of sales is too great and the business finds

itself on a carousel of fraud, from which they cannot escape.

The warning signs that flag up before a fraud starts, and the traces of the fraud itself, are always there. Sometimes, they are not noticed until it is too late—and sometimes the lender can be blind to the signs because of other factors.

Here are 9 common indicators to look for. Each means nothing in itself, but each one should be investigated to make sure there is nothing more sinister going on with the facility.

1 Increased turnover

The customer is doing well! What's the problem?

There are successful businesses in every sector, but be aware of customer growth that seems out of line with its market or the capabilities of its management. Fictitious invoicing has to be repaid sooner rather than later to avoid the lender spotting it, and, as these sales are entirely false, that repayment has to come from somewhere else, e.g. more false invoicing. And if the advance rate is 80%, about 20% more than the original invoice value has to be created in new fake invoices to generate enough cash to clear the old ones. So, monthly sales increase as does the amount of fraudulent invoicing on the aging.

2 Fully utilized facilities and cash flow pressure

Businesses that are successful and profitable do not tend to fully utilize their availability. Conversely, loss-making companies tend to utilize every penny they can get their hands on. And where that isn't enough, a fraud can start.

These frauds are very rarely for personal gain and are generally started just to keep the business afloat. When they start, they usually continue and get worse. More and more lending can be needed to repay false invoices.

So a fully utilized facility certainly indicates the risk of a fraud starting, and is also a characteristic of most ongoing frauds.

3 Requests for increased limits

At the outset of new facilities being granted, a limit will be set that is appropriate for the business and its projected growth. All being well, this will not need to be revised for at least a year. But where a business outstrips its growth projections and needs a new limit earlier than expected, this can be a warning.

The straightforward risk of “over-trading” and running out of the cash needed to support genuine growth is greatly reduced by having a facility that will grow with the business, but growth based on fraudulent invoicing can look the same. An upper facility limit puts a brake on lending, giving the lender the opportunity to review and assess the request for a facility increase. Frequent or unexpected requests for limit increases should be carefully assessed before being granted.

4 Late submission of returns

There are a number of ways a fraudster will attempt to avoid detection. Where the fraud has involved creating new debtor accounts or moving invoices around on the aging to avoid credit limit restrictions or aging reserves, the fraudster will need time to adjust the month end aging and try to hide his traces.

And where cash has simply been

banked elsewhere, he will want to delay for as long as possible the submission of the month end aging and reconciliation that would allow the fraud to be spotted.

A client who is straightforward and honest will have no problem in submitting their month end reporting on time. Those who are late are at best disorganized, and at worst attempting to hide some manipulation of the accounts receivables aging.

5 Increased Credit Notes and fall in collections

Tracking A/R trends is an essential part of risk management. An increase in credits and a fall in collections can be the innocent sign of problems with the quality of the product or services, or of a wider problem with the underlying debtor book.

However, a rise in credits and a fall in cash remittances could also be a sign that uncollectable, fictitious invoices are being credited out before they have to be paid.

6 Cancelled audits or key people and paperwork unavailable

Periodic on-site audits of customers are a standard risk management process. This gives the lender a great opportunity to test a random selection of invoices, look at all bank accounts and assess the financial position. Detailed testing, if properly planned and scoped, will usually uncover a fraud.

If there is a fraud, the business will go to great lengths to postpone the audit. And when it goes ahead, key people may not be there, paperwork

is somehow not available, or other steps are taken to disrupt the testing or hide the evidence.

7 Overly complex business structure and systems

Generally, successful businesses strive for efficiency. Straightforward processes and systems, with lack of duplication and clear audit trails.

But the opposite can be true of a fraudster, who will often want to over-complicate systems to confuse an auditor or hide the trail of fraudulent transactions. If a lender doesn't truly understand how a business operates, it makes the fraudster's life much easier.

8 Overbearing, aggressive or dominant management

Fraudsters can fall into a few categories, but there are two main ones which are worth looking out for.

Aggressive or bullying behavior, often with repeated complaints about pricing or service, is a classic diversion technique, often used to avoid having to answer questions about the business or unusual trends. This can also manifest itself as hyper-controlling management style in their business, with limited segregation of duties. This behavior may especially be displayed during an audit and is a very clear red flag.

9 Fosters unusually close relationship with lender

Another characteristic behavior—and warning sign—is almost the opposite of No 8. This customer never complains, pays whatever he

is asked, and is very generous with his hospitality. He is a vocal advocate for the lender and happy to recommend and offer testimonials. He's your "best customer." You trust him. But that is how a confidence trick works—by gaining your trust and taking advantage of it.

Appropriate due diligence at the outset, robust risk management systems and experienced staff all play their part in fraud avoidance, and these warning signs are just a few of the many indicators out there. Unfortunately, in some cases, when you see these signs it is too late.

Contact EQ Riskfactor to find out how you can stop the fraud before it even starts. •



As Director of EQ Riskfactor, **Leigh Lones** will help develop and shape the core EQ Riskfactor proposition for the US market and drive business growth and further product developments. Leigh has significant experience in the financial services industry and specializes in the Asset-based Lending and Factoring space. Prior to her employment at Equiniti Riskfactor, she was Chief Executive Officer of Bibby Financial Services' North American businesses and held strategic roles within Congress Financial and Citizens Business Capital. Additionally, Leigh has held Director positions within the Commercial Finance Association and American Factoring Association and actively participates in supporting women in the industry through the Women In Commercial Finance. Leigh can be reached by phone at 404-660-8933 and by email at Leigh.Lones@equiniti.com.



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FRAUD

AUGUST 2018





The Dark Web: A Primer

The Dark Web might appear to have the star sex appeal and adrenaline rush of a nefarious Hollywood movie, but, in reality, the Dark Web is a den of iniquity operated by the technically sophisticated.

BY CYNTHIA HETHERINGTON

You most likely do not belong here. However, if you have a need to track down stolen goods, manage reputational risk, are working in human trafficking, or are trying to communicate from North Korea with an escaped uncle in South Korea, you likely will find yourself turning to the Dark Web for information.

WHAT IS THE DARK WEB?

The more we, as investigators and researchers, reflexively “Google it” for our first information pass, the less we understand what’s going on behind the scenes and how to operate in this multilayered, technical world.

Those who searched online in pre-World Wide Web days might understand the Dark Web, because it actually reminds them of those early Internet days. You had a spreadsheet of online addresses to visit; friends would email each other new gopher locations, and when you were stuck, there was always an FTP site you could visit to try to locate what you wanted.

Then Yahoo! came along and started indexing websites for us. Alta Vista, Google, Bing, and others followed. With these search engines, the technical requirements were considerably dumbed down, allowing the everyday user to jump online and search for anything and everything.

With two generations of Google-ready users in the rearview mirror, we are now coming full circle, forced to remember the old ways to access the Dark Web. Though cumbersome, it’s not impossible to remember how the Internet functions, enabling us to search against this intricate network to locate our findings.

Let's start with some clear definitions and some comparisons of the three layers of the World Wide Web: Surface Web, Deep Web, and Dark Web.

SURFACE WEB (A/K/A CLEARNET)

The Surface Web is anything that can be indexed by a typical search engine, such as Google or Bing. The content is not anonymized, not private by any means, and is meant for full disclosure. The returned pages are indexed by keyword, and the assigned rankings are based on popularity. Since the focus of surface web pages is to stand out, and shows no or relatively low-base anonymity, most surface websites are routinely identifying users (i.e., searchers) by their IP addresses.

DEEP WEB

Often confused with the Dark Web, there is little anonymity or privacy on Deep Web pages. They really are as they sound: deep and full of content. Most often, Deep Web pages are the content rich databases that your Surface Web search just produced. Some examples of Deep Web content are social media platforms, county and state public record databases, and hotel and airline sites listing rooms, tickets, and prices. Newspaper website archives and Ticketmaster's inventory of tickets for sale are also deep content.

SURFACE TO DEEP EXAMPLE

Imagine you use Google to search for hotels in Philadelphia. Such a search would produce about 260 authentic Surface Web matches, including links to travel websites such as Expedia, AirBnB, and Trip Advisor, as well as hotel websites for Lowes, Hilton, and Marriott. Not surprisingly, the very sites

you expect to bubble to the top of the search results in fact do – as though to shout "Look at me!" No anonymity. My step into the Deep Web is as easy as selecting from the returned search results. I click on Marriott's website, from which I can select the dates and the specific Philadelphia location I want to stay. Marriott will even present me with a choice of rates. While I'm on the Marriott website, my IP address is captured, along with my browser type and other computer details. At the same time, Marriott could be inserting a cookie on my computer to track my current and future activity. Zero anonymity and zero privacy.

DARK WEB (A/K/A DARKNET)

The Dark Web, or darknet, is classified as a small portion of the World Wide Web that has been intentionally hidden and is inaccessible through standard web browsers. There is, in fact, no "darknet Google." Darknet sites are often put up and taken down within a matter of minutes specifically to maintain anonymity. The entire drive behind the dark web is anonymity—and privacy. (Example: Say you wanted to find prostitutes, guns, and/or drugs while staying at the Marriott (see above paragraph). You would use the Dark Web (darknet) for that search, because of its anonymity and privacy, which the Marriott's Surface Web service would not provide.)

The most infamous content residing on the Dark Web is found in The Onion Router (Tor) network. The Tor network is an anonymous network that can only be accessed with a special web browser, called the Tor browser (www.torproject.org). This is the portion of the Internet most widely known for illicit activities, because of the anonymity that the

Tor network gives. In fairness, virtual private networks (VPNs) can also access dark content, but in using a VPN you do give up some anonymity and privacy.

HOW IS THE DARK WEB ANONYMOUS?

The backbone of the World Wide Web works because there are online directories handing off your search requests to the real location of the site. It's often easy to remember a domain name—especially if it's a catchy name. But it's the Internet Protocol (IP) address—the number—associated with the URL name that is the true language the Internet understands. For example, you type in hetheringtongroup.com and hit Enter. Up pops the website for Hetherington Group. But what's truly happening is this: The browser sends your hetheringtongroup.com address to a domain nameserver and is handed back the actual IP address, which, in this example, is 209.177.145.48, and at the same time takes you to Hetherington Group's website. To better understand, try this backwards. Instead of typing in hetheringtongroup.com in the search bar of Google, type in 209.177.145.48 and hit Enter. You will be taken to Hetherington Group's website, just as if you'd typed in hetheringtongroup.com and hit Enter. But hetheringtongroup.com is a heck of a lot easier to remember than 209.177.145.48, eh? So thank goodness for that!

It's quite similar to the mapping system in your car. For example, you enter the address 1600 Pennsylvania Ave, Washington, D.C., and the mapping software notes your location and begins the navigation by telling you, step-by-step, where to turn to reach that destination. What the mapping software is really doing, however, is taking your intended address and

turning it into navigational coordinates—in this example 38° 53' 51.707 -77° 2' 11.4688, to be exact—and translating the travel directions into words for you to understand. If the navigational program were to speak out "38° 53' 51.707 -77° 2' 11.4688," it wouldn't be of much use to the average person.

It is easier to remember hethering-tongroup.com than 209.177.145.48, and it is easier to remember 1600 Pennsylvania Ave than 38° 53' 51.707 -77° 2' 11.4688. Technology—mapping software and domain name servers, specifically—has made it easy to substitute complicated numbering systems with words that enable us to drive to the White House from New Jersey or remember the name of an investigative firm's website.

On the darknet, however, there are no DNS servers. You must know where you want to go and what you are looking for. In fact, you must have those specific coordinates beforehand to locate what you want on the darknet, otherwise you won't find it. More importantly, the darknet can't be indexed or mapped, which is what makes it anonymous.

To summarize:

- Dark Web websites don't resolve to a DNS server and have no directory to point the user in the right direction.
- Resistant to indexing; there is no Dark Google.
- Requires a special browser (e.g., Tor) to search this internet within an internet.
- Dark Web websites are often put up and taken down in a short span of time, long enough for one transaction to occur.

KEEPING UP WITH THE DARK WEB

The Dark Web is a platform of villainous information. Like a car accident on the other side of the

highway, it's human nature to want to rubberneck. But the Dark Web is also a brilliant tool for anonymous communication. As an investigator, I don't want to look away.

Keeping up with those who monitor the Dark Web and report on its progression is an excellent method for staying attuned to subtle changes. I monitor Reddit for the day-to-day websites and services it mentions. I also get a

daily email filled with newly indexed onion pages from Justin Seitz's Hunchly (www.hunch.ly). I also rely on the platform tools, statistics, and the free blog from DarkOwl (www.darkowl.com) to keep me informed—I consider their Darknet Index invaluable.

There are new tools being created to index the dark world and its pseudo

Continued on page 34

World's Premier Factoring Software

From 3i Infotech, formerly Distinctive Solutions

Being number one doesn't mean we're the best.

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Email: factor.info@3i-infotech.com

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A Trip to Washington, DC

BY **TANIA DANIEL**, Managing Director,
ENG Commercial Capital

In June, I had the pleasure of joining David Rains, Allen Frederic, and American Factoring Association lobbyist Palmer Hamilton in Washington, DC to represent the factoring industry. The purpose of the visit was to meet with policy-makers to educate them on the importance of factoring for both small business and the US economy as a whole.

The AFA's sole purpose is to educate policymakers on factoring and its role in providing working capital to

America's small businesses. This trip provided an opportunity for me to see firsthand what the AFA's efforts are accomplishing. From understanding and identifying new legislation that could be harmful to Factors, to connecting with the lawmakers considering these changes, the AFA is hard at work looking after our best interests. As more alternative and fintech-type lenders surface, Members of Congress are appropriately looking for ways to protect small businesses from questionable lending

practices. We need to be sure legislation doesn't create unintended consequences.

There are also regulatory issues that can arise. For example, Section 1071 of the Dodd-Frank Act could cause a major disruption in how they do business. Depending how this Section of Dodd-Frank is implemented through regulation, Factors could face having to complete complex and time-consuming reporting on applicants' gender and race, as well as business loan purpose and use. The investment and the time required to comply with such requirements could do serious harm to our bottom lines. Depending on how Section 1071 is implemented, Factors ought to be excluded. The AFA is working on this.

While in Washington, the AFA met with Congressmen and Senators who are small business supporters. The purpose of these meetings was to keep the lawmakers apprised of the impact that Section 1071 and other regulation can have on Factors, and ultimately, small business. It is important that we have supporters who understand our product offering and the value we add to the small business finance market. These proactive meetings help to keep our cause at the forefront of the lawmakers minds as they work through the ramifications of these regulations.

Perhaps the most impactful meeting was with the Consumer Finance Protection Bureau (CFPB), the

Announcing our new website...



The International Factoring Association is excited to announce the official launch of our new updated website at www.factoring.org

FEATURING OUR

Vendor Locator Service



The IFA's Vendor Locator Service lists vendors of interest to the Receivable Finance & Factoring industries, including attorneys, UCC search firms, funding sources, and many more.

In addition to all qualified Vendors, there are also IFA Preferred Vendors listed that offer discounts or superior services to IFA members.

SEARCH FOR VENDORS BY:
Category
State/Province
Country
Keyword

- **THE IFA's ANNUAL CONFERENCE** is the world's largest event for Factors, Asset Based Lenders & Supply Chain Finance Companies.
- **THE CERTIFIED AE IN FACTORING (CAEF)** designation is the first professional certification of its kind.
- **EDUCATION**, training courses, meetings, webinars & relevant events for the Factoring Industry.
- **DISCUSSIONS, MEETINGS & FORUMS** Access to the IFA Member Community Discussion Forum.
- **STORE** - Purchase Factoring books, forms, reports, webinars and more.
- **JOB BOARD** - Search for or list jobs.



INTERNATIONAL
FACTORING
ASSOCIATION

6627 Bay Laurel Pl., Ste C,
Avila Beach, CA 93424 | 805-773-0011
factoring.org

agency responsible for implementing Section 1071. The CFPB has published a request for information regarding the small business lending market. They are seeking to learn more about the small business financing market and how factoring works in relation to other financing options. We met with six members of the CFPB's staff and answered questions about factoring and how we differ from loan products.

To continue to support our industry and to educate lawmakers on the

value that factoring brings to the US economy, the AFA needs our support. In this ever-changing landscape of regulations, we must have representation on Capitol Hill that understands our industry and can get in front of the appropriate decision makers to be our voice. Please visit www.americanfactoring.org today and pledge your support. If we each contribute our fair share to the cause, we can stay in front of these issues to ensure we can all continue to do business without disruption.

The goal of the AFA is to increase membership and financial support from every IFA member. We urge every IFA member to contribute to the AFA as we are in the midst of our annual membership fund drive. Currently, we have Bronze Members who have contributed as little as \$500, up to Diamond Members who have contributed in excess of \$10,000. This is a very inexpensive insurance policy to help protect our industry from needless regulation which will be both costly and prohibitive. Please consider supporting the American Factoring Association. •



2018 Members

As of AUGUST 1, 2018

Diamond Member (\$10,000+)

Apex Capital Corp
Crestmark Bank
D & S Factors
Gulf Coast Business Credit
International Factoring Association
J D Factors
LSQ Funding Group
MP Star Financial, Inc.
Sallyport Commercial Finance, LLC
TBS Factoring Service, LLC
Triumph Business Capital
White Oak Business Capital, Inc.

Platinum (\$5,000–\$10,000)

BAM Worldwide, LLC
Far West Capital
Goodman Factors,
a division of Independent Bank
Great Plains Transportation Services, Inc.
Interstate Capital Corporation
Millennium Funding
Phoenix Capital Group, LLC
Republic Business Credit, LLC
TAFS, Inc.
United Capital Funding Corp.

Gold (\$2,500–\$5,000)

Accord Financial, Inc.
AmeriFactors Financial Group, LLC
Assist Financial Services, Inc.
Bay View Funding
Commission Express National, Inc.
Durham Commercial Capital

Evergreen Working Capital
FirstLine Funding Group
FSW Funding
Lenders Funding, LLC
Mickey Seeman—
Owner, Sunbelt Finance
PRN Funding
Prosperity Funding, Inc.
Riviera Finance, LLC
SevenOaks Capital Associates, LLC
SouthStar Capital, LLC
Transport Factoring, Inc.

Silver (\$1,000–\$2,500)

Alleon Capital Partners LLC
Amerisource Funding, Inc.
Ameritrust Capital Corp.
Brookridge Funding
Business Finance Corporation
Capital Solutions Bancorp, LLC
Commercial Finance Consultants
Commonwealth Capital, LLC
Contractors Capital Solutions
Coral Capital Solutions LLC
CV Credit Inc.
David Jencks—Jencks & Jencks, PC
David Pape—Commercial Business
Funding Corporation
Factor King, LLC
Gateway Commercial Finance
J.O.B.E. Services, Inc.
K.W. Receivables
Kiran Ramasamy—Vayana Network
Levinson, Arshonsky & Kurtz, LLP

QC Capital Solutions
Match Factors, Inc.
Mazon Associates, Inc.
Michael Ullman—
Ullman & Ullman, P.A.
Nationwide Capital Funding, Inc.
Primary Funding Corporation
Spectrum Commercial Services Company
The Hamilton Group
Viva Capital Funding LLC
Xynergy Healthcare Capital LLC

Bronze (\$500–\$1,000)

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Business to Business Capital Corp.
Camel Financial, Inc.
Cash Flow Resources, LLC
Concept Financial Group
Entrepreneur Growth Capital
Exchange Capital Corporation
Finance One, Inc.
Firmco Business Funding
Grace Capital Resources, LLC
Greenback Capital
MarcFunding, LLC
New Century Financial

Other (Under \$500)

David B. Tatge, PLLC
FactoringClub
Hawaii Receivables Management, LLC
Stonebridge Financial Services, Inc.
TradeGate Finance, Inc.

WHAT'S NEW AT IFA

AUGUST 2018



Our Preferred Vendors have undergone a screening and evaluation process. When you contact the Preferred Vendors, you will need to indicate that you are an IFA member to receive your benefit.

If you offer a good or service to the Factoring Industry and are interested in applying for Preferred Vendor Status, please contact the IFA at 805-773-0011.

ASSOCIATIONS

The following trade associations offer member pricing for events attended by IFA members:

Beijing Commercial Factoring Association (BCFA)

Colombian Association of Factoring (CAF)

Commercial Factoring Expertise Committee of China (CFEC)
www.cfec.org.cn

Ecuadorian Factoring Association (ASOFACTOR)
www.asofactoring.org

FCI
www.fci.nl

Romanian Factoring Association (RFA)
www.asociatiadefactoring.ro

CERTIFIED EMAIL

RMail

Go Paperless. Switch to RMail to Send your Important Notices. RMail services allow factors to end disputes attributed to missing, misplaced or denied receipt of notification emails for notices of assignment, notices of default, borrowing base certificates, and other important notifications. It also helps speed invoice collections with proof of invoice delivery irrefutably starting the accounts receivable aging clock.

www.rpost.com/ifa

IFA Members save \$300! Subscribe to 1000 units RMail plan for only \$390! (Normally \$690)

CONSULTING

FactorHelp

FactorHelp has come to be regarded as the factoring industry's premier resource provider. Their manuals, in use on every continent of the world, are setting the industry standard, and their reputation as the one-call solution for factoring problems is growing. By consistently introducing innovative, viable products, vigilantly cultivating an extensive alliance of Strategic Partners and providing the professional expertise demanded of an industry leader, FactorHelp strives to maintain its goal of providing the unparalleled service the factoring industry expects from a solutions partner.

Phone: 972-722-3700 • www.factorhelp.com
IFA Members receive a discount of 10% on their consulting fees and 5% discount on all FactorHelp products in the IFA store.

CREDIT

Ansonia Credit Data

With more than 250 Factors and over \$800 billion in data, Ansonia provides Factors and ABL lenders an innovative way of managing debtor and fraud risk. Our business credit reports feature current and historical days-to-pay information collected directly from the accounts receivable departments of small and large factors, and other companies across all segments.

Phone: 855-ANSONIA • 855-267-6642 x.103
www.ansoniacreditdata.com
IFA Member Benefits: Free VIGILANTE™ Portfolio Analysis. Try Ansonia's unique new program for monitoring credit portfolio risk. Call today to receive a comprehensive review of your entire portfolio.

Credit2B

Trusted by all of the majors because of the sheer volume of Factor trade and 98% third-party data coverage of active businesses in North America, Credit2B is a cloud-based platform that empowers accurate and timely decisions by connecting the experiences of trade credit grantors around their common business customers. We combine this highly valuable trade network information of approximately \$700B in recent receivables with live bureau and public filing information to provide comprehensive financial risk profiles, all in real time. Our dashboard also provides Factor specific scoring, Factor client risk pools, monitoring, peer benchmarks and comprehensive trade data pack solutions for integration into your enterprise software.

Phone: 212-714-4500
Website: www.credit2b.com
IFA Member Benefits: Join the largest virtual factor community. Receive 10% price discounts for being an IFA member. Complimentary invitations to our hosted events in NYC.

FactorsNetwork

FactorsNetwork provides an online platform where Factors share trade experiences with each other. Members are able to pull unlimited Credit Reports as well as monitor and analyze their portfolio. Transportation Factors benefit from our CarrierMonitoring and ChameleonCatcher programs and their clients profit from our LoadBoard. We even offer a Sales Tool to help you find new clients.

Phone: 435-659-4612
www.factorsnetwork.com

IFA Member Benefits: 50% cost savings for the monthly membership fee. It is normally \$1,000 per month, but IFA members will pay \$500 per month.

CREDIT CARD PROCESSING

Clarus Merchant Services

Clarus Merchant Services offers a custom program developed specifically for how the Factoring Industry processes their credit card transactions. Our program provides detailed reporting that allows tracking of each invoice and fee transaction for easy account reconciliation with their customers and clients. We work with each member to ensure all processing costs are covered and that they are doing so within the guidelines of MasterCard / Visa. In addition we provide IFA members direct access to their account manager for immediate response and support.

David Powers, Member Relationship Manager
Phone: 540-222-3925 • www.clarusdc.com
Email: dave.powers@clarusdc.com

IFA Member Benefits: Any IFA member that purchases the CardX program will receive a one-time \$200 rebate once the member has processed a whole month using the program.

ePaymentAmerica

ePaymentAmerica is the nation's leading provider of processing services for the factoring, A/R financing, and P/O financing industries. They offer IFA members exclusive VISA, MasterCard, American Express and discover pricing, a discount on their virtual gateway, and a discount on PCI Compliance Certifications.

Phone: 901-385-5327
www.epaymentamerica.com
Email: factoring_program@epaymentamerica.com
IFA Member Benefits: Interchange Plus Pricing Bundled Monthly Service Fee of \$30.00 (includes IRS regulatory compliance, account maintenance, PCI compliance, virtual gateway & online management tool.)*
**Based on volume/ transaction count.*

DISASTER RECOVERY SERVICES

Agility Recovery

For the past 25 years, Agility Recovery has been a premier provider of onsite recovery solutions across the United States and Canada. When disaster hits, Agility will be on the scene, providing you with any, or all, of the critical elements you need to keep your business in business: power, space, technology, connectivity. Membership also includes access to a dedicated Continuity Planner and secure access to your

myAgility planning portal to assist in building and maintaining your business continuity plan.
Phone: 866-364-9696
www.agilityrecovery.com
Email: andre.selvyn@agilityrecovery.com
IFA Member Benefits: 5% discount to each respective client's monthly ReadySuite membership fee.

FUNDING

Liquid Capital Corp.

Liquid Capital has been in the Factoring industry since 1999 and entered into a partnership with Next Edge Capital in 2015. This relationship has allowed them to pursue an aggressive growth strategy focused on the following key initiatives:

- The acquisition of A/R portfolios from Factors looking to exit the industry

Member benefit: Trailer fees for the life of the acquired accounts

- Soliciting Factors to join the Liquid Capital network to gain access to additional capital, a robust range of working capital and trade finance products, extensive marketing and back office support

Member benefit: Liquid will pay your IFA membership or Annual Conference registration fee for the following year.

- ABL referrals from existing Factors who would not normally fund this type of transaction

Member Benefit: The referring Factor will earn an origination fee and have the opportunity to participate in the funding.

Robert Thompson So
Phone: 866-272-3704
www.Liquidcapitalcorp.com
Email: rts@liquidcapitalcorp.com

MARKETING

50 Words LLC

50 Words is a marketing outsource firm for companies that either do not have a marketing department or that need to add more manpower to their existing marketing team. They serve as your dedicated marketing department.

Phone: 610-631-5702
www.50wordsmarketing.com
IFA Member Benefits: IFA Members will receive five free hours of marketing services with the purchase of any marketing service. (Offer to new clients only)

RECRUITMENT AGENCY

Commercial Finance Consultants

Established in 2002, CFC is the premier provider of human talent to the factoring industry. CFC's goal is to provide their clients with the best available human capital and the most current industry information to assist in accomplishing their growth potential.

Phone: 469-402-4000 • www.searchcf.com
Email: dar@searchcf.com
IFA members will receive an additional 60 days added to the guarantee on all placements.

SOFTWARE

FactorFox

FactorFox Cirrus is a cloud application for factors, their clients, brokers, lenders, and others who enter or access data. Entries can be made and reports accessed from any internet-connected computer, tablet, or smart phone. As a web-native program, there is no extra cost for setting up your account or to access your data; further, you receive three hours of free training online. FactorFox's various versions make it suitable for nearly any size factor.

Phone: 866-432-2409 • www.factorfox.com
In addition to the one-month free trial for everyone, IFA Members receive an additional month to try the complete program.

Finvoice

Finvoice offers traditional factoring companies and asset-based lenders a simple-to-use and comprehensive software solution to help them become a modern and efficient online lender. Finvoice came out of a passion to help small businesses who generate 67% of jobs and 50% of the World's GDP.

Andrew Bertolina
Phone: 310-951-0596
www.finvoice.com
IFA Member Benefit: Complimentary landing page review/optimization for digital conversion. 15% discount on pricing for the first year.

HubTran

HubTran is the leading provider of back office automation technology for factoring companies. HubTran's SaaS platform streamlines invoice processing, document management, and exception handling. Customers increase productivity 4X, reduce errors and increase capacity. HubTran's innovative technology leverages Optical Character Recognition and Artificial Intelligence to simplify back office work without requiring massive investments of time in training and integration.

Tinamarie Sulpizio
Phone: 928-855-0170 • www.hubtran.com
IFA Member Benefit: 1 week trial and waived setup/integration fees

ProfitStars®

ProfitStars® is an industry-leading provider of portfolio management systems for commercial finance, and offers a common framework for factoring, asset-based lending, inventory finance, and lines of credit. Our dynamic Commercial Lending Center Suite™ incorporates all-digital loan origination, decisioning and portfolio management workflows that save time, improve accuracy and improve the overall borrowing experience.

Phone: 205-972-8900, option 3
www.profitstars.com
IFA members will receive 10% off new ProfitStars lending solutions product purchase. For IFA members who are currently ProfitStars customers: Free one day FactorSoft refresher course, per year, at ProfitStars' training facility in Birmingham, AL.

TAX COMPLIANCE

Tax Guard

Tax Guard fills a critical gap in a commercial lender's credit risk management toolset with

efficient, real-time and actionable insight into the true, non-public IRS tax compliance status of their prospects and clients. Our due diligence reports, tax compliance monitoring and resolution solutions support commercial lenders throughout every stage of the funding life-cycle.

Phone: 646-502-4478 • www.tax-guard.com
Email: Rich Porterfield;
rporterfield@tax-guard.com
IFA Members will receive ten free IRS Tax Return Transcripts within the first 30 days of service. One time offer also extended to current IFA members.

UCC SEARCH

First Corporate Solutions

First Corporate Solutions is a full service public records provider specializing in the research, retrieval and filing of public records nationwide and internationally. Their services include industry standards such as UCC, lien and litigation searching, UCC and corporate filing services, nationwide registered agent coverage and real property title searching, as well as unique solutions such as state and county account monitoring designed specifically for Factors.

Phone: 800-406-1577 • www.ficoso.com
Email: info@ficoso.com
IFA members will receive a 10% discount off of the retail rates of their signature state and county account monitoring product.

IFA CALENDAR OF EVENTS 2018-2019

September 5

Due Diligence War Stories & Webinar

1pm-2pm PDT

September 13-14

Transportation Factoring Meeting Hilton Cleveland Downtown, Cleveland, OH

October 15-16

Small Factors Meeting Planet Hollywood, Las Vegas, NV

October 18-19

Think Ahead Or Be Left Behind Training Course Planet Hollywood, Las Vegas, NV

October 25-26

Construction Factoring Training Course Planet Hollywood, Las Vegas, NV

January 23-25, 2019

Presidents & Senior Executives Meeting Casa Marina Key West, FL



How To Successfully Promote Your Brand Through Social Media and Content Marketing

The growth of your financial brand depends on attracting and retaining clients. In the modern market, some of the most successful strategies center on targeted content and social media marketing. If you're ready to make this marketing strategy work for your financial brand, here are some powerful tips to improve your chances of success.

WHY SOCIAL MEDIA MARKETING IS IMPORTANT

First, it's important to understand where there is room for improvement in terms of social media and content marketing. While many other industries have successfully navigated social media and developed effective sales content, the financial industry as a whole has been reluctant to move away from more traditional marketing methods, such as print.

One of the challenges with traditional sales campaigns is that they can't be effectively tracked or analyzed. However, targeting your audience through social media can be extremely effective. Most of your potential clients are already spending time online, so it's wise to

engage with them there instead of waiting for them to stumble on your website or find a print ad or a direct mail piece that you sent to them.

BENEFITS OF TARGETING CONTENT MARKETING

A modern content and social media marketing strategy offers many potential benefits, including:

- Aligning advertising budgets with consumer behavior
- Targeting potential clients accurately
- Efficiently generating leads
- Providing platform for developing relationships



Alex Vasilakos is the Director of Marketing at The Finance Marketing Group. He entered advertising and marketing in 2003, right when the industry landscape shifted from traditional print to digital media. In that time, Alex has worked with numerous large accounts in both healthcare and financial services, and has helped small and medium-sized businesses grow and flourish in their respective digital markets. Alex has won countless awards for creative direction and strategy, and is certified by Google Partners in both AdWords and Analytics. Currently, Alex works exclusively with financial services companies, but his depth of knowledge and experience can help design and implement long-reaching strategies for businesses across all industries. He can be reached by phone at 518-591-4645 or by email at alex@financemarketing.com.

MAKE PAID PROMOTION WORK FOR YOU

The days of being able to connect with potential clients organically through Facebook and Twitter are a distant memory. Modern social media feeds continue to fill up with paid promotional content, so if you want to make sure your audience has the chance to see your posts, you need to invest in sponsored content. The upside of this trend toward paid content is that it offers advertisers an array of effective targeting techniques. Whether you are thinking of using Twitter, Facebook, LinkedIn or another platform, you can get access to consumer data to help you truly understand your target demographic and tailor your content for maximum impact.

What demographic do you want to target? The data collected and analyzed by social media platforms can provide you access to any number of specific groups. Maybe you want to promote your factoring product or ABL program to businesses or individuals that have recently opened a business. Perhaps you are working on winning clients who are established businesses and potentially focus your efforts on targeting referral partners. You could develop sponsored content about a specific niche industry and how factoring can help cash flow during down time or when there is an upswing in orders.

There are numerous other options for targeted content. With all the useful data social media platforms have available, you can consider several targeted marketing campaigns, such as:

- Purchasing receivables for staffing companies
- Cash flow solutions that can help the renewable energy space
- Companies struggling to make payroll because they have open invoices

IMPROVE COLLABORATION BETWEEN YOUR SALES AND MARKETING TEAMS

Although your sales and marketing teams may communicate every so often, it's far better to have them actively collaborate on content and social media marketing strategies. Sharing ideas and reviewing data together can ensure both teams understand the goals of each campaign and the best way to reach them. Proactive collaboration can help everyone agree on how to define a good lead and what sort of metrics to use to determine success.

ENSURE SALES CONTENT MATCHES YOUR TARGET AUDIENCE'S EXPECTATIONS

The more customized you can make your content, the better chance you have of making a strong connection with potential customers. A stronger connection means there is a better chance of converting that targeted individual into a client. By its nature, social media encourages users to desire a completely personalized experience, even in terms of advertising. When a customer feels like your post speaks directly to him or her, he or she is much more likely to pay attention and engage with the content.

However, developing unique, customized content can be challenging. Not only do you need to take into account different personalities and ages, you also need to tailor your content to fit the potential client's location in the sales funnel. Content designed for an initial connection with a client should look different than content designed to close a deal. The quality of your posts is also important. People will likely ignore social media content that reads like a high-pressure sales pitch. Instead, focus on creating

valuable, helpful posts that help your target audience feel like your company is both knowledgeable and caring.

PUT IT ALL TOGETHER

What does effective, valuable content look like? It depends on the target audience. For example, if you are creating a campaign to help improve cash flow for a business with factoring, your content should evolve based on your client's situation. Your initial contact with your potential client should focus mostly on improving brand awareness and providing helpful information. You want the client to be aware of your services as he or she is considering the pros and cons of different alternative lending solutions.

As you continue to target this client with customized marketing content, your focus can move from brand awareness to the reasons he or she should choose your institution as an alternative financial solutions provider. You may want to focus on your turnaround time, recourse vs non-recourse options, or negotiating better terms with suppliers or take advantage of early payment discounts. Once you have succeeded in converting this targeted individual into a client, you can also promote your other financial products (if you have ones beyond just ABL and factoring), such as equipment financing, commercial real estate, or business term loans.

An effective social media marketing campaign can help you convert and retain clients. When you understand how to correctly engage with your target demographic and ensure your sales and marketing teams are working together, your content has a better chance of success. •

DARK WEB

Continued from page 27

dark helpers—Reddit, 4chan, and Pastebin. The social media monitor LifeRaft's Navigator (www.liferaftinc.com) now offers a Dark Web search and monitor application built into its alert system and browser, which means they filter the content, not you.

All of these solutions are platforms for educating yourself or professional resources that allow you to watch the Dark Web without going into it yourself. These are perfect solutions for a professional investigator who isn't a part-time hacker. Every investigator, though not a hacker or even dealing with this content daily, has something in his or her work that must consider the Dark Web. Any books, articles, or professional seminars on this topic are highly recommended.

Educate yourself before entering this dark world and have a strong stomach—plus some strong antivirus software. •



Cynthia Hetherington, MLS, MSM, CFE, CII has been practicing, training and writing in the investigative

field for a quarter of a century. She is the host of the OSMOSIScon.com conference and the author of several books. For more information, please go to www.hetheringtongroup.com.

PROSPECT DETECTION

Continued from page 14

underwriter can make a mistake or miss a tick on the box. Technology allows your specific underwriting criteria and process to be applied to every prospect again and again, ensuring you are doing it the same way each time and so underwriters can reduce manual tasks and errors.

Other types of more traditional fraud involve current clients who may not start out intending to defraud the Factor but, somewhere along the way, begin to do so. I call this type of fraud consequential, where various factors related to cash flow in the client's business, for whatever reason, eventually lead the client to commit fraud. This is not to say that the events are to blame. Fraud is fraud. But the majority of clients that commit consequential fraud didn't intentionally plan on defrauding the Factor when they first entered into a factoring relationship. Typically, clients represent hard-working business owners who are extremely tight on cash. With the proliferation of merchant cash advance companies and more availability of cash in the current economy, this more traditional type of fraud is occurring less. This type of fraud can present itself in various formats, such as submitting fake or inflated invoices, pre-billing, or diverting accounts purchased by the Factor.

Once an existing factoring client commits fraud, most likely they will commit fraud again and again using new fake invoices to pay off old fake invoices or other similar schemes. And so a Ponzi scheme is created, and the fraudulent factoring services cycle continues until the offending company gets caught or the business owner flees. Besides the obvious debtor verifications, using analytics to monitor clients can help you prevent fraud by detecting anomalies and correlating trends in billing cycles, amounts,

concentrations, and changes as they occur and can help you pinpoint deteriorating accounts quickly to avoid a costly fraud situation.

Having a good relationship with your client is important, but it doesn't replace verification procedures. Remember the saying, "trust but verify". The best line of defense for consequential fraud are good operational procedures and the use of risk monitoring and analytics software that can track deteriorating trends and provide early fraud detection. These software solutions let you monitor your client's invoicing cycle, look for patterns, and contrast financial performance with their accounting system, all in real time.

With high competition from banks, MCA's, factoring and asset-based lenders in the market with a growing economy and easier cash, fraudsters are looking for vulnerabilities and overconfidence among lenders. There's a lot you need to know to protect yourself these days but also many new and exciting methods to safeguard against fraud. •



Raul Velarde is the founder of Decipher Credit Solutions, Inc., a technology company that

offers underwriting and monitoring software for the factoring and asset-based lending industries. He has held executive positions with Claro Finance and Bibby Financial Services, among others. He has taken his knowledge in the lending industry and applied an insider's point of view to revolutionize and streamline underwriting. He can be reached by phone at (301) 710-5447 and by email at raul@deciphercredit.com.



Great opportunities demand smart lending and customized solutions.

Capital One® Financial Institutions Group provides businesses in the secured business credit space the capital and expertise to thrive.

Capital One's commercial lender finance specialists use their knowledge of secured business credit, combined with data analytics and industry trends to give your business an advantage. Backed by the capabilities of a top 10 U.S. bank*, we lend capital to help companies stay ahead of the competition.

Our financing solutions include:

- Asset-based lending and factoring
- Equipment finance
- Small business finance
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- Floor plan finance

To see how to maximize business potential, contact a lender specialist today.

capital.one/financialinstitutions

Commercial Lender Finance Specialists:

Kevin P. Gibbons, CFA

Managing Director
Head of Lender Finance
312-739-6225
kevin.gibbons@capitalone.com

Matt Tallo

Managing Director
Secured Business Credit
646-836-5053
matt.tallo@capitalone.com

*As of 12/31/2017. Source: SNL, Regulatory Filings. Subject to credit approval. Additional terms and conditions apply. Products and services offered by Capital One, N.A., Member FDIC. © 2018 Capital One.

Unlock the



of your clients' equipment.

**It's difficult for financially challenged companies to preserve capital
and manage cash flow to move ahead.**

When traditional equipment financing is not an option, we give your clients fast access to capital based on the value of their collateral. With a creative approach and deep experience, we work with financially challenged companies to get complex deals done.

In fact, we have funded over \$400 million in leases and loans to help high-risk companies turn the corner and succeed.

They benefit from lease and loan solutions such as:

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