THE EVOLVING RISK OF FRAUD:
A Guide for Factors in 2020

ALSO INSIDE:
- Remembering the Life and Times of David Rains
- The Inside Story of Fraud Perpetrated Against Aerofund Financial Factors and the Second Wave of COVID-19
What If You Could Reduce Risk and Errors?

Most Mistakes Can Be Prevented

Humans are, well, human. Numbers can be transposed. An extra zero can be added onto the end of a dollar amount. People can move too quickly and overlook irregularities. Unfortunately, in the factoring business, even small errors can add up to large risks, including fraud and loss.

Process automation helps reduce the margin for human error. With features that automate redundant tasks, the ability to set limits on invoice and funding amounts and more, FactorCloud helps protect you from liability.

First 3 Months Free!

Save time and increase efficiencies. Reduce risk and errors. Lower costs and make profit rain.

Call 888-888-0694 or visit www.factorcloud.com to learn more or schedule a demo.
# TABLE OF CONTENTS

**JUL/AUG 2020 | VOL 22 | No. 4**

## FROM IFA’S MARKETING DIRECTOR
*By Terri Baker*

## IN THE NEWS

1. **DEFUSING THE BOMB: MANAGING FRAUD RISK IN TRANSPORTATION FACTORING**  
   *By Tom Durrenberger*

2. **THE ESSENTIAL FRAUD AND RISK GUIDE FOR FACTORS TO TRAVERSE COVID-19**  
   *By Michael Ellis*

3. **THE INSIDE STORY OF FRAUD PERPETRATED AGAINST AEROFUND FINANCIAL**  
   *By Phil Neuffer*

4. **DIGGING IN: HOW FACTORS WILL CONTINUE TO DEAL WITH THE COVID-19 PANDEMIC**  
   *By Phil Neuffer*

5. **A TRUE ENTREPRENEUR: REMEMBERING THE LIFE AND TIMES OF DAVID RAINS**  
   *By Phil Neuffer*

6. **REMITTANCE CYBER THEFT IS AN INCREASING RISK FOR FACTORS**  
   *By John B. Hayes*

## COLUMNS

1. **WHAT’S NEW AT IFA**

2. **LEGAL FACTOR: NOT SO HAPPY DEALS: M&A IN THE CURRENT COMMERCIAL FINANCE LANDSCAPE**  
   *By Steven N. Kurtz, Esq.*

## ADVERTISER INDEX

<table>
<thead>
<tr>
<th>Advertiser</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>1st Commercial Credit</td>
<td>BC</td>
</tr>
<tr>
<td>Ansonia, an Equifax Company</td>
<td>13</td>
</tr>
<tr>
<td>Commercial Factor Website</td>
<td>8</td>
</tr>
<tr>
<td>FactorCloud</td>
<td>IFC</td>
</tr>
<tr>
<td>FactorFox</td>
<td>7</td>
</tr>
<tr>
<td>HubTran</td>
<td>5</td>
</tr>
<tr>
<td>IFA</td>
<td>16, 21, 30</td>
</tr>
<tr>
<td>Mmedia</td>
<td>IBC</td>
</tr>
</tbody>
</table>
Times are tough right now. As we navigate through this turbulent period, we are settling into what is now labeled the “new normal.”

For the International Factoring Association, the COVID-19 pandemic has shifted how we provide value and bring content to the factoring community. Nearly all of our major in-person events have been canceled for the remainder of 2020, necessitating alternative outlets to disseminate information and keep everyone abreast of the continually evolving climate.

As many people remain at home, the shift to virtual learning has become increasingly important. We have worked hard to produce valuable webinars and online training classes to replace face-to-face interactions. Online learning has changed the way we live and work and has allowed wider access to information from the comfort of our own homes. The IFA has provided, and continues to deliver, weekly webinars on a multitude of topics.

For those missing the personal interactions with others in the industry, we also are offering roundtable discussions that allow you to network and share ideas with your peers. Some of our upcoming online events will include both a Senior Executive and a Sales Roundtable, a Transportation Factoring Virtual Meeting and the Niche Industry training class. Bob Zadek, Esq. also will be presenting a Commercial Finance Workout Class from his office in San Diego. Additionally, we are working on hybrid events to give the option to attend in person or online, including our annual conference in May 2021. Check out the IFA's calendar on our website for all of our upcoming events.

The theme for this edition of the Commercial Factor is fraud, and it comes at a critical time as companies struggle to stay afloat. The pandemic has affected the financial performance of entities in a variety of different industries. In many instances, organizations have faced substantially decreased sales and a reduction in net income. Impaired financial positions at many companies has increased the likelihood of fraud within factoring portfolios. The desperation of business owners, and the need to meet payroll and other obligations, increases the likelihood a factoring client will generate falsified collateral in an effort to meet short-term working capital needs. Everyone needs to remain overly diligent to prevent any fraudulent activity.

In addition, the Paycheck Protection Program is creating a variety of issues in the industry, and causing a major disruption to factors. Many factoring clients that received these loans no longer need the working capital their factor provides. I have spoken to several IFA members who say their factoring portfolios are down as much as 50%, causing a significant decrease in revenue. This, combined with the fact that factors are not eligible for PPP loans at this time, has had a substantial impact on the earnings of many members. The IFA and the American Factoring Association are working diligently to reverse the restrictions factors face on eligibility.

Amid all of this uncertainty, the IFA remains committed to serving the factoring community. This pandemic has changed so much in our lives, but we will continue to provide the highest level of service and education to the industry. Thank you for your continued support and we hope to see everyone at an in-person event in the near future.

BY TERRI BAKER
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 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

PEOPLE

Chung Joins Republic Business Credit as SVP of Business Development
Republic Business Credit hired Tae Chung as senior vice president of business development in its Los Angeles office. Chung is entering his 20th year of providing factoring and asset-based lending solutions and will lead Republic's efforts in the apparel, accessory, electronic, textile, furniture and importer segments.

IFA Appoints Crawford, Landis, Roberson and Shu Advisory Board Members
The International Factoring Association appointed four new advisory board members, including Bud Crawford, a founder and managing partner of Coeur Capital; Dean Landis, third-generation owner of Entrepreneur Growth Capital; Meg Roberson, senior vice president and national sales manager of Gulf Coast Business Credit; and Glen Shu, president of Heritage Bank of Commerce's specialty finance group.

Loeb Term Solutions Provides $10MM in Recent Transactions, Hires New BDO
To help facilitate recent business activity, Loeb Term Solutions hired Rob Harjung as a business development officer for the company's management team.

Entrepreneur Growth Capital Hires Abraham as VP, New Business Development
Robert Abraham joined Entrepreneur Growth Capital as vice president of new business development. Abraham has 30 years of experience and joined Entrepreneur Growth Capital from Signature Bank, where he was vice president of new business development in asset-based lending.

Estevez Joins Tradewind Finance as VP of Sales in New York
Emilio Estevez joined Tradewind Finance as vice president of sales based out of the New York office. Estevez will leverage his experiences building client relationships and structuring deals in the trade finance space to drive Tradewind's factoring and supply chain financing business and expand its international client base, including in Latin America where he concentrated his business development efforts previously. Estevez previously worked for Stenn International and RTS International.

Viva Capital Funding Hires Williams as Vice President of Sales
Viva Capital Funding added Sarah Williams as vice president of sales. In this new role, Williams will be responsible for implementing the strategy and direction of the company’s sales and marketing departments. Williams previously served as vice president and sales manager for Triumph Business Capital.

UMB Capital Finance Adds Wagner to Business Development Team
UMB Capital Finance added Nic Wagner as a business development officer based in Denver. Wagner will be representing UMB
in the Colorado, Oklahoma and Texas markets, offering working capital solutions through accounts receivable finance, factoring and asset-based lending.

**IFA Mourns Passing of Factoring Veteran Mike Kitchens**
James Michael (Mike) Kitchens, former president of USA Funding and Fidelity Funding, passed away on June 27 at the age of 74 after a short battle with pancreatic cancer.

**IFA Mourns Passing of Factoring Veteran George Bryant**
George Bryant, a co-founder of the factoring division of Southwest Securities Bank of Dallas, passed away on May 18 at the age of 79 due to heart failure.

**CIBC Adds Love as Managing Director of Business Development for ABL Team**
CIBC expanded its U.S. asset-based lending capabilities in Buffalo, NY, by naming Nathan Love managing director of business development.

**Bank of America Business Capital Adds Gall as Senior BDO**
Bank of America Business Capital named Meredith Gall a senior business development officer. She most recently served as vice president at U.S. Bank and has previously held asset-based lending roles at Access Capital and MTB Bank. Based in Denver, Gall will be responsible for originating new ABL financing opportunities in Colorado, Utah, Nevada, Arizona and Wyoming.

**Taulia Appoints Lindemann Director of Supply Chain Finance EMEA**
Taulia appointed Christian Lindemann director of supply chain finance EMEA. Lindemann is based in Switzerland and will support Taulia’s sales, marketing and product organizations.

**HubTran Adds Durrenberger in New VP Executive Management Role**
HubTran named Tom Durrenberger vice president to head the company’s factor segment. Prior to HubTran, Durrenberger served a five-year tenure at Boston Consulting Group. At HubTran, Durrenberger will lead product development, guide client relationships and manage all aspects of the company’s business serving factors.

**North Mill Equipment Finance Appoints Four New Employees**
North Mill Equipment Finance appointed Matthew Mosley broker relationship manager, Max Russell Jr. asset management associate, Bryan Rosado Delgado asset recovery associate and Jacob Keller staff accountant.

**White Oak Commercial Finance Adds Reagan as Managing Director of Underwriting**
Wes Reagan joined White Oak Commercial Finance’s lender finance team as managing director of underwriting. Reagan most recently served as manager of investments for Peachtree Investment Solutions and as SVP and regional credit officer for State Bank and Trust Company. He will be responsible for underwriting, sourcing, structuring and managing lender finance and ABL transactions.

**Prestige Capital Closes $1.25MM in Recent Factoring Arrangements**
Prestige Capital Finance closed $1.25 million in combined factoring arrangements for Nouri Life, a probiotics company; KiiTO, a plant-based nutrition company; and Cure Hydration, a sports hydration company.

**Republic Business Credit Provides $3.5MM Factoring Facility to Furniture Manufacturer**
Republic Business Credit provided a $3.5 million non-recourse factoring facility that provides credit protection without any covenants to a furniture manufacturer on the West Coast.

**Brookridge Funding Completes $15MM PO Facility for Patio Furniture Distributor**
Brookridge Funding completed a $15 million purchase order funding facility for an importer and distributor of patio furniture.

**Wintrust Receivables Finance Closes $1.5MM Line of Credit for Pharmaceutical Company**
Wintrust Receivables Finance closed a new $1.5 million accounts receivable-based line of credit for a Chicago area distributor of neuroscience medications.
YOU KNOW HOW A RUBBER BAND WORKS?

THAT’S HOW HUBTRAN’S VARIABLE PRICING HELPS IN VOLATILE TIMES.

HubTran’s flexible, per-transaction pricing lets you pay only for what you use. Makes sense, right? When you’re processing more invoices, you pay more. And when you’re not, you don’t. It doesn’t get simpler.

HubTran allows you to work from home without a hiccup. When everyone’s remote, HubTran automation doesn’t miss a beat. This isn’t the first time we’ve helped factors face unique challenges. Read how HubTran helped Single Point Capital thrive in a hurricane: go.hubtran.com/singlepoint.

HubTran is fat-free. Dump overpriced software subscriptions, work 4x faster without mistakes, reduce costs by 60%, and reassign staff to growth-oriented work. More than ever, HubTran’s the most efficient, affordable way to process invoices. Demo fast. Start fast. Fund faster. Contact factors@hubtran.com.
**CapitalPlus Delivers More Than $4.5MM in Recent Construction Factoring Facilities**
CapitalPlus Construction Services provided more than $4.5 million in factoring facilities during May, including a $3 million construction factoring facility for an interior/exterior contractor specializing in retirement communities in Virginia.

**TAB Bank Provides $8MM Revolver to Consumer Lighting Products Company**
TAB Bank provided an $8 million asset-based revolving credit facility to a consumer lighting products company based in Utah. The new facility is extended through a multi-year agreement and will provide for the ongoing working capital needs of the company.

**Huntington Business Credit Closes $11.5MM in Financing for Robinson Fans**
Huntington Business Credit closed new $11.5 million credit facilities with Robinson Fans, which used the proceeds to refinance existing debt and provide ongoing working capital for growth financing.

**Sallyport Commercial Finance Arranges $3MM AR Facility for Electronics Company**
Sallyport Commercial Finance arranged a $3 million accounts receivable facility for a national distributor of gaming and consumer electronics. Due to the COVID-19 pandemic, the business expanded its products to include personal protective equipment such as masks and gloves.

**Entrepreneur Growth Capital Provides $1MM LOC to Digital Marketing Firm**
Entrepreneur Growth Capital closed a $1 million working capital facility to a software company that streamlines influencer and content creation strategies.

**InterNex Capital to Provide Working Capital to Utech Global Customers**
InterNex Capital entered a memorandum of understanding with Utech Global. Under this digital partnership, Utech's GPSTab and TMS platforms will be integrated with InterNex's Velocity platform to provide a turnkey solution for Utech's clients looking to manage their transportation business while optimizing their working capital.

**Franklin Capital Provides $4MM in A/R Financing Facilities**
Franklin Capital completed two new accounts receivable financing facilities, including a $1 million accounts receivable financing facility to a supplier of personal protective equipment and a $3 million accounts receivable financing facility to a UK-based IT equipment supplier.

**Crestmark, Iron Horse Credit Provide $12.5MM in Financing to Singing Machine**
The Singing Machine Company entered into a two-year loan and security agreement for a $10 million financing facility with Crestmark on eligible accounts receivable. Further, the company executed a two-year loan and security agreement with Iron Horse Credit for up to $2.5 million in inventory financing.

**Access Capital Structures $1.5MM Credit Facility for truData Solutions**
Access Capital structured a $1.5 million credit facility for truData, a data-centric firm focused on partnering with clients in building analytics and data integration capabilities leveraged through cloud solutions.

**TradeCap Structures $1.6MM PO Finance Facility for West Coast Soap Importer**
TradeCap Partners closed a $1.6 million purchase order facility for a West Coast-based importer of soap products.

**Encina Provides $35MM Credit Facility to Paint Supply Distributor**
Encina Business Credit provided a $35 million senior secured credit facility to a retailer and distributor of paint and paint supplies. The facility consists of a senior secured revolving line of credit based on accounts receivable and inventory.

**White Oak Commercial Finance Provides $81MM Credit Facility to Aspire 42**
White Oak Commercial Finance provided an $81 million asset-based credit facility to the Aspire 42 group of companies, which are majority owned by Moss Ridge, a Sydney-based family office that manages a portfolio of holdings across public and private markets.

**Allied Provides $1.4MM in Receivables Financing**
Allied Affiliated Funding closed $1 million in receivables financing to a Texas-based commercial flooring company and $400,000 in receivables financing to a Louisiana-based oil and gas industry consulting company.

**J D Factors Delivers $2.325MM in Recent Factoring Facilities**
J D Factors provided $2.325 million in recent factoring facilities, including a $700,000 factoring facility to a transportation company in California.

**Amerisource Funds $3MM Credit Facility for Distribution Company**
Amerisource Business Capital closed and funded a $3 million credit facility for a California-based distribution company, which will use the proceeds for growth capital.

**Rosenthal Provides $4MM PO Facility for Personal Protection Products Distributor**
Rosenthal & Rosenthal completed a purchase order finance facility to support the production financing requirements of a California-based distributor of hand sanitizer and antibacterial soap.

**Utica Leaseco Provides $11.3MM to Agricultural Company**
Utica Leaseco completed one transaction totaling $11.3 million. The refinancing was secured by machinery and equipment to an agricultural company located in Michigan.

**Austin Financial Services Provides $2.5MM Revolving A/R Facility to Logistics Company**
Austin Financial Services closed a $2.5 million revolving accounts receivable facility to a logistics and fulfillment company, which used the proceeds to support customers and near-term expansion plans.
IFA CALENDAR OF EVENTS 2020

**August 27**
Selling Factoring Services During COVID-19
Webinar: 11am-12pm PDT

**September 3 & 17**
Small Factors Virtual Roundtable Series
Webinar: 11am-12:30pm PDT

**September 9-11**
Transportation Factoring Virtual Meeting
Webinar: 11am-12:30pm PDT

**September 15**
Factoring Sales Virtual Roundtable Meeting
Webinar: 11am-12:30pm PDT

**September 22-24**
Commercial Finance Workouts Online Training Class
Webinar: 9am-12pm PDT

**October 5-6**
Account Executive/Loan Officer Training Class
Planet Hollywood, Las Vegas, NV

**October 19-22**
Niche Industry Factoring Online Training Class
Webinar 9am-12pm PDT

**October 28**
Senior Executives Virtual Roundtable Meeting
Webinar 9am-12pm PDT

**Registration Information:**
www.factoring.org

CANADA CHAPTER EVENTS 2020

**TBA**
For updated information, call Oscar Rombolà at (905) 603-6284 or email orombola@accutraccapital-itc.com. Visit IFA Canada’s website at www.FactoringAssociationCanada.com.

---

**Breakout Capital Closes $20MM in Credit Facilities with Medalist Partners**
Breakout Capital completed two senior secured credit facilities, totaling $20 million, with Medalist Partners, expanding and extending a current term loan facility and establishing a new term loan facility with forward flow features.

**Tradewind Provides Factoring Facility to Hong Kong Consultancy Firm**
Tradewind Finance provided a factoring facility in Hong Kong dollars for a consultancy firm based in Hong Kong that provides financial advisory services to global banks and other financial institutions located in the region.

**Lighthouse Provides $5MM Facility to Plumbing and HVAC Distributor**
Lighthouse Financial completed a $5 million credit facility for a North Carolina-based distributor of plumbing and HVAC products.

**North Mill Capital Delivers $1.25MM A/R Facility to Mighty Spark**
North Mill Capital provided a $1.25 million accounts receivable credit facility to Minneapolis-based Mighty Spark, which used the funds to provide additional working capital for growth and expansion.

**Siena Completes $45MM in New Facilities During Q2/20**
Siena Lending Group completed two deals for an aggregate amount of $25 million in Q2/20, while Siena Healthcare Finance delivered two deals for an aggregate amount of $20 million in the quarter.

**Crestmark Secures More Than $7MM in ABL Transactions in H1/July**
Crestmark secured a total of $7,703,300 in ABL financial solutions for seven new clients in the first half of July. In addition, Crestmark Equipment Finance provided $16,946,772 in three new lease transactions, Crestmark Vendor Finance provided $7,799,845 in 98 new lease transactions, Crestmark’s joint ventures divi-
The Commercial Factor | JUL/AUG 2020

sion provided $9,067,872 in financing to one new client and Crestmark’s government guaranteed lending group provided $1.94 million in financing for three new clients.

Gateway Trade Funding Completes $11.25MM in Recent PO Facilities
Gateway Trade Funding, a purchase order and trade financing company, completed $11.25 million in purchase order transactions.

First Business Capital Closes $11.8MM in Recent ABL Deals
First Business Capital recently closed and funded two asset-based lending deals totaling $11.8 million.

Gateway Trade Funding Completes $11.25MM in Recent PO Facilities
Gateway Trade Funding, a purchase order and trade financing company, completed $11.25 million in purchase order transactions.

First Business Capital Closes $11.8MM in Recent ABL Deals
First Business Capital recently closed and funded two asset-based lending deals totaling $11.8 million.

INDUSTRY NEWS

Triumph Acquires Transportation Factoring Assets of Transport Financial Solutions
Triumph Business Capital closed the acquisition of the transportation factoring assets of Transport Financial Solutions for approximately $132.2 million, including contingent consideration of approximately $9.9 million.

eCapital Acquires 100% Ownership of Prosperity Funding

eCapital acquired 100% of the ownership equity of Prosperity Funding, a Fort Lauderdale, FL-based factoring company with a focused specialty within the staffing industry.

Crawford and Ebinger Lead Management Buyout of PrimeArc, Found Coeur Capital
PrimeArc Capital’s group of managers, led by CEO Bud Crawford and COO David Ebinger, completed a management buyout of the company in an all cash transaction. In addition, Crawford and Ebinger founded Coeur Capital, which was set up to purchase the assets of PrimeArc. To help finance the acquisition and ongoing business operations, Coeur Capital partnered with Truist Financial.

IFA Forms Southeast Chapter
The International Factoring Association officially formed its southeast chapter this month. The new chapter will serve Florida, Georgia, South Carolina, North Carolina and Southern Virginia. The board members of the new chapter are executive director Harvey Gross (HSG Services), chair Denise Albanese (Cost Reduction Solutions), president Gary Krasna (Gary M. Krasna, P.A.), VP of education Harvey Friedman (Lenders Funding), VP of membership Georgia/Florida Michael Kodinsky (Change Capital), VP of membership South Carolina/Southern Virginia Donald Serek (Simplicity Financial Solutions) and associate director Sarah Kuhns (GMW Management).

New York AG Takes MCA Companies to Court for Illegal Lending, Threatening Practices
New York Attorney General Letitia James filed a lawsuit against Rich-
mon Capital Group, Ram Capital Funding and Viceroy Capital Funding seeking to stop the three New York City-based companies and their owners and managers from continuing to cheat small businesses out of millions of dollars each year by selling owners “merchant cash advances” or fraudulent, “sky-high” interest loans.

**IFA Adds EQ Riskfactor to Preferred Vendor Program**
The International Factoring Association accepted Equiniti Riskfactor (EQ Riskfactor) into its preferred vendor program.

**ABI: Nearly 500 Small Businesses File for Bankruptcy Under Subchapter V Provision**
According to June data from the American Bankruptcy Institute, 471 small businesses elected to file for bankruptcy relief under the new Subchapter V to Chapter 11 of the Bankruptcy Code since it was enacted.

**Love’s Expands Freight Factoring Capabilities with Vero and Foley Acquisitions**
Love’s Financial acquired Vero Business Capital and Foley Business Capital, which are both freight factoring companies. Love’s is a nationwide network of travel stops. Through its financial services company, Love’s Financial, the company provides recourse and non-recourse freight factoring.

**North Mill 2020 Funded Volume Reaches Nearly $80MM**
North Mill Equipment Finance posted record originations for the first half of 2020. Funded volume reached nearly $80 million, representing a growth rate of 40% over the same period last year.

**Capital Financial Cancels Merger with Affiliated Funding, Exits Invoice Factoring**
Capital Financial Global rescinded its merger with Affiliated Funding and is exiting the invoice factoring business to avoid potential losses and market risks associated with the economic impact of COVID-19.

**Equifax Acquires Ansonia Credit Data**
Equifax acquired Ansonia Credit Data, a provider of business credit, collections and accounts receivable data used by financial institutions and other creditors and businesses focused on the transportation and logistics industries. Ansonia will be integrated into PayNet.

**Factoring Market Exceeds Expectations in 2019, Fintechs Increase Impact**
Factoring markets often exceeded expectations in 2019, according to the World Factoring Yearbook 2020, which also noted that digital platforms — especially those owned by fintech companies — are having an increasing impact on the development of factoring, particularly in South America and Asia.

---

**2020 Members**

**Diamond Member ($10,000+)**
Accord Financial, Inc.
Apex Capital Corp
Crestmark Bank
Great Plains Transportation Services, Inc.
Gulf Coast Business Credit
International Factoring Association
Sallyport Commercial Finance, LLC
TBS Factoring Service, LLC
Triumph Business Capital

**Platinum ($5,000-$9,999)**
12five Capital
Accutrac Capital Solutions Inc.
CapFlow Funding Group
eCapital LLC
FSW Funding
Prime Capital Group
PRN Funding
Republic Business Credit, LLC
Southstar Capital
Sunbelt Finance
Truckstop Factoring

**Gold ($2,500-$4,999)**
American Funding Solutions LLC
AR Funding, Inc.
Assist Financial Services, Inc.
Commercial Finance Group
Dare Capital
Evergreen Working Capital
FirstLine Funding Group
Gateway Commercial Finance
Heritage Bank of Commerce/Bay View Funding
Interstate Billing Service
Lenders Funding, LLC
Match Factors, Inc.
Mazon Associates, Inc.
Riox Capital
Secured Finance Network
Sekady Capital
SevenOaks Capital Associates, LLC
Transport Factoring, Inc.

**Silver ($1,000-$2,499)**
Advantage Business Capital
AGR Financial, LLC
Amerisource Funding, Inc.
AmeriTrust Capital Corp.
Brookridge Funding
Business Finance Corporation
Cash Flow Resources, LLC
Commercial Business Funding Corp
Commercial Finance Consultants
Commission Express National, Inc.
ENGS Commercial Capital
Factor King, LLC
J.O.B.E. Services, Inc.
K.W. Receivables
LDI Growth Partners, LLC
Levinson, Arshonsky & Kurtz, LLP
QC Capital Solutions

**Bronze ($500-$999)**
ACS Factors
Camel Financial, Inc.
Chesapeake Bank
Concept Financial Group
David B. Tatge, PLLC
Entrepreneur Growth Capital
Finance One, Inc.
Firmco Business Funding Inc.
Grace Capital Resources, LLC
Greenback Capital
Integrated Logistics & Associates
Invescap
Jason Medley, Esq.
Paragon Financial Group
S3 Capital, LLC
The Interface Financial Group

**Other (Under $500)**
Stonebridge Financial Services, Inc.
TradeGate Finance, Inc.

---

**As of August 19, 2020**
Defusing the Bomb: Managing Fraud Risk in Transportation Factoring

The volume of information that must be processed in transportation factoring makes it an industry constantly at risk of fraud. However, as Tom Durrenberger of HubTran explains, by utilizing tools to incorporate all data in decision-making processes and putting more emphasis on verifications, factors can keep themselves safe.

BY TOM DURRENBERGER

I want to describe a client of yours. Jim has been with you for a long time. He is an honest owner of a small trucking company with a history of working with your account executives, factoring a dozen loads per week with you for years. His record is solid and unremarkable — a few chargebacks here and there, but typically nothing beyond a missing lump sum receipt or two.

To all outward appearances, Jim is a great client and one that makes you feel good about being a factor. What you don’t know is that Jim recently had some financial trouble and ran in with some bad folks who paid him a lot of money to use his company’s identity. These folks are experts at what they do. They know just how to evade your systems — from when to submit invoices, to the dollar-value thresholds they need to stay under, to the specific debtors they create fraudulent invoices for — all to make sure their invoices get as little review as possible.

Unfortunately for you, the result looks something like the graph on page 11.

The details of this story are fake, but the purchases and payment data are not. As dramatic as it is, the graph understates the effect — when you consider increasingly slim factoring fees, this single loss erased months of bottom line profits.

This happened to a large, sophisticated and well-regarded factor. It survived, but others might not. There’s no need to put too fine a point on it: Whether due to stolen identities, deliberate carrier fraud, collusion between carriers and brokers, or fraudulent
double-brokering, the risk of major fraud poses an existential threat to both large and small factors alike.

**UNPACKING THE PROBLEM**

Detecting fraud is difficult but not because it is hard to spot in a vacuum. On the contrary, in many cases, fraud has several telltale signs. The trouble is transportation factoring is a high-volume business that allows little time to make sure you know what you’re buying, which increases the odds of purchasing something — and in the worst cases, a whole lot of something — that you will really wish you hadn’t.

Factoring is also a victim of its success at rooting out more straightforward fraud. “Fraud in transportation factoring used to be a 60-day scam,” David Jencks of Jencks Law, a specialist in transportation factoring and asset-based lending, says. “Now it’s a six-month scam, and it’s not a $10,000 loss, it’s six-figures.” Fraud is less routine and minor, and more episodic and severe than it used to be.

Factors also are battling the bad behavior of a few large brokerages. The pre-purchase verifications process is the one silver bullet that factors have today, but verifying loads is impossible for a small number of large and well-known debtors who simply choose not to answer the phone or respond to emails. The problem is at least partially self-inflicted; factors have tolerated this behavior by continuing to factor loads from these players. Fraudsters know how to take advantage, spoofing invoice documents on impossible-to-verify loads before they take your money and disappear.

Traditional credit and account monitoring and controls are a good start, but the situations described previously illustrate how those can fall short. The question remains: What is to be done?

**TAKING ADVANTAGE OF ALL AVAILABLE DATA**

Even with the most thorough document audit, there will be some issues that your team won’t catch. For instance, most companies do not check to make sure an invoice’s lane rate isn’t too high, which is an indicator of potential fraud. This is a tough thing to do — you have to calculate distance based on the origin and destination; consider the number of stops, equipment and freight type; and understand recent rate trends to understand an invoice’s level of abnormality. However, processing teams handle hundreds or thousands of invoices per day and simply don’t have the time or tools to complete these checks on lane rates.

This is particularly dangerous because the more abnormal the lane rate, the higher the likelihood of nonpayment.

Other invoice details also correlate to higher rates of nonpayment and fraud. Examples include incorrect debtor contact information, having the wrong clients or debtors on the BOL, missing BOL pages, and out-of-sequence load IDs.

At best, factors’ processing teams check for these types of issues sporadically because it is difficult to do this work manually. However, modern technologies such as OCR and machine learning can do this work accurately and cost effectively. By matching the details of submitted paperwork against patterns of client behavior and actual payment data, a
The Commercial Factor | JUL/AUG 2020

The Commercial Factor can achieve detailed, invoice-by-invoice risk surveillance. This is a leap beyond traditional client and debtor risk scoring. The net effects are reduced write-offs, chargebacks and days outstanding.

_CREATING A BULLETPROOF VERIFICATIONS PROCESS_

Risk management will only be as effective as the process you set up around it. A successful verification reduces average nonpayment on an invoice by a factor of three and gets paid three days faster. Clearly this is a powerful risk and fraud mitigation tool. Contacting a debtor to confirm the key details of a load prior to purchase really does work.

Unfortunately, pre-verification is managed largely based on gut feel and tribal knowledge. Three examples illustrate the point:

• Ask a simple question, such as, “What’s the optimal number of invoices that you should verify as a factor?” and you will find a wide range of answers: 25%, 40%, 50% or 100%. Ask for justification for this number, and you already know the response — it’s how things have always been done.

• Which invoices get selected for verification is usually determined by some combination of client newness, age of client-debtor relationship, prior client bad behavior and invoice amount. These are reasonable criteria to use if you don’t know anything else about the invoice, but modern OCR and AI technologies allow us to know much more. Not using this granular level of data to prioritize verifications is like playing with fire.

• Lastly, the verifications method, the tools and processes used, and even how this data is recorded often vary widely even within a given factor. There is little process control and managers often must accept on faith alone that verifications are really occurring and are effectively reducing fraud and nonpayment. This is not a scientific process, but it could be. In the same way that automation revolutionized document processing, a modern verifications workflow will help factors work smarter and faster while taking out cost. Moreover, there’s no reason why the verifications process itself can’t be automated by comparing clients’ invoice details with information in debtors’ TMS systems on a real-time basis, eliminating the need for repetitive and inconsistent phone and email verifications.

_IT’S EVERYONE’S PROBLEM_

Fraud is a problem that eventually affects every factoring organization, including yours. The good news is that you can now decide how to deal with fraud, either by choosing to do so retroactively or by taking proactive steps to make sure it doesn’t blow up in your face.

**Tom Durrenberger** is the vice president leading HubTran’s business serving factors. He was previously a principal at the Boston Consulting Group. You can reach him at tdurrenberger@hubtran.com.
The Data You Need Now. Plus the Power of Equifax.

Ansonia’s Suite of Solutions for Factors Will Just Keep Growing

From our factoring roots, we developed our credit data and tools to help our customers uncover risk more quickly, avoid pitfalls, streamline collections and tracking, and much more.

Today, over 200 factors have come to rely on Ansonia’s robust trade data to make better credit decisions. IFA members voted us the #1 Source for Underwriting Debtor Credit Limits for 2019.

Now by combining our power with PayNet, a division of Equifax, you’ll have access to even more data, tools, analytics and economic insights.

We’re looking to develop tomorrow’s innovative new solutions for increasing your company’s bottom line.

Let our combined data and power guide you to profitable growth in the future. Call us today.

INDUSTRY INSIGHTS
Brought to you by ANSONIA
an Equifax company

Factoring industry contributions reported to Ansonia as of July indicate volumes approaching March’s levels.

ANSONIA
An Equifax Company

1-855-267-6642 • www.ansoniacreddata.com

For more information, contact either:
Tinamarie Sulpizio at 360-464-2202 or toll-free at 855-267-6642 ext 120
tsulpizio@ansoniacreddata.com

or

Eric Villasenor at 360-464-4392 or toll-free at 855-267-6642 ext 122
evillasenor@ansoniacreddata.com
The Essential Fraud and Risk Guide for Factors to Traverse COVID-19
Fraud is always a risk in factoring, but the current COVID-19 pandemic has only exacerbated threats. Here are eight fraud-avoidance tips that factors should utilize to get through the pandemic and come out stronger on the other side

BY MICHAEL ELLIS

The COVID-19 pandemic has impacted our personal and professional lives far deeper than any of us anticipated, creating a surprising willingness by even the largest organizations to digitize, seemingly overnight. It’s human nature to adapt to challenges quickly; removing internal barriers to change has allowed us to embrace methodologies that provide long-term benefit.

Equally, one of the challenges to factors is the ability for fraudsters to respond just as quickly, using the reduced contact and process changes as a veil under which to operate. If you add the extreme financial pressure that small businesses find themselves under, previously trusted clients can find themselves with an impossible decision as they look to support long-term employees and suppliers. Even the best clients can later find themselves in serious breach of their facilities.

“We are seeing an increase in fraud from many different directions, both from cyber threats where clients are being hacked as well as an uptick in fictitious business funding applications. This is certainly likely to continue [as] this period of uncertainty and increase in insolvencies remains,” Ian Varley, CEO of Eagle Business Credit, says.

Despite CARES Act provisions exceeding Congressional support from the 2008 financial crisis, a survey by Main Street America predicted 7.5 million small businesses will shut down permanently if business disruption caused by COVID-19 continues unabated. Deloitte predicted that the U.S. economy will not return to pre-COVID-19 levels until 2023, with pre-pandemic employment levels not returning until 2025.

The Harvard Business Review highlighted uncertainty around the shape of recovery as one of the most significant challenges. Factors will need to consider all scenarios carefully when deciding how they will support their clients. So far Canada has demonstrated a ‘V’ shaped, sharp return to growth, while the U.S. has had a more gradual ‘U.’ Greece has had a more damaged ‘L,’ but no one knows enough about the virus and its impact on our economy to rule out a ‘W’ style movement as the risk of spread persists.
If there is one thing that studying global actions against COVID-19 has taught us, it’s that the implementation speed of preventative measures is as important as the actions taken themselves. Taking the following risk reduction steps can help prepare your business, staff and clients.

1. **Ensure you have clearly documented, consistent policies and processes**
   Fraudsters are ready to take advantage of business disruption. With remote working, the same strict risk processes are not always in place. Businesses need to invest time in a thorough risk assessment of how COVID-19 has disrupted operations. Otherwise weakened controls leave you at risk of fraud. Changes to your team mean you will need to consistently define who is responsible for what actions and it is sensible to set a named owner for documenting and rolling out processes and procedures. Refreshing approval paths and introducing segregation of duty also will help to reduce risk.

   In a remote work environment, teams do not have colleagues around for quick queries, which can lead to problems in escalating any issues. An easy solution is to implement buddy structures to ensure teams feel supported and risk is reduced.

   Rather than reinvent the wheel, network with peers in your industry to apply best practices to processes and keep abreast of any recent fraud developments. It also is vital that your IT security is updated, and businesses may wish to consider using SaaS solutions over older local infrastructure.

2. **Use workflow tools to improve adherence, increase efficiency and provide oversight**
   Technology enables managers to quickly identify issues and take action to check that activity is genuine. This is now more important than ever to ensure risk is reduced.

   One option is to investigate specialist software that can alert you to unusual invoicing, changes in payment patterns and unexpected fluctuations in credit note levels as soon as they happen. Some lenders use technology to categorize customers into either ‘growers’ or ‘shrinkers.’ If revenue grows above a certain level, an alert is triggered. Any new revenue spikes are investigated to ensure no ‘fresh air’ invoicing is happening.

---

**Think you know your stuff? PROVE IT!**

**CERTIFIED ACCOUNT EXECUTIVE IN FACTORING**

You are eligible to sit for the Certified Account Executive in Factoring exam if you have been involved in Factoring for at least two years and you are or have been in an Account Executive role, or you have managed such a position.

**THE PROCESS IS EASY...**

Any qualified candidate can sign-up, there is no need for employer sponsorship. Qualified candidates can schedule the exam at a supervised testing center in a nearby city and will take a 100 item, multiple choice exam.

**PROUDLY DISPLAY THE CAEF DESIGNATION**

The exam was not designed to be easy; many candidates report that taking the exam took every bit of the two hours allotted and not everyone who takes the exam will achieve this prestigious credential.

Candidates who pass the exam can proudly display their CAEF designation by using the CAEF logo and C.A.E.F. initials to show the world they are proficient in the field of Factoring.

Do you or your employees possess the knowledge base to become Certified?

Join The Growing Ranks of CAEF’s and Sign-up Today!

Visit www.factoring.org for more information or call 805-773-0011

ProudLY diSPLAY tHe CAeF deSignAtion
3 Reset your risk parameters and facility covenants
Assessment of risk is best through assessment of trends. During the pandemic, the appropriate triggers should be reset to correct levels to ensure covenants are realistic. This allows a risk-based approach to managing your portfolio, increases efficiency and ensures you prioritize resources appropriately. Your credit criteria for new clients also should be updated, even on an interim basis, to provide clarity on your risk appetite to all colleagues.

4 Utilize modern tools to increase field examinations using risk triggers
COVID-19 has made field examinations exceedingly difficult, but several strategies can help overcome the need to visit clients face to face. One approach is to move from outdated periodic examinations to scheduling on risk triggers. This can reduce frequency and lead to a more efficient process. This, combined with desktop field examinations and video calling, can replace many on-premise visits. For the highest risk clients, audit frequency can be changed from quarterly to monthly to ensure changes are picked up quickly.

Businesses can utilize the latest technology in data extraction and risk to improve visibility on client performance, improve data accuracy and make faster decisions for clients.

5 Monitor high risk portfolio exposure to debtors and sectors
The best way to secure the longevity of your business is to ensure your risk is diversified. Implement portfolio analysis tools that enable you to monitor company policy on exposure to single clients, debtors and sectors.

You should divide the portfolio into risk categories and implement action plans to reduce over-exposure and limit onboarding of clients that will adversely affect your concentrations. In contrast, there is also an opportunity to actively target businesses that operate in your under-represented demographics.

6 Increase customer support and early intervention
Maintain or establish honest dialogue with your clients by acknowledging the potential for hardship so that you can agree on possible alternative solutions. Even your traditionally stronger (and quieter) clients will need increased contact to ensure they have the appropriate support as cash flow is strained during the return to normal trading patterns. Formally extending facility amendments may help provide structure to your support and ultimately increase your oversight, reducing the risk of default.

7 Ready yourself for growth opportunities with effective onboarding
The COVID-19 pandemic is leading businesses that previously avoided factoring to consider the product, presenting an opportunity for growth. These new customers will expect fast decisions and rapid access to finance and will prefer simpler forms of banking interaction. Businesses that embrace technology and adapt digitally will be best placed to take advantage of this new growth opportunity. Exploring electronic documents, data integrations and online applications with decision engines can improve efficiency and reduce risk, whilst improving the client experience.

8 Use this time to upskill your team with industry training
During the pandemic, we are increasing our consultancy capabilities and working with clients to spot process weaknesses and training gaps across their teams. It is important to develop a learning culture within the business and share best practices to ensure teams have the right skill set to manage risk effectively.

For many younger team members, this will be the first economic downturn they have experienced. It is important that managers check in and ensure knowledge is embedded to make sure teams have the right skill set needed to manage risk effectively during the pandemic. It is also the ideal time for colleagues to take advantage of online training courses.

Factors are approaching the next few months very carefully and expect customers to be under increased cash flow pressure as recent loans start to be repaid. The market continues to be very volatile and there are fears of future lockdowns, more job losses, further economic pressures and more business closures.

Despite these challenges, factors that have invested in and adopted technology, nurtured customer relationships, invested in training and implemented streamlined approaches to lending will come out with stronger and more robust risk management, ensuring they can thrive ahead of their competitors.

Michael Ellis is a managing director of EQ Riskfactor.
The Inside Story of Fraud Perpetrated Against Aerofund Financial

Many factoring companies have been victims of fraud, but that is a poor comfort when fraud occurs. Stephen Troy of AeroFund Financial shared his company’s experience with a recent cyber fraud and his thoughts on this growing threat to the industry.

BY PHIL NEUFFER

One Monday morning in June, Stephen Troy was greeted by a situation every business owner fears, especially those who provide capital. The president and CEO of AeroFund Financial, a factoring company based in San Jose, CA, was alerted to a fraud perpetrated against his company.

The fraud appeared to occur the previous Friday, as a wire that was meant to be sent to a client never came through. In the factoring industry, timing is important and missing a transfer of funds can be detrimental, so Troy and his team immediately investigated after receiving a call from the client. Once they had all the information in front of them, one of AeroFund Financial’s account executives saw that the client’s listed bank account was not for a bank in California where the client is based, but was inaccurately connected to an Alabama bank account.

“They changed the bank information template for some of our customers in FactorSoft, along with logging into our bank and changing the template at the bank as well,” Troy says. “So when money was sent in the morning to our clients, it went to the hacker’s bank account and not to our client’s bank account.”

As Troy and his team continued to investigate, they found that a similar change of bank accounts had occurred with three other clients. “It was easy for us to notice that the bank account had changed,” Troy says. “From there, we went back a few days and checked all the other wires that went out looking for anomalies and other changes. Eventually we had to go through every single account to check the bank information against what we had in the client’s original file.”

After identifying the issues at hand, Troy and his team then tried to recoup as much of the lost funds as
they could and freeze any pending outgoing funds before they were gone forever. Although the company was unable to avoid all losses, AeroFund caught $13,000 that “was ready to go” and worked with its bank to recover $61,000 for a total recovery of $82,000 taken via the bank account switching scheme. Troy also notes that the bank contacted the FBI, which opened an investigation and immediately helped him and his team lock down the hackers’ bank accounts.

FINDING THE CAUSE
In the meantime, Troy and his colleagues continued their own internal investigation. The fraud had been identified and mitigated as best it could, but the question remained: How did this happen? "At first, we hated to think this might be internal. An employee, a disgruntled ex-employee or even someone who worked for ProfitStars or FactorSoft. Whoever did this knew too much about our systems," Troy says. "It turned out it was none of that."

In tracing back to the root of the fraud, Troy says they determined that the main culprit was a phishing scam email opened six weeks earlier that placed keylogging spyware on a computer desktop in the office. The email in question masqueraded as a correspondence from a customer and was sent to an account executive, but one with senior system authority. The email indicated that it included a cash receipt journal, which Troy says is a common document the company sends to its customers. Thinking the customer might have a question about the receipt, the account executive clicked through and unknowingly allowed entrance of spyware into AeroFund’s system.

“They were able to watch her keystrokes for about six weeks, everything she did. Going through FactorSoft, logging onto the bank, watching what screens she went through. They were able to see our process, how money is transferred from our bank, all the while saving passwords that were involved,” Troy says. “They were able to navigate all the screens and know what keys to push to make changes so when we made a transfer of money it went to their bank. Our IT staff said they could have easily written a script to repeat the account executive’s work the previous day, replacing the banking information and contact emails.”

A GROWING THREAT
Fraud is not a new development in the factoring industry. In fact, it is a marketplace rife with such wrongdoing.

“Factors for decades have been defrauded, but it’s usually by their customers who provide invoices and shipping documents that are defective,” Troy says. “We try to have a good relationship with our clients, and we want to give them as much trust as we can, and some just aren’t good actors and they’ll defraud us.”

As Troy notes, perpetrators of fraud in the factoring industry traditionally deal in fake invoices and phony companies to carry out schemes. Troy believes that the fraud at his company indicates a rising threat for the factoring industry as a whole.

“They’ve actually come into our company,” Troy says. “It’s a different fraud we have to worry about that’s out there now.”

Troy says factoring companies make for logical targets for this more modern type of fraud because of the volume and size of the transactions they conduct each day.

“We transferred tens of thousands of dollars, hundreds of thousands of dollars, on a regular basis, and we probably have less sophisticated cyber security than major banks do, or even small banks for that matter,” Troy says. “I think hackers are starting to look at companies like ours. Whether you’re a factor with two people operating a backroom or have a hundred-person operation, you’re sending out large sums of money each day, and that’s attractive to fraudsters.”

ENHANCED SECURITY REQUIRED
The risk of fraud is especially high for those who do not or cannot put a premium on security, particularly smaller companies that may outsource security systems to cut costs to better compete in the marketplace.

“I think this was a wakeup call for independent companies that concentrate so much on trying to stay alive, make a profit and service their customers. Security tends to get pushed down the list,” Troy says. “A company that’s small usually outsources their IT and they probably think what they got out of the box is sufficient. Companies like ours, who are smaller independent companies, are more of a mark. It’s not like we have an IT person that’s in charge of security inside an organization checking cyber-attacks every day. We had two virus protection software programs on our computers and servers which update and scan every day and that didn’t catch this malware. We had to run three other programs before we found this and all of the other

Continued on page 36

Stephen Troy is president and CEO of AeroFund Financial.
The American Factoring Association advocates in state and national legislatures for the factoring industry, which provides America’s small businesses with immediate access to cash for their trade receivables. Here’s what we’re working on.

SECTION 1071 IS COMING. WILL FACTORS BE COVERED?

Back in 2010, the Dodd-Frank Act, in reaction to the 2008 recession, enacted a number of reforms to the financial system — including creating the Consumer Financial Protection Bureau — ostensibly to protect American consumers from unscrupulous financial business practices. Some of the reforms worked well, others were rolled back and others, like Section 1071, are just now headed for implementation.

Section 1071 requires lenders to small businesses to collect data on the race, sex and ethnicity of business owners. It also requires the collection of information on the amount of the loan sought, action taken on the loan request and the borrower’s gross annual revenue.

The only problem? Factors don’t lend, as you know. Factors purchase invoices; they don’t extend credit. The AFA, therefore, does not believe that Section 1071 should apply to factoring companies, and it has been meeting regularly with the Consumer Financial Protection Bureau for several years to make this case. In September, the CFPB will release an outline on its approach to the implementation of Section 1071. Thereafter, the CFPB will meet with a panel of small business owners to discuss the outline. The AFA was asked to nominate a factor to be on this panel. We expect an announcement shortly of this appointment.

Once the outline is released and the panel discussions have occurred, the AFA intends to submit further comments to the CFPB. Additionally, the factoring industry has many friends in Congress who understand factors’ contributions to the nation’s small businesses. They also understand this regulation should not apply to factors. As a result, we are hopeful that there will be letters from Congress on this subject.

If you want to help, call your congresspeople and senators, especially if they sit on the House Financial Services Committee or the Senate Banking Committee, and watch this space — when the comment period begins for Section 1071 implementation, we will need your help to register opposition.

REGULATIONS WE’RE WATCHING IN STATE LEGISLATURES

As usual, California leads the way in adding new regulations. Recently, California passed SB1235, which effectively applies the federal Truth in Lending Act to commercial lending disclosures. As written, factors will have to disclose the total cost of financing, which is impossible to calculate in a factoring situation. (Again: Factors are not lenders!) We have argued with the California DBO that factors should be excluded, but if they are not excluded, we have urged them to make the disclosures more workable.

California legislation, which New York has now followed, spotlights the need for uniform treatment so factors aren’t forced to deal with a patchwork of laws across the 50 states.

California also is considering its own version of the CFPB, claiming enforcement against “predatory lenders” has fallen during the pandemic. However, much of that ire, understandably, is directed at online lenders, who have not exactly distinguished themselves this year. (While the legislation would apply to
consumer lending, the enactment of SB1235 shows how loans to small businesses can end up similarly covered.)

**WILL FACTORS BE INCLUDED IN THE NEXT STIMULUS?**

We are working on that. The SBA, citing fears that lenders will take federal funds and lend them at a higher interest rate, has always excluded lenders and factors from participating in small business loan programs, and the Treasury Department decided that guidance extends to the Paycheck Protection Program funds. However, that rule doesn’t exist in the CARES Act itself, and we are arguing that since factors do not make loans, they cannot re-lend money at a higher rate and should be eligible for PPP funds. We have allies in the White House and on Capitol Hill who strongly agree. Hopefully that guidance will be updated before the next round of stimulus funds.

We aren’t the only ones challenging exclusion from stimulus funds. Strip clubs also are excluded and some are suing. So far, the strip clubs are winning, which may open the door for other exclusions to be pushed back or eliminated.

**WHAT CAN WE EXPECT IF DEMOCRATS TAKE POWER?**

First, let me reiterate: The AFA is not a partisan organization. We have friends on both sides of the aisle, and no matter which party is in the White House or in control of Congress, we will be there advocating for factors’ interests. But if we do see a change in White House control, or in the Senate, here are a few things we expect:

1. **More financial regulation.** California’s new regulations are a good template for what to expect.

2. **The end of the filibuster.**

   When former President Barack Obama is behind ending the filibuster, the writing is clearly on the wall. If Democrats take over the Senate, expect the possible end of the filibuster and an easier path to passing financial regulation.

**WHAT CAN YOU DO TO HELP?**

First of all, if you don’t already get our newsletter, drop us a line on the AFA’s online contact form. Contact your legislators, especially if they sit on the committees mentioned earlier, and ask them to allow factors to receive stimulus funds and to be excluded from regulations applying to lenders.

---

**Cole Harmonson** is the CEO of Dare Capital and the president of the American Factoring Association.

**Robyn Barrett** is the managing director of FSW Funding and the communications director of the American Factoring Association.

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.
WHAT'S NEW AT IFA

ASSOCIATIONS

The following trade associations offer member pricing for events attended by IFA members:
- Beijing Commercial Factoring Association (BCFA)
- Colombian Association of Factoring (CAP)
- Commercial Factoring Expertise Committee of China (CFEC)
- Ecuadorian Factoring Association (ASOFACOR)
- Romanian Factoring Association (RFA)

World of Open Account (WOA) www.woa.community

BROKER

Rainstar Capital Group

Rainstar Capital Group is a multi-strategy private equity firm based in Grand Rapids, Michigan that makes direct investments and provides advisory debt capital. Rainstar partners with factoring firms who have clients seeking debt capital products separate from the factoring solution for growth needs. Through its multiple lending platforms with over 250 registered lenders, Rainstar provides factoring firms’ clients’ debt financing products for corporate real estate, corporate finance, small business and equipment needs. Product lines include: Unsecured Lines of Credit, Revenue Based Lines of Credit, Revenue Based Advance, Merchant Cash Advance, Business Lines of Credit, Inventory Financing, Purchase Order Financing, Equipment Leasing, Accounts Receivables Factoring, CMBS loans, Agency loans, Bridge Financing, Hard Money and Commercial Contractor Credit Lines. Rainstar’s lending platform finances clients from $10k to $300M and covers all credit profiles across the listed product lines.

Kurt Nederveld: Kurt@rainstarcapitalgroup.com
818-953-6036 • www.rainstarcapitalgroup.com

IFA Member Benefit: Rainstar Capital Group will pay your IFA membership dues. Members will pay IFA directly and Rainstar will reimburse member within 30 days of payment. Members will be eligible for membership fee reimbursement if they either:
- Fund a client that was presented by Rainstar during the preceding 12-month period.
- Refer a company to Rainstar that is funded through a Rainstar funding source during the preceding 12-month period.

CERTIFIED MAIL

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 all while starting the accounts receivable aging clock.

www.rpost.com/ifa

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

COLLECTIONS

The Collection Law Group, Inc.

The Collection Law Group (“TCLG”) is a group of lawyers who collect past due commercial accounts receivables from businesses across the United States. Our collection approach has been helping finance and factoring organizations collect past due amounts more quickly more efficiently and more cost effectively than other approaches. Our approach combines the best of collection agencies with the best of law firms giving our clients faster and more cost-effective results.

IFA Member Discount: For the first five collection files sent to TCLG by IFA members that are $10,000 or more in amount due, TCLG will offer a reduced fee from our normal 20% contingency fee to a 15% contingency fee. Future discounts if any will depend on the volume of files and nature of the files.

VeriCore

VeriCore is the pioneer of ZERO fee collections! A ZERO fee collection takes place when VeriCore compel the debtor to pay the cost of collection. ZERO fee collections don’t happen every time, but many IFA members have already experienced ZERO fee collections over 100 times! VeriCore is a contingent, fully licensed and bonded agency with an A+ rating with the BBB and a strong focus on compliance. Our proprietary process is designed to create constant and methodical pressure on a debtor which compels them to prioritize you at the top of their AP list. We have a national and international presence and we would relish an opportunity to show you how good we truly are.

800-433-4903 x1162

Chris Dawson: chris.dawson@vericore.com
www.vericore.com

IFA Member Discount: Contingency rate of 22% or will match the rate of any agency that is fully licensed.

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.

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, An Equifax Company

Ansonia is your next-generation business credit and collections solution offering decisioning tools and over $1.3 trillion in accounts receivable data from major industries across North America. 200+ factors and 70% of North American Truckload, LTL and 3PLs rely on Ansonia for innovative ways to manage debtors and fraud risk. As always, Ansonia delivers quality data, credit, and collections solutions you can afford. Call us today to see why IFA members voted Ansonia their number one source for underwriting account debtors.

855-ANSONIA • 855-267-6642

www.ansoniacreditdata.com

IFA Member Benefits: Complimentary review of your portfolio’s risk distribution. Includes a breakdown of debtors by risk category (high, medium, or low) and visibility to how debtors are paying other factors as well as all industries and much more. Ansonia Alerts $20 per month (20% savings)

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.

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.

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.
CREDIT CARD PROCESSING

E-payment America
E-payment America 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.

901-385-5327 • www.epaymentamerica.com
epayment_processing@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.

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 benefits: 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.

• ABI 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.

Roberta Thompson • 866-772-3704
www.Liquidcapitalcorp.com
rts@liquidcapitalcorp.com

RECRUITMENT AGENCY

Commercial Finance Consultants
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.

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

SOFTWARE

Artis Trade Systems
Artis Trade Systems offers ArtisPay, the revolutionary Supply Chain Finance (SCF) app that allows banks and lenders to provider buyers and suppliers with a flexible, customizable, easy-to-use enterprise-grade software. ArtisPay is a fully cloud-based software-as-a-service (SaaS). Partnering with Artis Trade endows lenders with a high-tech innovative partner with deep industry experience that will help market and grow their SCF program.

480-250-8186 • www.artistrade.com
IFA Member Benefits: IFA members will receive a 33% discount on the registration fee

EQ Riskfactor
EQ Riskfactor is the leading provider of risk management and fraud analytics software for the global commercial finance market including factoring organizations, banks and alternative lenders. EQ Riskfactor’s risk management technology uses automation to identify potential frauds along with advanced analytics. The technology highlights unusual activity so lenders can better investigate fraud and reduce risk. The tools allow lenders to eliminate manual processes, saving time and money.

Aaron Hughes • aron.hughes@equiniti.com
Melissa Havers • melissa.havers@equiniti.com
www.equinitiriskfactor.com
+44 1903 698600

IFA Member Benefit: Members will receive free hosting when they purchase EQ Riskfactor. This is worth up to $5,000 depending on the number of users and size of firm.

FactorFox
FactorFox has been providing factoring software to small, medium, and large companies during the last 15 years. FactorFox offers beautifully designed, user friendly, and powerful. With every line of code we write, we challenge the status quo. We are continually finding ways to mitigate risk, and give our factors a competitive advantage in the factoring industry.

877-890-1897 • www.factorfox.com
IFA Member Benefits: In addition to the one month free trial for all users, IFA members receive an additional month to try out the complete software.

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
310-951-0896 • www.finvoice.com
IFA Member Benefits: Complimentary landing page review/optimization for digital conversion. 15% discount on pricing for the first year.

MARKETING

50 Words LLC
50 Words is a marketing outsourcer 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.

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 for new clients only)

Hub Tran
Hub Tran is the leading provider of back office automation technology for factoring companies. Hub Tran’s SaaS platform streamlines invoice processing, document management, and exception handling. Customers increase productivity 4X, reduce errors and increase capacity. Hub Tran’s innovative technology leverages Optical Character Recognition and Artificial Intelligence to simplify back office work requiring massive investments of time in training and integration.

Matt Bernstein
630-544-0459 • www.hubtran.com
IFA Member Benefits: I week trial and waived setup/implementation fees

ProfitStars
ProfitStars is an industry-leading provider of portfolio management systems for commercial finance, and offers a comprehensive solution for factoring, asset-based lending, inventory financing, and lines of credit. ProfitStars is the nation’s only ERP-based software for factoring organizations, banks and alternative lenders.

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 insights into the true, non-public IRS tax compliance status of their prospects and clients.

646-502-4478 • www.tax-guard.com
Rich Porterfield: rporterfield@tax-guard.com
IFA Member Benefits: 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.

405-165-1577 • www.ficos.com
info@ficos.com
IFA Member Benefits: IFA members will receive a 10% discount off of the retail rates of their signature state and county account monitoring product.
Digging In: How Factors Will Continue to Deal with the COVID-19 Pandemic
Factors across the country have already been dealing with significant challenges related to the COVID-19 pandemic but as cases rise, there is a need to plan ahead. To get a better view of the current status of the industry, Commercial Factor spoke with factoring leaders from Franklin Capital Network, 12five Capital, eCapital, TradeCap Partners, North Mill Capital and Versant Funding. The panel detailed how they handled the initial onset of the pandemic and the months that followed as well as their plans and concerns for continued economic upheaval and a potential return to lockdown restrictions.

What has changed for your company since the COVID-19 pandemic began?

SUE DUCKETT, EXECUTIVE VICE PRESIDENT, FRANKLIN CAPITAL NETWORK: We were proactive in our disaster management and had thankfully prepared for this. Like most others, we are constantly on Zoom meetings and using mobile apps that make the experience more efficient and manageable. We have been and continue to be inundated with requests to fund PPE deals. The conversion rate on these deals is low as there is a lack of historical trading and basic financial information along with requests for substantial funding. Many have too high a risk profile for us to consider.
DANIEL F. TORTORIELLO, EXECUTIVE VICE PRESIDENT, NORTH MILL CAPITAL: It’s really changed just about every aspect of our business. On the new business front, before, our new business people would sit across the table from a prospect to learn about their business — this is now a Zoom call. Also, with three operating locations throughout the country, each in different regions, with 48 employees, there are different issues to address, not to mention the most significant being all employees now working from home and we need to address how, if and when we come back to our offices.

MARK D. WEINBERG, PRESIDENT AND CEO, VERSANT FUNDING: In many ways, things have become much more difficult, but in many ways, it’s just been business as usual. The nature of the deals has changed. For months … all we saw were PPE deals. And we wasted so much time on them because a lot of them were just clowns calling who didn’t really understand the business. It’s been difficult, and yet we’ve been very lucky in that our clients, for the most part, have also been business as usual.

How has the situation evolved as states reopened the economy?

DUCKETT: We have seen debt age out on our factoring portfolio; however, it has now come back into line, and our clients are seeing more available funds from eligible invoices. Many of our clients had taken PPP funds; however, that money is now running out, and they are looking to increase their sales where they can.

JASKIEWICZ: Every state was treating it differently, so that was something we had to keep an eye on. We just tried to encourage our team to be safe and not take any unnecessary risks. The challenge is that you can’t control neighboring states, so we have just told our team that we won’t be traveling or meeting in person for the foreseeable future. None of us at 12five have a degree in epidemiology, so we are just going to lean on the experts and be extra vigilant.

SHEPPARD: This March was an extremely strong month probably due to the replenishing [of] the shelves. April and May, we saw the trend reverse. We had a 20% drop in April and another 20% in May, with an equally remarkable rebound again in June and July.

TORTORIELLO: We have been able to continue to close business throughout the current pandemic. New business has been industry specific. Most notably, it has been with PPE products and in food distribution. We gravitated toward those industries that were having an uptick in business.

“Overall, we plan to keep reviewing our portfolio of clients and their debtors more often than we have done before. We will continue to discuss issues and do everything we can to work together and overcome these challenges.”

Sue Duckett

RYAN JASKIEWICZ, CEO, 12FIVE CAPITAL: Fortunately, we had been effectively remote for the prior five years before the shutdown. This made it so our operations weren’t really impacted by any technology or workflow issues. I never saw this as the reason we were practicing to work from home, but I am thankful we had been.

CHARLES SHEPPARD, PRESIDENT, ECAPITAL FREIGHT FACTORING: I think the question should be what hasn’t changed? Getting the whole workforce into a remote environment operating at the same level of efficiency definitely presented a series of challenges. That, combined with supply shortages due to the initial supply shock related to the outbreak in China, compounded the issue. We saw also some significant swings in volume. We had previously moved to a largely digital origination and documentation strategy, which has served us well during this time.

CLINTON STANTON, MANAGING PARTNER, TRADECAP PARTNERS: Operationally, things really haven’t changed much. The biggest impacts experienced were on deal flow and debtor credit. For about a month after the onset of the pandemic, business in general really fell off a cliff. We saw a significant increase in PPE requests, all of which involved 100% prepayment to overseas suppliers. We initially shied away from a lot of PPE, and now, as things have settled down, we’ve been able to find opportunities that can be structured properly with experienced companies in the space. As the environment evolves, we’ll have to continue placing emphasis on assessing the credit and cash flow of our clients and their customers.
What is the feeling in your state right now?

DUCKETT (ILLINOIS): Although I do not know for certain if a second lockdown will happen, I am unquestionably hoping it does not. Chicago has not seen the same increase in cases as other states, but the current statistics are not faring well. If the numbers continue to increase, our governor has made it clear that he would not hesitate to put enforce-ments in place reversing the current reopening schedule.

SHEPPARD (CALIFORNIA): I think the fact that California got hit pretty hard, especially initially, it forced us as an organization to really face the issue head-on and to do it in a relatively quick way. Even though the state has started opening up, we have not transitioned staff back into the office. We’re still very much operating as we were three weeks after this started.

STANTON (TEXAS): I think it’s being taken more seriously now, I would say, than it was at the onset. Despite the increase in cases [in Texas], we’re not really moving backward from a reopening standpoint. We’re just standing still.

WEINBERG (FLORIDA): I think that we could have a thousand deaths a day and we will not have a second shutdown in Florida. That’s just the way it’s been. Unfortunately, it’s become a political issue and the Republican states seem to think there’s no issue and the Democratic states are a little more receptive to science. So I don’t believe there’ll be a second shutdown in Florida and even so, it wouldn’t affect us because we were deemed, and I would hope we would continue to be deemed, an essential business.

What plans and concerns do you have in relation to a potential recurrence of lockdown measures?

DUCKETT: We will be working from home for a long time, likely through 2021. Our business runs well this way and customer service has not deteriorated, so we are comfortable internally. We cannot rely on our old credit reporting; it is based on historical data, which is irrelevant now. Overall, we plan to keep reviewing our portfolio of clients and their debtors more often than we have done before. We will continue to discuss issues and do everything we can to work together and overcome these challenges. Our clients and other small businesses have survived the first wave, and I am concerned that they will not manage to survive a second.

JASKIEWICZ: Internally our plans will be to press forward the way we did in the first lockdown. For our clients, I think we [will] be even more proactive with them and try to address their needs because they will certainly be impacted more than we will be. My most pressing concern is that we collectively won’t take it seriously and we will just have more and more of these mini shutdowns in the future. Hopefully we can all rally together to follow what the medical experts say is the safest way to protect people, while also doing everything in our power to keep the economy moving forward.

WEINBERG: Florida, we’re worried about a hurricane now. So I’m a little bit more worried about that and the power shutdown if that were to happen for an extended period. We could operate remotely. Technology is clearly a benefit. I don’t think it’s the end of the office as some people have stated. Being face to face and collaborating on thinking is important. Even if we weren’t allowed to go into the office, I think we could operate. Obviously when the power’s out, all bets are off.
A True Entrepreneur: Remembering the Life and Times of David Rains

David Rains was one of the first dedicated recruiters for the factoring industry and helped place scores of professionals at some of the top factors in the United States before his untimely passing this year. But Rains’ impact went beyond the bottom line, as he was one of the industry’s greatest advocates and a source of joy to all.

BY PHIL NEUFFER

The factoring and asset-based lending industries lost a legend this year, as David Rains, the president and founder of Commercial Finance Consultants, passed away at the age of 64 due to complications from COVID-19. Rains was known throughout the industry for his quick wit, entrepreneurial spirit and his success as a recruiter within the factoring and ABL industries.

“David placed so many people in our industry. He must have placed a thousand people,” Allen Frederic, managing director of corporate finance at Infinity Financial Group and a long-time friend of Rains’, says. “And since David’s passing, I’ve talked to several colleagues that have said, ‘You know it just dawned on me how much David helped our company. He was instrumental in helping us grow because of the people he placed with us.’”

BEFORE FACTORING

Rains was born in Bridgeport, TX in 1955. At the age of 15, he ran away from home and enlisted in the Air Force with a falsified birth certificate. Two years later, as he was preparing to leave for Vietnam, a background check revealed he had not yet turned 18. He was discharged and invited to come back when he was of age.

During his time with the Air Force, Rains was introduced to the world of illegal drugs, which ultimately led to his incarceration. Rains spent 11 years in prison but left a changed man. During his sentence, he transferred to the only unit in the Texas penal system that would allow him access to higher education. Once there, he completed his degree in psychology and, upon his release, strived to live a life dedicated to his family and his religion, according to Debra Wilson-Zukonik, Rains’ younger sister and chief credit officer of Dare Capital, who says Rains vowed never to touch drugs or alcohol again and kept that promise for the rest of his life. Additionally, Rains was always forthright about his personal history.

“When he got out, it was really hard for him to get a job because he was unwilling to lie to anyone or to not tell anyone the entire truth about his past,” Wilson-Zukonik says.

Rains learned the cruel reality that faces many former prisoners, as he struggled to find work after being released. Wilson-Zukonik notes that he went into prison before the dawn of the internet age and returned when it had already begun, putting him behind the curve even more. However, a meeting with Mark Rednick, then a president of a local chapter of executive search firm MRI Recruiting, changed the trajectory of Rains’ life.

“David basically sat down in front of him and said, ‘I’m a very good salesperson. I know I could do this. I would be a great employee, but I have to be honest about my history.’ And he was. Mark hired him despite his history because he believed that David was a changed man,” Wilson-Zukonik says.

Rains rewarded Rednick’s faith with excellent production, winning numerous awards in his first year with the company. Wilson-Zukonik observed his success and encouraged Rains to start a recruiting business for the factoring industry. According to Wilson-Zukonik, at that time there were few if any recruiting operations within factoring.

“I told him that he should be a recruiter for our industry,” Wilson-Zukonik says. “It was difficult to find good people as there were no recruiters dedicated to our industry at that time. So he became one, a very good one. In fact, he was the best.”

For someone as entrepreneurial as Rains, the opportunity was too good to pass up. Rains approached Rednick, negotiated an exit from his contract and opened Commercial Finance Consultants, which he would lead until his death.

A TRUE ENTREPRENEUR

Frederic, who is also a managing director of Commercial Finance Associates, a subsidiary of...
Commercial Finance Consultants and a business partner with David and his son, Christopher Rains, at Commercial Finance Associates, was one of the first people David Rains met in the factoring industry. Their first introduction began the forging of a life-long friendship primarily because Rains, as always, was unabashedly himself.

Frederic knew Wilson-Zukonik through the factoring industry and met with Rains on her suggestion. Upon entering the room, Frederic was greeted by Rains, who said in his Texas twang, “Hi, I’m David Rains. My sister said a lot of good things about you. But you know, sometimes she’s not a good judge of character,” concluding with a laugh that Frederic affectionately describes as a “throaty howl.”

“You know when I think of him, I just start laughing because I think of all the funny things that happened over the years with David,” Frederic says. “I think of all of his jokes. I think about his laugh. I think literally about all the foolishness we talked about. David loved to make people laugh, loved to make people smile.”

Pat Haney, a former group president of Crestmark who has since retired, was another one of Rains’ first contacts in the industry and one of Rains’ first clients following the launch of Commercial Finance Consultants. Haney’s experience with Rains speaks to the success of Commercial Finance Consultants and Rains himself.

“David connected me with some of my very best employees over the years,” Haney says. “I think I was very fortunate to have worked with David because, again, looking back on our company’s success, as you well know, a company is only as good as its people, and David was very good at connecting companies with good people.”

Haney was one of many factoring leaders who can attribute some of their success to Rains and his ability to connect companies with the right candidates. But Rains wasn’t just focused on getting someone in the door and collecting a check.

“He listened to people in order to try to help them, both the employee and employers, find the perfect match so that they could both be more successful,” Wilson-Zukonik says. “He worked hard to understand the culture of each company so he could place the right people with the right places so everyone was happy and successful.”

Beyond his dedication, Rains also had an in-depth knowledge of the industry and inherent traits such as his sincerity, integrity and energy, according to Frederic.

“David was very good at reading people. He could read body language,” Frederic says. “He was extremely quick on his feet. He could use wit, he could use humor. He could use a number of things to defuse a situation, to take control of a situation. He was the world’s greatest salesman.”

“One of his real strengths was that he just possessed a lot of data relative to the personnel within our industry,” Haney says. “Although there are a number of banks and private institutions that do what we do, David made it his business to know as much as anybody that I could speak to relative to what the situation would be for that type of person in any given market.”

Rains’ dedication stretched beyond his own company and encompassed the entire factoring industry. He and Wilson-Zukonik founded FactorHelp, which assists factoring companies with consulting, educational resources, audits, acquisitions and expert witness services. Rains also was a board member of the American Factoring Association, and willingly donated both his time and money lobbying on behalf of the industry. In addition, Rains was a staple at industry events and always left a lasting impression on the people he met.

“He literally could walk into a room of a hundred people, and by the time he’d get to you, he knew everybody’s name and what they did,” Frederic says.

“He was a walking rolodex of the entire industry, but he knew much more than just names and company association. He cared about the people he served, so he remembered details about their families, their hobbies and such,” Wilson-Zukonik says.

LASTING IMPACT

As if his professional endeavors were not enough, Rains also was heavily involved in community service, particularly his work with the Prison Entrepreneurship Program, a non-profit organization that helps inmates by providing education and mentoring. For Rains, it was a chance to use his own life experience to teach and provide the type of opportunities that he didn’t have when he left prison.

“They expect people who go to prison to go back again and again. And it’s not a surprise that they expect that because once someone has gone to prison, it’s extremely hard for them to make it in the real world. It’s hard to get a decent job. It’s hard to repair relationships that their former lives have damaged,” Wilson-Zukonik says. “[David] was very passionate about the challenges that ex-convicts face. He knew that without marketable skills and a real change in your character, it’s very hard for ex-convicts to make it. He wanted to help pave the way for ex-convicts to be productive members of society.

“David always teased that, ‘He made me what I am today by being hard on me when I was a kid.’ He actually made me what I am today due to his steadfast belief in me and my abilities. That is the same gift he gave to so many people in the factoring and ABL industries and to the men in the PEP ministry. He believed in

Continued on page 33
## Upcoming Events

### Training Courses & Educational Meetings for the Receivable Finance Industry

<table>
<thead>
<tr>
<th>Date</th>
<th>Event</th>
<th>Format</th>
<th>Location</th>
</tr>
</thead>
<tbody>
<tr>
<td>Aug 26</td>
<td>Advanced Online Due Diligence</td>
<td>Webinar, 11am - 12pm PDT</td>
<td></td>
</tr>
<tr>
<td>Aug 27</td>
<td>Selling Factoring Services During COVID-19</td>
<td>Webinar, 11am - 12pm PDT</td>
<td></td>
</tr>
<tr>
<td>Sep 3 &amp; 17</td>
<td>Small Factors Virtual Roundtable Series</td>
<td>Webinar, 11am - 12:30pm PDT</td>
<td></td>
</tr>
<tr>
<td>Sep 9 - 11</td>
<td>Transportation Factoring Virtual Meeting</td>
<td>Webinar, 11am - 12:30pm PDT</td>
<td></td>
</tr>
<tr>
<td>Sep 15</td>
<td>Factoring Sales Virtual Roundtable Meeting</td>
<td>Webinar, 11am - 12:30pm PDT</td>
<td></td>
</tr>
<tr>
<td>Sep 22 - 24</td>
<td>Commercial Finance Workouts Online Training Class</td>
<td>Webinar, 9am - 12pm PDT</td>
<td>Planet Hollywood, Las Vegas, NV</td>
</tr>
<tr>
<td>Oct 5 - 6</td>
<td>Account Executive/Loan Officer Training Class</td>
<td>Webinar, 9am - 12pm PDT</td>
<td>Condado Vanderbilt Hotel, San Juan, Puerto Rico</td>
</tr>
<tr>
<td>Oct 19 - 22</td>
<td>Niche Industry Factoring Online Training Class</td>
<td>Webinar, 9am - 12pm PDT</td>
<td></td>
</tr>
<tr>
<td>Jan 27 - 29</td>
<td>2021 Presidents &amp; Senior Executives Meeting</td>
<td>JW Marriott Desert Springs, Palm Desert, CA</td>
<td></td>
</tr>
<tr>
<td>May 12 - 15</td>
<td>2021 Annual Factoring Conference</td>
<td>JW Marriott Desert Springs, Palm Desert, CA</td>
<td></td>
</tr>
</tbody>
</table>

**Registration Information:**

805-773-0011  www.factoring.org  info@factoring.org

International Factoring Association, P.O. Box 39, Avila Beach, CA 93424-0039

Cancellation Policy: Due to the ongoing uncertainty regarding COVID-19, the IFA will not charge a cancellation fee if you decide not to attend an in-person event based on concerns around your health or travel. For information on policies with online events, please refer to specific program registration pages or contact the IFA with inquiries.
Remittance Cyber Theft is an Increasing Risk for Factors

The COVID-19 pandemic has widened the opportunity for cyber criminals to steal payments — an important part of the collateral for factors and other secured lenders. Cyber security, law enforcement and insurance are not keeping up with the increasing risk. Moreover, the law is struggling to define who is responsible for the mounting losses.

BY JOHN B. HAYES

Remittance theft by cyber criminals has followed the rise of the internet and was identified before the COVID-19 pandemic as a major risk for lenders and their borrowers. In the past few months, the reduced security resulting from remote workers has dramatically increased the risk. The normal protections against crime never fully caught up to the cyber bandits using the internet to steal payments, and businesses and lenders are now being further left in the dust.

THE DANGERS OF REMITTANCE THEFT

There are four characteristics of remittance theft that make it especially dangerous:

1. The cash disappears quickly, usually overseas, before the theft is even discovered. Recoveries from the actual thieves almost never happen.
2. A lender cannot protect against remittance theft by securing its own email and servers. The risk comes from all parties in the payment chain, including buyers, sellers,
WHAT IS REMITTANCE THEFT?
Remittance theft is a crime known under several banners, including wire fraud, payment diversion, ACH diversion, account takeover and invoice fraud, among others. The FBI typically identifies this type of cybercrime as business email compromise or BEC.

Remittance theft happens when the payor remits the payment to the thief instead of the proper payee. Remittance theft itself is not new, but the internet has magnified the ability of thieves to break into businesses undetected from across the globe.

HOW THE CRIME IS COMMITTED
Remittance theft occurs because the thief can trick the payor into believing they are dealing with the legitimate receiver of the payments.

The deception may occur early in the payment cycle with a fraudulent invoice or later in the cycle when the payment is misdirected on a legitimate invoice. The two major methods for effecting this deception are called “occupation” and “impersonation.”

Occupation occurs when a thief steals the email login credentials of one of the parties and occupies the email system for months before striking. The theft of the email credentials frequently occurs when a user sees an authentic-looking message informing them to change their password. The “man in the middle” changes the email server’s password and confirms the change back to the real user, resulting in the thief having the credentials undetected by the user.

A small fraction of email occupations may occur because a thief has implanted malware on the computer of the target; most occur because the user inadvertently gives the thief the credentials.

The thief is then able to occupy the email server for months, collecting and analyzing email traffic and the documents attached to emails. When the thief eventually strikes, they may create very authentic-looking outbound emails to other trading partners or even fake incoming emails to misdirect the payments. Improvements in email security in recent years, including multi-factor (two-stage) authentication, has helped reduce the compromise of email credentials for less-sophisticated thieves, but it has not eliminated it.

The second major method for creating deception is impersonation, which is when a thief creates a domain and email account that looks very similar to a legitimate domain but may differ by a single character or top-level domain.

Both occupation and impersonation are frequently the result of initial spear phishing campaigns targeted at accounting and procurement personnel. These targets are identified by company websites, press releases, social media, public bid and other document filings, occupation of trading partners, and more. Once the thief obtains the email address of a target and occupies one email server, they target the trading partners with precision, not only learning the appearance of emails being exchanged but the details on the type of email server that sent the message.

FORMS OF PROTECTION
It is possible to reduce the risk of remittance theft for both lenders and their collateral through a combination of technology and non-technology procedures. In fact, the non-technology means are the most important. A complete discussion of prevention, detection and remediation of the risk is beyond the scope of this article, but the highlights of each part of a risk strategy for managing remittance theft are outlined.

A lender should insist on a minimum set of technology protections, including the use of an enterprise-strength email system, a high-quality email intrusion system and a high-quality firewall with malware detection and exclusion. These technology solutions will help reduce the chance of successful spear phishing attacks and the occupation of lender and borrower email servers. However, the most secure email servers do nothing to protect against vulnerabilities of trading partners.

The most important protection comes from best-practice procedures, training of staff and constant adherence to the procedures. As
discussed below, recoveries are rare. The upfront investment in procedures, training and monitoring may be more cost-effective.

For the payor, the most important procedures relate to thoroughly verifying the identity of new payees and the methods for verifying any requested change in remittance instructions. The traditional "fill out a form" or "verify with a phone call" are no longer adequate by themselves.

**REMITTANCE THEFT?**

Because stolen payments are moved quickly to other accounts, frequently overseas by largely untraceable parties, recovering the loss from remittance theft is virtually impossible. The question then becomes which of the parties is responsible. Despite the large number of thefts occurring in the U.S., there are very few reported cases, apparently due to the cost of litigation in proving who was responsible and the fact that a majority of these cases settle before a judgement.

An examination of the few reported cases indicates they tend to be decided on a traditional "standard of care" basis — the party that exhibited the lower standard of care is held responsible. One leading payment cyber theft case in federal court was decided in 2018 based on this duty of care approach, relying largely on old check theft cases.

A review in the past year of the pleadings in a large number of wire fraud cases in real estate transactions provided interesting insight in the approach taken by plaintiffs in attempting to recover misdirected wires. These cases were settled prior to a judicial decision, so they are not law themselves but offer insight into the legal theories raised. Duty of care was a dominant theme, as were the related negligence claims, with breach of contract and breach of fiduciary duty frequently appearing.

The conclusions reached from the current state of the law is:

1. The law is still evolving and there is no clear answer on who is responsible for the loss.
2. These are heavily fact-based cases, which makes them time-consuming and expensive to litigate. In many cases, the payor simply refuses to pay a second time and the litigation to force a payment is not economic.

Cyber theft of remittances is a large, expensive problem that is growing as cyber thieves become more sophisticated. It is a particularly dangerous crime because it can happen quickly in large sums and the chance of recovery is slight. While useful cyber security technology solutions exist and should be employed, manual procedures and continued training of employees is probably more important. Cyber theft of remittances is an evolving field that deserves the attention of every lender. •

**REMEDIAITION - WHO IS RESPONSIBLE FOR REMITTANCE THEFT?**

Regardless of whether he was recruiting for factoring companies, advocating for the industry, dedicating his time to community service or enjoying time with his family, Rains always had a smile, and in many ways that smile radiated across an entire industry.

"You always just saw this joyful person," Frederic says. "It was kind of like he was spreading pixie dust all around; he was spreading joy wherever he went."

"His goal both personally and professionally was to help people make positive changes in their lives, and he certainly did so," Zukonik says. "While he was at it, he helped take our entire industry to a whole new level."

"David was a man that always told me I was family and he treated me that way since the day I met him," Reints says. "I never understood why, but I knew I felt the same about him and the rest of his family. You don’t get to meet too many people that are so genuine and down to earth, so when you do you keep that relationship. I can’t imagine not being able to pick up the phone anymore and hearing that southern drawl say ‘Hey, darlin!’ David will be greatly missed. He probably had no idea the impact he had on my life and so many others. Thank you, David!" •

**John B. Hayes** is CEO of Payment Security Corporation and an attorney in Atlanta who has represented lenders and borrowers in major capital transactions for more than 40 years. He was a founder of Peachtree Accounting and two innovative factoring companies. He is the author of a forthcoming book on capital sources for small businesses.

**DAVID RAINS**

Continued from page 29

our potential and he gave consistent encouragement to reach it."

Gail Reints, president of Sky Business Credit, echoes Wilson-Zukonik’s sentiment. “David was a very good friend. He offered me a lot of guidance and important introductions over the years that helped facilitate the growth and success of my business,” Reints says. “I wasn’t even aware until recently that he had helped facilitate some opportunities for me that without his endorsement I would not have had. He did this because he cared about me and believed in me and for no other reason. He always had so much faith in my abilities in this industry.”

"You always just saw this joyful person," Frederic says. "It was kind of like he was spreading pixie dust all around; he was spreading joy wherever he went."

"His goal both personally and professionally was to help people make positive changes in their lives, and he certainly did so," Zukonik says. "While he was at it, he helped take our entire industry to a whole new level."

"David was a man that always told me I was family and he treated me that way since the day I met him,” Reints says. “I never understood why, but I knew I felt the same about him and the rest of his family. You don’t get to meet too many people that are so genuine and down to earth, so when you do you keep that relationship. I can’t imagine not being able to pick up the phone anymore and hearing that southern drawl say ‘Hey, darlin!’ David will be greatly missed. He probably had no idea the impact he had on my life and so many others. Thank you, David!” •
Not So Happy Deals: M&A in the Current Commercial Finance Landscape

In the follow-up to an article that appeared in the October 2018 issue, Steven N. Kurtz outlines how the COVID-19 pandemic has created a very different environment for mergers and acquisitions in the factoring industry and what opportunities are available.

This is a loosely-based sequel to an article that appeared in the October 2018 issue titled, “Mergers and Acquisitions in the Commercial Finance Industry.” While part one focused on “happy deals,” the economic downturn caused by the COVID-19 pandemic has halted trading by factors and asset-based lenders.

Factors and ABLs that are not bank-owned need funding sources. Most independent factors and ABLs are funded through rediscount lines or refactoring agreements. These lending agreements require a borrower to have eligible collateral, which focuses on the ultimate health of the borrower’s factoring or lending portfolio.

When the borrower on the lending agreement has portfolio issues, the lender in the lending agreement is in an over-advance position, meaning there is no eligible collateral to support the loan advances. This puts the lender in a precarious position and puts clients and borrowers of the factor/ABL company in a bad position because the source of their funding is impaired through no fault of their own. In addition, the lenders to factors and ABL companies may have issues with their own portfolios, or their sources of capital may be problematic. During the Great Recession, capital sources for factors and
ABL companies retreated from the market. This economic reality, unfortunately, is starting to take place again.

These potential failures of factors and ABL companies create opportunities for those fortunate enough to weather the storm while maintaining good relations with their capital sources. When lending agreements go south, the only way to exit the transaction is to lend to good factor clients and borrowers while finding buyers of the loans. Unlike the happy deals, where the equity in a portfolio sale demands and is entitled to a good premium, the default in the lending agreement means the portfolio buyer purchases and takes over the good deals. Sometimes before a failing factor or ABL company shuts down, it will allow clients and borrowers to leave early. Then the incoming factor or ABL lender buys out the deal because the client/borrower can’t be funded due to liquidity problems. Sometimes the entire portfolio can be sold at once, but this kind of transaction is hard to engineer when the cause of the problem comes on suddenly and unexpectedly, as it has in this pandemic. The lender often orchestrates a situation where good factor clients and borrowers find new homes with multiple groups.

For those purchasing the entire portfolio, or several deals at once in a cooperative deal with the lender, due diligence must be done. In addition, buyers need to understand the reason for the default. Did the default occur because one or two deals caused an over-advance in the lending agreement? Was the default caused because the factor or ABL company was concentrated in one industry? At press time of this article, a very large factor in business for 25 years failed because of a heavy concentration in the garment industry and with retail account debtors. Several factors have stepped in to take the good deals. It is important to talk to the lender and ask hard questions. The answer may be lender fatigue because fuses get shorter in economic downturns.

The common way to acquire factor clients or borrowers from a lender is the purchase of several deals at once. This situation is remarkably similar to that of a factor or ABL company buying out a deal in good times and, in many situations, can be done along the lines of the IFA-approved buyout agreement. The incoming factor or lender will be expected to take the deals “as is, where is” and confirm that it has done all its due diligence. Of course, the incoming factor or ABL company will include lien searches on the targeted factor clients or borrowers as part of its due diligence. If the lien searches reflect liens behind the factor or ABL company, then the best option may be taking over factoring or borrowing transactions with the lender’s consent. If this is the case, you will want to obtain releases and affirmations from the factor client or borrower.

THE FRIENDLY TAKEOVER

Sometimes, before the factor or ABL company fails or defaults, liquidity problems arise, such as when it is unable to timely fund deals due to insufficient availability in the lending agreement. That means factor clients and borrowers need to find a home and the new factor or ABL company has a new business opportunity. This friendly takeover is usually consensual by all parties. The old factor/ABL company has liquidity problems, the factor client/borrower needs a source of financing, the new factor/ABL company is willing to do the deal and immediately step in, and any fees and costs associated with leaving early are waived. This sort of friendly takeover can be done via a buyout agreement.

Although the friendly takeover seems like an easy deal, there can be problems caused by an unethical senior lender or sub-debt or insider creditors who wrongfully hold on to funds that belong to the factor or ABL company that takes over the deal. Here is how the problem arises: The runoff in the portfolio caused by the friendly takeover leaves the factor/ABL company with a smaller portfolio that has problem deals as a higher percentage of the “loans” on the books. This higher concentration of bad deals can further precipitate the factor/ABL company’s demise with its lender.

HOLDING PAYMENTS

I have yet to see a rediscout lending/refactoring loan managed such that when the deal goes into default, the rediscout lender/refactor can easily come out whole. The likely reason for the foregoing problem is that the rediscout lender/refactor is usually not directly tied to the deals that the borrower factor/ABL company is doing. The portfolio runoff caused by the friendly takeover usually indicates an imminent failure, meaning that the friendly takeover buyer needs to be anticipated so that one can plan ahead and strategize as to how to address the situation of someone wrongfully holding onto payments made to the old factor/ABL company’s bank account.

Account debtors do not always get their notice of assignments right and may pay the old factor/ABL company. This frequent problem is addressed in both the long and short versions of the IFA buyout agreement and similar agreements. In a perfect world, the old factor/ABL company simply accounts for and forwards the payment over to the new factor/ABL company. But, when the factor/ABL company has failed, it is not always that simple. The bank accounts are controlled by the rediscout lender/refactor, which is now facing a loss. While there is no legal, ethical or moral reason for the rediscout lender/refactor to hold...
on to a mistaken payment, in many instances, greed takes over because the rediscount lender/refactor is facing a large loss. There should not be a business reason to hold on to the money for more than a couple of days to check the records. This is because the rediscount lender/refactor either has a borrowing base that lists eligible accounts loaned against or records reflecting the account debtors subject to the refactoring agreement. Further, the good account debtors subject to the friendly takeover deals should not be the account debtors in the deals that caused the default in the financing arrangement. Wrongfully holding on to the mistaken payments is a step above actual theft. There is no excuse for this, but it happens — sometimes with the help of counsel.

The wrongful withholding of money by creditors of a failed factor/ABL company was not, until very recently, something that was planned for, much less expected. I’m also hoping perpetrators of this “crime against the industry” are guilted into changing their conduct. But the way to prevent this problem is to plan and expect this in the initial friendly takeover. You should take extra care to contact the account debtors a little more frequently than usual to cut off the potential mistaken payment. Find out who you need to contact at the rediscount lender/refactor just in case it does happen. You can have the outgoing factor/ABL company sign a joint letter to the account debtors outlining how the payments are to be made. A portion of the payment price could be escrowed to use as a cushion to account for and remedy this problem. It is unlikely a rediscount lender/refactor will approve this tactic, but it could let that person know it’s an issue. In addition, you could write a preemptive letter to the rediscount lender/refactor after closing the friendly takeover that politely mentions you took over the factor client/borrower and that the rediscount lender/refractor should account for and remit payments for accounts that are now yours. If a mistaken payment is still made, immediately make a call to the right person and see where that goes. While laws in each state are different, it is still wrong to receive money by mistake that you know does not belong to you. The perpetrators who have engaged in this conduct know they are wrong but are facing a loss. Further, bad actors also know that sometimes it is not worth suing over the amount being withheld and expect the incoming factor/ABL company not to act. Hopefully this problem will stop.

If the Great Recession was any indicator, there will be more failures in the industry but hopefully not many. Industry failures will present opportunities for those who are better situated or lucky. Most of the opportunities will be for one or more deals but not entire portfolios. Extra due diligence will be required because companies will acquire these deals without any representations or warranties as to deal quality. One also needs to be mindful of the existing lender or refactor to be ready for a potential problem. I don’t like to discuss failures in the industry, but unfortunately, this is a business reality these days.

### Industry failures will present opportunities for those who are better situated or lucky.

Most of the opportunities will be for one or more deals but not entire portfolios.
stinks.

“Good design is like a refrigerator—when it works, no one notices, but when it doesn’t, it sure stinks.”

—Irene Au, Designer
We LEND more than the BANK

Cash Bonus up to $25,000
As Your Business Grows, We Deliver the FUNDS

Call anytime: 1-800-876-6071

POPULAR INDUSTRIES WE FUND
Temp Staffing
Manufacturers
Importers
Service Providers

UNDERWRITING PARAMETERS
Flexible Approvals
Funding in 3 to 5 Working Days
No Financials Required Up To — $350 K
Low Credit Score Approved

FINANCIAL SERVICES
Invoice Factoring
Purchase Order Financing
Small Cash Advances
Supply Chain Financing — New

BROKER INCENTIVES
Cash Bonus up to $25,000
10% Commission for Life of Deal!
Same Day Decisions
Multiple Funding Products

MEET THE 1ST COMMERCIAL CREDIT FUNDING GROUP:

Raul Esqueda, President
Email: raul@1stcommercialcredit.com