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As the holidays approach, it’s that time of year when the days get shorter and the nights are longer. I always look forward to this season for a number of reasons.

The weather is beginning to cool down and the holidays always bring together family and friends. It is also a good time to reflect on the last 12 months and wrap up those year-end tasks that haven’t quite been accomplished. The IFA has achieved a great deal this year, and we hope to continue to build on this momentum and make next year even better.

The 2020 Conference preparations are well under way, and we are excited that Nashville will be our location for next year. For those of you that have not visited before, you are in for a treat. Nashville is synonymous with country music, but it has so much more to offer and there is something for everyone to enjoy.

Our top priority for the conference is to provide the highest quality of education brought by some of the most talented and skilled speakers in the industry. This year we have exceeded our expectations, and I know you will not be disappointed. The conference will also provide unparalleled networking opportunities to mix and mingle with other industry professionals. Vendors will be available to showcase the latest and greatest products and services that the factoring industry has to offer. This will be your one-stop shopping destination for all of your company needs.

The IFA is currently proposing a friendly challenge for the chance to win some pretty amazing prizes. You won’t want to miss your chance to join the Certified Account Executive in Factoring contest that is now taking place. The company that obtains the most CAEF designations between now and the 2020 Factoring Conference in April will win the following:

- A complimentary class or conference admission for one person in the winning organization
- A $100 Amazon gift card for each employee that achieves the CAEF designation
- A complimentary week stay at the Caribbean home of Gerry and Natalie Wawzonek from capitalNow. You can find a description of the house at www.thetreehouse.casa.

Any employee with over two years of experience is eligible to sit for the exam, and you must have three or more people in your company participate in the contest by April 20th, 2020. The winning company will be determined using a percentage of the total number of passing employees per company and the total number of employees in the company.

The AFA and IFA continue to work diligently to combat potential legislation that could negatively impact the factoring industry. Californians have already seen some of the effects, and the IFA and AFA have submitted comments to the Department of Business Oversight in support of the factoring industry. We need to continue our lobbying efforts to ensure elected officials are well educated on the benefits of factoring and the adverse effect regulation will have on businesses. Only a small percentage of factors donate to support AFA causes, so they are pulling the weight of the entire industry. Consider donating to the AFA so we can remain proactive in our campaign.

The President and Senior Executive’s Meeting will take place at the luxurious Andaz hotel in Costa Rica next year. This is one of our highest rated meetings because it provides ample opportunity to network with high level individuals in an intimate setting. January is always the best time of year to get out of the cold and hit the beach in one of Central America’s most beautiful countries. We still have a couple of spots open for anyone that is interested in attending.

As always, we are open to any suggestions or ideas that improve our member experience. You are the driving source behind our organization and we always look forward to enhancing our member’s professional growth.

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 is published bi-monthly by the International Factoring Association. To subscribe, please email info@commercial-factor.com. 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.

INDUSTRY NEWS

Bayside Business Founder Russ Oppen Dies at 73
Russel Oppen, founder of Bayside Business Solutions, a developer of software for factors and ABL lenders, died on September 9 in Bainbridge Island, WA. He was 73.

Oppen spent more than 30 years in the software/automation industry, directing the development of a wide range of complex software projects. In the 1990s, he founded Bayside, a leading asset-based lending back-office solution provider, and began development of FactorSoft, a portfolio management system designed for factors and asset-based lenders.

He subsequently developed the CADENCE Platform, providing a unified lending system, designed to offer powerful, and flexible control across the spectrum of commercial lending and trade finance.

Canadian Pleads Guilty in Grand Rapids Racketeering Scheme
John Von Stach of Ontario pleaded guilty to 21 felonies for his role in a racketeering scheme that defrauded at least 20 victims out of more than $2.2 million. His plea was made late in August before Kent County, MI Circuit Court Judge Mark A. Trusock.

An investigation conducted by the Attorney General’s Office found Von Stach — through his Grand Rapids-based company VSP North America and V-Power Energy — sold investments to investors across the U.S. and Canada between 2014 and 2018, promising a 20% return in 90 days. During that time, at least 20 people fell victim to his fraudulent scheme and lost hundreds of thousands of dollars.

Von Stach was charged in May 2018 with the following:
• One felony count of Conducting a Criminal Enterprise
• Seven felony counts of False Pretenses ($100,000 or more)
• Two felony counts of False Pretenses ($50,000 or more but less than $100,000)
• Seven felony counts of False Pretenses ($20,000 or more but less than $50,000)
• Four felony counts of False Pretenses ($1,000 or more but less than $20,000)
• Von Stach was arrested in June 2018 while crossing the border into the U.S. and pleaded guilty to the charges in lieu of facing a jury trial.

As part of his plea agreement, Von Stach received a delayed sentence. He will be incarcerated for the duration of the delayed sentence and if he re- mits $1 million toward restitution before sentencing, counts three through 21 would be dismissed and he would be sentenced to 19 months. If he pays $1.5 million in restitution before sentencing, counts three through 21 would be dismissed and he’d receive a 15-month sentence. However, if Von Stach fails to pay $1 million by his sentencing date, he will be sentenced on all 21 counts. Sentencing is currently set for January 8, 2020.

Commercial Credit Named to BNC Top 40 Mid-Market Companies List
For the eighth year in a row, equipment and accounts receivable finance company Commercial Credit, parent company of Commercial Credit Group and Commercial Funding, has made the Business North Carolina Mid-Market Fast 40 List.

To qualify, a company must be headquartered in North Carolina, have annual revenue between $10 million and $500 million, and demonstrate sustained revenue and employment growth over the past three years.
Over the past nine years that the BNC Mid-Market Fast 40 awards have been given, over 170 companies have been named to the list. Commercial Credit is the only company to make the list each of the last eight years.

**Accord Financial, Concentra Bank Launch Strategic Alliance**

Accord Financial and Concentra Bank formed a strategic alliance to allow both parties to deliver a broader range of banking and financing solutions to their clients. Accord and Concentra will also consider developing new products together as opportunities arise.

The alliance will capitalize on significant cross-referral opportunities, while Concentra’s investment in Accord will boost its capital base, paving the way for continued growth.

Accord’s asset-based lending, factoring and equipment finance solutions have been embraced by small and medium-sized businesses throughout Canada and the U.S. Through this strategic alliance, Concentra will offer Accord’s suite of solutions through its network of 200+ credit unions, serving 5.5 million customers, of which approximately 10% are commercial clients.

“This alliance is an outstanding opportunity for us to reach a broad cross-section of the Canadian economy, especially in areas and industries under-served by the traditional banks,” said Simon Hitzig, Accord president and CEO. “We look forward to enhancing the business relationships each organization already has, and creating new ones together.”

**Foley to Sell Factoring Business to Vero Business Capital**

Freight factoring company Foley Holdings signed an agreement to sell its factoring business, Foley Business Capital, to Vero Business Capital, based in Memphis.

“Today’s announcement marks a significant milestone for Foley Holdings, Foley Business Capital and Vero, creating value for our shareholders and representing an outstanding opportunity for Foley Business Capital employees to join a leading company in the factoring sector. We are confident it will continue to thrive under Vero leadership,” said Foley CEO Joel Sitak.

**Garrington Buys Liquid Capital Assets, Launches Two ABL Firms**

The Garrington Group of Companies has purchased the assets of Liquid Capital and launched Blacksail Partners and IconIQ Finance to serve ABL borrowers in the U.S. and Canada.

The Liquid Capital purchase includes the shares of both Liquid Capital Exchange and Liquid Capital Exchange as well as the franchise agreements governing the relationship with the Liquid Capital franchise network.

“We are very happy to be in a relationship with a firm like the Garrington Group of Companies. This relationship opens the door for the company to take advantage of many great trade finance based opportunities and operate in the under-banked SME market both north and south of the border. Historically, our network has been closed to outside investment but with the seasoned relationship with the Next Edge Private Debt Fund and, now, with the Garrington Group of Companies, we are poised to further increase the depth of our already sizeable footprint in the North American SME marketplace,” said Sol Roter of Liquid Capital Enterprises.

Liquid Capital will remain a distinct business under the Garrington umbrella.

Blacksail operates in both Canada and the U.S., with key representation in the U.S. spearheaded by James Franz and in Canada by John Levac. Both have a strong history of success in the Asset Based Lending industry with a specific focus on deals ranging from $1 million to $30 million.

Blacksail will focus its expertise on providing working capital solutions to the underserved small to the mid-sized middle market sector in North America, serving manufacturing, transportation and logistics, staffing, digital media and consumer goods among other industries.

“We are very happy to have Jamie, John and all the other team members at Blacksail Capital Partners in our fold. We have come to lean on them heavily for their experience and expertise in the market and their understanding of the needs of our clients based on how they have historically helped similar clients succeed,” said Robert Thompson-So, executive vice-president and chief strategy officer of LINE Financial Services and spokesperson for Garrington.

IconIQ operates primarily in the Southwest U.S. and is spearheaded by Vince Mancuso, who will be directing overall portfolio development and growth strategy, focusing on asset growth, client retention, and company-wide efficiencies.

“We are very happy to have Vince and IconIQ as part of our corporate team. We have come to lean on him heavily for his experience and expertise in the market and his understanding of the needs of our clients based on how he has historically helped similar clients succeed,” said Thompson-So.

Toronto-based Garrington Capital was formed to oversee and fund entrepreneurial factoring and asset-based lending companies with creative and optimal financial solutions to serve the North American small and medium business space.

**ITC Relaunches Brand and New Website**

ITC — Invoice to Cash, an Accutract Capital Group company, has rebranded and launched a new website.

ITC provides fast and dependable financial solutions to small and medium sized trucking companies. This refreshed branding was done to better serve the North American trucking industry — with a focused effort to deliver services catered to the Hispanic market.
“As the world continues to expand, the need for serving our clients in their mother tongue is a must. At ITC — Invoice to Cash we strive to make the freight factoring experience a fast, efficient and professional exchange with our clients. Serving our clients in Spanish, as well as English, is a natural evolution for us,” said Oscar Rombola, ITC Managing Director.

In 2013, ITC joined forces with Accutrac Capital Solutions, a freight factoring company, to become a member of the Accutrac Capital Group of Companies. Focused entirely on the trucking industry, ITC now provides cash flow solutions for small and growing fleets.

In the same year, the Accutrac Capital Group developed a flat fee factoring program designed specifically for trucking. With expanded resources, ITC was able to develop into larger markets with a simple cost-effective pricing model.

**INDUSTRY TRANSACTIONS**

**CapitalPlus Completes Six Transactions Totaling $8.5MM**
CapitalPlus Construction Services completed six transactions in September for a total of $8.5 million. Those transactions included a $1 million factoring facility to a commercial roofing contractor based in Ohio; a $2 million factoring facility to a commercial painting and drywall contractor based in Louisiana; a $400,000 factoring facility for a Texas-based commercial roofing contractor; a $1.45 million for a local general contractor based in Tennessee; a $250,000 factoring facility for a directional drilling contractor; and a factoring facility for a New York interior constructions company.

**White Oak Agents $241MM Facility for Skilled Nursing Portfolio**
White Oak Healthcare Finance acted as administrative agent and lead lender on the funding of a $241 million senior credit facility secured by 19 skilled nursing facilities across six states.

The total portfolio comprised over 2,000 beds. “White Oak continues to be bullish on skilled nursing and continues to look for opportunities to back sophisticated investors and best-in-class operators. Through our deep domain expertise, we structured a mutually beneficial transaction,” said Isaac Soleimani, managing director and partner at White Oak.

**Wells Fargo Upsizes Gibraltar Credit Line to $125MM**
Gibraltar Business Capital received an increase in its credit line with Wells Fargo for the second straight year.

In 2018, Wells Fargo raised Gibraltar’s facility from $75 million to $100 million. This new increase takes the line up to $125 million, giving the asset-based lender additional capacity to serve its market.

In addition to the larger credit line with Wells Fargo, Gibraltar recently added two new sales people to its team.

**Sallyport Provides $2MM A/R Facility to Engineering Company**
Sallyport Commercial Finance provided a $2 million accounts receivable facility to a company that specializes in engineering design and inspections.

With increased demand for inspection services, the company needed additional working capital to fuel growth and maintain their excellent reputation in the industry.

**Celtic Capital Provides $1.15MM A/R Facility to Food Distributor**
Celtic Capital closed a $1.15 million accounts receivable and inventory line of credit for a distributor of dry and frozen vegetarian food products.

The family owned and operated business, which began operation in 2004, was asked to find alternative financing by its bank after the latter was acquired by a larger bank. The bank referred the owner to Celtic Capital, whose funds were used to pay off the bank and provide additional working capital.

**TAB Bank Provides $5MM Revolver to Supply Chain Management Firm**
TAB Bank provided a $5 million revolving credit facility for a supply chain management company in Ohio.

The new facility is extended through a multi-year agreement and will provide for the company’s ongoing working capital needs.

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**The Commercial Factor | OCTOBER 2019**
and retailers. The company is able to extend open account payment terms to its consumers and continue to grow its business with Tradewinds’s funding in place.

**InterNex Provides $500K Facility to Equip Management Firm**
InterNex Capital provided a $500,000 credit facility to a Pennsylvania-based equipment management company. InterNex replaced the company’s existing lenders to provide more capital and support its growth.

**Bibby Financial Closes Two Deals Totaling $2.35MM**
Bibby Financial US provided $2 million in funding to a New York-based manufacturer of RFID tags for tracking inventory and $250,000 to a long-haul carrier based in Michigan, which needed the funds to support the expansion of its truck fleet as well as pay driver salaries and purchase fuel.

**North Mill Provides $750K A/R Facility to Metromedia Technologies**
North Mill Capital provided a $750,000 accounts receivable facility to New York-based Metromedia Technologies, a media display company serving the out of home advertising, sports and event venues and retail environments. The funds will be used to pay off the company’s previous lender and provide additional working capital.

**Encina Provides $5MM Lease Line to Environmental Solutions Company**
Encina Equipment Finance provided a $5 million equipment lease line to an environmental solutions company. The facility will be used to fund new and used equipment purchases.

**Thermo Credit Closes $1.5MM Factoring Facility with Process Cellular**
Thermo Credit completed a $1.5 million factoring facility with Process Cellular, subsidiary of Bettwork Industries. The California-based company offers general contracting services to the telecommunications industry, specializing in cellular tower construction and maintenance. Thermo Credit successfully negotiated multiple intercreditor agreements to provide the funds which will be used to manage cash flow needs in anticipation of continued growth.

**Crestmark Provides $33MM to 71 Businesses in H1/September**
Crestmark provided more than $33 million in commercial financing to 71 businesses in the first half of September 2019. This included a total of $12.65 million in ABL financial solutions for 11 new clients, $10,041,309 in four new lease transactions from Crestmark Equipment Finance, $4,761,049 in $3 new lease transactions from Crestmark Vendor Finance and $5.73 million in financing for four new clients from the Government Guaranteed Lending Division.

**Allied Affiliated Closes Two Transactions Totaling $1.65MM**
Allied Affiliated Funding, a division of Axiom Bank, completed two receivable funding transactions totaling $1.65 million. The first was $1.5 million to a Florida-based company that has been in business for over a decade, designing and assembling communication systems for the government and large, commercial companies. The second was $150,000 to a Texas-based, start-up company that builds and refurbishes oilfield equipment related to pumps, accumulators, and transmission repair/rebuilds.

**Rosenthal Provides $3MM P/O Facility for Footwear Importer**
Rosenthal & Rosenthal completed a $3 million inventory production finance deal for an iconic importer of women’s footwear.

The Florida-based company was purchased by an investor who sought to revitalize the brand and expand its e-commerce platform and brick-and-mortar retail sales program. While looking to raise additional permanent capital, the company required seasonal financing to support a large order book related to the launch of a popular new line. Rosenthal’s facility allowed the client to obtain goods from multiple overseas suppliers both by issuing letters of credit and cash funding of documents against payment as well as all freight, duty (including tariffs) and logistics costs.

**Events TBA**
For information on upcoming events, contact:
Robert Meyers
IFA Midwest Chapter President
Republic Business Credit, LLC
rmeyers@republicbc.com

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**NORTHEAST CHAPTER EVENTS 2019-2020**

**November 19, 2019**
Networking Breakfast
9:00 AM-11:00 AM
Coach Diner, Hackensack NJ
Cost: $20 for breakfast
RSVP: Harvey Gross at hgross4@verizon.net

**November 27, 2019**
Networking Luncheon
11:30 AM-2:00 PM
Trattoria Rosa Bianca, Yardley, PA
Cost: $25 for lunch
RSVP: Jerry Fisher at Jerry@jerryfisher.net

**March 3, 2020**
Joint Annual Meeting with NYIC
Arno Ristorante, New York, NY

**April 22, 2020**
Chapter Reception at the IFA Annual Conference
4:30 PM-5:30 PM
Omni Nashville, Nashville, TN
For more information, call Harvey Gross at (732) 672-8410 or e-mail hgross4@verizon.net or visit www.ifanortheast.org

**EVENTS**

**MIDWEST CHAPTER EVENTS**

For information on upcoming events, contact:
Robert Meyers
IFA Midwest Chapter President
Republic Business Credit, LLC
rmeyers@republicbc.com
He launched Pittsburgh Lending Solutions in 2011 to provide Business Consulting, Loan Structuring and Loan Placement services in a Private Banking model to companies seeking debt financing between $250,000 and $50 million. Since 2011, Pittsburgh Lending Solutions has worked with more than 100 clients and closed more than $120 million in debt financing projects.

Ellis Joins Crestmark as VP/Renewable Energy
Crestmark named Jon Ellis vice president of renewable energy. Based in North Carolina, he will report to Crestmark President Mick Goik.

Ellis has more than 25 years of finance industry experience and a background in renewable energy. Most recently, he served as chief financial officer and director of project finance for ReNew Petra Integrators, where he led efforts to promote the strategic development for institutional tax equity and sponsor equity partnerships.

Previously, he served as project finance manager for SunEnergy1, chief operations officer and vice president/regional correspondent lender for United Partners Bank, vice president/regional correspondent lender for Silverton Bank, chief financial officer for Overhead Door Company of Charlotte, vice president/commercial lending officer for Branch Banking and Trust Company and vice president/relationship manager for PNC Bank. He has also served as an independent contractor and financial consultant for more than 10 years.

Factoring Attorney Medley Joins Clark Hill
Jason Medley has joined the national banking and financial services team of Clark Hill, which has offices from coast to coast as well as in Mexico City and Dublin. Medley brought along his entire team.

“The team’s addition to our firm aligns with our strategy as we continue to expand our national presence and influence in commercial finance, supply chain, lending and factoring,” said John Herr, Clark Hill CEO.

For the past 20 years, Medley represented banks, factoring companies and private commercial finance clients in a variety of transactional matters, from due diligence to contract negotiations, workouts, inter-creditor relations and secured party collections.

He also represents finance clients with their mergers and acquisitions.

Lehnes Returns to Versant Funding as BDO
Chris Lehnes is returning to his role of business development officer at Versant Funding, based in Fairfield County, CT.

Lehnes will be responsible for originating non-recourse accounts receivable factoring facilities from $100,000 to $10 million per month to businesses across the country in a wide range of industries including oil and gas, apparel, manufacturing, distribution, and staffing which do not meet the credit standards of traditional lenders, often including businesses that are unable to obtain financing from other factoring companies.

Lehnes has more than 25 years of commercial finance experience. He started his career with the Small Business Administration (SBA) Lending unit of CIT where he spent nearly 15 years and held a variety of positions in loan documentation, credit analysis, operations management, marketing and business development. Over the past 10 years, he has worked for bank and non-bank lenders offering accounts receivable factoring and asset-based lending, including a prior five-year tenure with Versant Funding.

“We are thrilled that Chris is coming back to Versant,” said Mark Weinberg, president and CEO of Versant Funding. “In his previous stint with Versant, Chris was extremely successful in bringing us the types of clients that we specialize in assisting; those that have been excluded from most financing sources for reasons such as negative net worth, historic losses, poor personal credit, other more serious issues of the principal in prior businesses or high customer concentrations.”

Are you standing at a crossroads, and looking at an unpredictable future?

As market volatility peaks, factoring businesses find it extremely challenging to mitigate the ever-rising risks, consistently ensure regulatory compliance and meet customer expectations while growing revenue and improving margins. Choose the right technology solution with proven capabilities that provides you the edge to stay competitive.

3i Infotech’s Factor/SQL®, a SOX (Sarbanes Oxley) compliant and pioneering factoring solution, provides the much needed control over all your operations - be it portfolio management, risk analysis, commission tracking and investor activity monitoring to optimize your returns. Factor/SQL® is an ideal partner to comprehensively provide sharper visibility into transactions, enhance customer service, improve decision making and grow your profitability.
2020 Vision for the IFA Annual Factoring Conference

Get ready for the future at the 2020 IFA Annual Conference! From April 22 to 25, commercial finance professionals from around the world will gather in Nashville, TN, to learn about emerging and disruptive trends, gather resources for business development and collaborate with some of the brightest and most experienced minds in the industry. Don’t miss the highest-rated and largest event for factors, asset-based lenders, supply chain finance professionals and PO companies!

BY HEATHER VILLA

MUSIC CITY
You won’t find a more dynamic city than Nashville, also known as Music City. Live music can be seen and heard every day and night of the week in Nashville. With the world-famous honky-tonks, and with more than 180 music venues around town that feature nearly every genre of music, it’s easy to see why this is the city that music calls home.
They say that music is the food for the soul, but do you know what else is? Food! Whatever your taste buds desire, Nashville has plenty of rockstar chefs waiting to delight the senses of every type of food lover. Decades of Southern cooking has meshed with the influence of immigrants from the far reaches of the globe, Nashville is quickly building its restaurant repertoire with a variety of noteworthy spots. Enjoy your stay in Nashville at the Omni Nashville Hotel where the 2020 IFA Conference will be held. Located in the center of downtown Nashville and joined to the Country Music Hall of Fame and Museum, attendees will appreciate a modern expression of the city’s distinct culture and character through a rich blend of Nashville’s history and the influence of Music Row.

2020 VISION
We are about to begin the 21st century’s third decade. These next years will be a period of accelerating change and relentless disruption that will transform our industry, for better or worse. Various matters contribute to creating the turbulence we already feel and will continue to experience going forward. The 2020 IFA Annual Conference aims to prepare you and your business for these times ahead. The following sessions have been designed with this theme in mind:

**Digging for Hope: Turning Wine to Water and Other Modern-Day Miracles** *(Doc Hendley, Wine to Water)* In this inspirational keynote, Wine to Water founder Doc Hendley teaches audiences a simple but profound principle for improving the world: do what they can with what they have. As the founder of an international fundraising organization with humble origins, Hendley illuminates the power of relationships to transcend perceived barriers.

**The Big Shift: How Customer Behavior & Technology is Changing the Future of Factoring** *(Brett King, Breaking Banks)* Voted as American Banker’s Innovator of the Year in 2012, Brett King is widely considered the foremost global expert on retail banking innovation and customer experience. King has become known as a leading industry futurist and disruptor. He will share his disruptive insights into innovation, customer experience, channel distribution strategy and the fundamental shifts in consumer behavior.

**What Happens Next? Looking Backwards to See into the Future** *(Mark Zinder, Economic Forecaster & Financial Expert)* Nine years after the end of the Great Recession, Americans remain pessimistic. Washington brinksmanship, rising interest rates, slowing international growth have transformed bad news into the “new normal.” What if we are all wrong? What if we are merely extrapolating the present and ignoring the possibilities of the future? In this presentation, we will peer around the corner and see that there is a new engine of growth in its very early stages. The world is changing — technology is accelerating — fortunes are being made. Now is the time to ask yourself, “What happens next?”

**Rise of Fraud in the Digital Era** *(Pawnee Abramowski, PARC Solutions)* This presentation will highlight the fraud techniques that are affecting the industry and present methods to forestall them. Specifically, we will focus on the way reliance on digital platforms increases a company’s vulnerability. We will examine specific cases of social engineering that have affected industries across the globe and explore results that can be applied to further build best practices.

**Culturetopia - The Ultimate High-Performance Workplace** *(Jason Young, author, speaker and trainer)* An insider at Southwest Airlines and consultant to dozens of Fortune 500 companies, Young offers a dramatically different approach to creating and sustaining a high-performance workplace. His solution is to create an organizational culture where employees can do their best work and produce the desired performance outcomes in productivity, profitability, employee retention and customer satisfaction. The key is intentionally identifying and developing the essential factors that impact performance for any organization: leadership principles, management practices, team alignment and employee behavior. Young provides practical, easy-to-implement guidelines to the seven key determinants that make a healthy, productive and profitable culture within any team or organization.

**Learn from History or be Doomed to Repeat It** *(Panel)* Factoring has been in existence for hundreds of years. It has and continues to reinvent itself through various adaptations and refinements. Those factors that could not adapt are no longer in business. Our panel of experts will discuss their thoughts on where factoring has been and where it is going. Some of the topics that may be discussed are technology, procedures, product, credit, fraud and staffing.**

**A Look into the Future of Factoring Technology** *(Panel)* Technology has and will continue to redefine the factoring industry. Factors that make use of technology will find great efficiencies in operations. Those that don’t will find it difficult to compete. In the last few years, factoring has seen the development of many new online procedures that streamline the back office while helping to minimize the risks. Some of the topics to be discussed are: software, procedures,
API calls, commercial products available, artificial intelligence, machine learning.

**Current Topics in Transportation Factoring & Driverless Trucks**
(David Jencks, Esq., Jencks Law, P.C. & Richard Bishop, Bishop Consulting)
We will be discussing issues related to the legal and operational aspects of companies that operate in the transportation sector. The impact of driverless trucks and autonomous vehicles on transportation factoring will also be discussed.

**Report from the Courts** (Bob Zadek, Esq. & Ben Heuer, Esq., Buchalter) Hear the lessons learned from this year’s court decisions and what this means for you and your future.

**Acquisitions & Future Planning** (Panel) Are you looking to be acquired? Are you looking for acquisitions? With the rise in M&A activity in recent years, our panel will take a deep dive into the reasons for this activity and help you prepare your company for acquisitions.

**Supply Chain Finance** (Panel)
Supply Chain Finance, (supplier finance or reverse factoring), historically has been used by larger buyers and global suppliers. This type of financing is now being used domestically by smaller companies. During this session, we will be discussing how SCF works and various ways that you can provide this type of financing.
Interactive Legal Panel at Lightning Speed (Panel) This panel will address a wide range of current legal issues and topics that constantly come up in relation to factoring and secured lending by responding to a series of rapid-fire questions. There will be interactive participation by the attendees who will be polled before a response is given by the panel members. The results of the polling will be displayed after the question has been addressed by the panel so each attendee will be able to see if the panel agreed or disagreed with their response.

Tech 101 for Factors (Ryan Jaskiewicz, 12five Capital & Ben Van Zee, Commonwealth Capital, LLC) Changes in technology have helped factors become more efficient, lowering the costs of operations and making it easier to enter the industry. Factors that stay up to date with technology will remain relevant. Those that don’t will find it harder to compete against more efficient factoring firms. Our panelists will discuss the technology that all factors should know about to be relevant in today’s marketplace.

Factoring 101 (Brian Center, Liquid Capital) Learn the nuts and bolts of factoring for beginners or those wishing to enhance their knowledge.

Risk Management in Cross-Border Factoring (Panel) This panel will discuss the current and future outlook of International Factoring with an emphasis on how to create an increased visibility on the supply chain when dealing with international trade flows and what roles technology and AI can play in this.

Canadian Legal Panel (Panel) This panel will focus on legal matters pertaining to Western Canada.

ROUNDTABLE SESSIONS

Our highly rated roundtable sessions offer a resource to learn and a framework to foster connections with others that have similar roles within the factoring industry. Each roundtable will be led by industry professionals familiar with the specific group and will provide an open discussion forum between conference attendees. They include:

• Roundtable for Women in Commercial Finance
• Roundtable for Senior Executives
• Roundtable for Young Professionals
• Roundtable for Operational Issues
• Roundtable for Small Factors

NETWORKING & BEYOND

The IFA Annual Conference provides value over and above industry education. The only way to fully understand the internal challenges that factoring companies face is to connect with others and learn from their experiences. When it comes to business connections, there is no substitute for face-to-face meetings. The time allowed for creating authentic, meaningful and valuable connections with others in the industry is one of the main reasons why attendees make this event a priority each year. With attendees ranging from entry-level to industry veteran, these networking events allow all attendees to gain insight and different professional perspectives to form the real-world connections we so desperately desire in a time full of online communication networks.

Some of the events planned for 2020 include:

• Triumph Welcome Reception sponsored by Triumph Business Capital and Triumph Commercial Finance
• Golf Tournament
• Nashville Food Tour
• Young Professionals Reception
• Chapter Reception
• Thursday Reception
• Breakout Small Factor Lunch
• Breakout Transportation Factoring Lunch
• Tax Guard Dessert Reception
• Closing Event at the Country Music Hall of Fame and Museum
• Idea Exchange

The IFA Annual Factoring Conference is a “must attend” event for those in the commercial finance industry who want to stay relevant, competitive and prepare for the future. Stay ahead of the curve and build meaningful, long-lasting business relationships that will help your company thrive in the turbulent times ahead. What better location than Nashville where the voices of music legends will immerse yourself in history and culture while perfectly blending the collaboration of business and pleasure.”

For more information and to register, go to www.factoringconference.com.

Heather Villa is the managing director of the International Factoring Association. She is responsible for managing and directing the IFA’s external communications as well as managing the business affairs of the Association. She assists with event planning, speaker selection, and contract negotiations for all training seminars and conferences, including the annual Factoring Conference. Heather can be reached at 805-773-0011 ext. 301 or at heather@factoring.org.
A Stroll Through The UCC

In the last issue of Commercial Factor, Steven Kurtz explained that factors filing claims under UCC §9-406 need to take care to correctly structure their lawsuits. This month, he continues discussing issues that factors need to take into account when engaged in litigation.

Factors will invariably find themselves in litigation with account debtors for many reasons. Most commonly, they are attempting to collect invoices paid over notice; to collect upon the account receivable portfolio when the factor client is in a liquidation situation; or simply to collect the account because the factor is in a better position to do so than its client.

While the last article focused primarily on Article Nine, it also alluded to other provisions of the Uniform Commercial Code (UCC) which are helpful and necessary to understand. The UCC is a work of art, and touches upon virtually every type of business transaction. In this article, we will focus on collecting from the account debtor and some common litigation situations with account debtors. Here is a rapid-fire overview.

STARTING WITH THE BASICS

Whether you are studying math, learning a new language, or taking up a sport, you always have to start with the basics. Once you learn and master the foundation, you can branch into more advanced topics. Article One is the foundation of the UCC. This article explains the policy and purpose of the code and discusses several different legal concepts that apply throughout the UCC. Whenever one works with other articles of the UCC, it is essential to know the basic concepts in Article One. In fact, when dealing with a problem contained in a UCC Article, other than Article One, you should always review Article One to see how it fits your problem. More likely than not, you will find helpful guidance.

The UCC general provisions are set forth in Article One, which explains the purpose of the UCC is to simplify, clarify and modernize law; permit expansion of commercial practices; and make uniform the laws amount the various jurisdictions. (§1-103). The UCC is definitionally based. Words and phrases, even common ones that are used in different articles, are often defined here. Therefore, it’s important to get your foundation set with an understanding of the definitions. Each article of the UCC contains a list of definitions, and it is important to understand these definitions when dealing with UCC situations. §1-201 contains a list of definitions, and includes terms such as buyer in the ordinary course of business, contract, fault, money, record and remedy. The definitions are worth reading to get your bearings straight.

§1-202 establishes when a party has notice of a fact. Knowledge of a fact occurs when one actually knows the fact, receives a notification or it is inferred from the facts and circumstances. There is a discussion of time in §1-205. There are evidentiary presumptions in §1-206 which will put the burden of proof on the other side when certain things are presumed in a particular UCC section.

EVIDENTIAL PRESUMPTION

Here is a simple example of the evidentiary presumption in practice. The factor sends an email to the
account debtor’s account payable department head, which notifies the company that payment on all obligations owed to the factor client are to be paid to the factor — a basic notice of assignment under §9-406. This email was authenticated by the factor within the meaning of §9-102(a)(7) and constitutes a record within the meaning of §9-102(a)(70), because the email is a tangible medium, stored in the “cloud”. It is also a “notification” within the meaning of §1-202. After receipt of the notice of assignment, the account debtor’s account payable person responds with a “winky face” emoji. The account debtor is now on notice of the assignment, and there is an acknowledgement. There is also an evidentiary assumption of notice of the assignment under §1-206.

In a trial, this presumption of the notice of assignment is with the factor. The account debtor has the burden of proof to show the court, with admissible evidence, that it did not have notice. This presumption would still hold true even if a “winky face” emoji was not sent in a response to the notice of assignment. Also, there are rules of admissibility for certain items, which, for example, allows you to admit into evidence bills of lading without having to set a detailed foundation to the court of a third person’s business records. Pursuant to §1-307, the court should admit the bill of lading from the factor’s business records. Finally, there is a discussion of when a party has waived its rights. (§1-308).

Article Two of the UCC is basically a codification of contract law, under the guise of Sale of Goods. When I was a first-year student at McGeorge School of Law, Article Two was required reading, and all first year students had better haul their UCC Article Two book into class or face getting called upon by our brutal contracts professor. Article Two discusses the form, formation, and readjustment of a contract (§2-201, etc.); the general obligation and construction of a contract (§2-301, etc.); title, creditors and good faith purchasers (§2-401, etc.); performance (§2-502, etc.); breach, repudiation and excuse (§2-601, etc.); and remedies (§2-701, etc.).

In many instances, the factor and the account debtor are in litigation regarding the sale of goods. Often, the sales transactions are not well documented with extensive contracts, and you are dealing just with invoices and the facts as they occurred. Often the factor client has vanished, and no person is available to help you (a good reason to download the IFA approved invoices — get them, please!). But all is not lost. Article Two fills in the gaps.

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WHEN THE FACTOR CLIENT VANISHES

If, for example, you are in a contested litigation matter with an account debtor for payment on goods sold by the factor client, the account debtor may raise disputes that you suspect are not valid. Normally, this dispute would be charged back to the factor client, regardless of validity. However, because you have no client to charge back the disputed account, you need to collect from the account debtor to be made whole.

First, the buyer should inspect the goods. If no time is specified to inspect, then you look to see whether the buyer raised objections within a reasonable time. (§2-605). If there are legitimate objections to the goods, the buyer should be particular in describing the problems (§2-605). If the buyer did not reject the goods after a reasonable opportunity, or make a proper rejection, or acted inconsistent with the seller’s ownership of the goods, like selling them, the goods are deemed accepted (§2-606). Once the goods are accepted, the buyer must pay the seller (or you as the factor) the contract price for the goods. (§2-607). Thus, one can establish a case against the account debtor with any help from the factor client.

NEGOTIABLE INSTRUMENTS

Article Three deals with negotiable instruments, which applies when the account debtor pays by check. Sometimes account debtors bring affirmative claims against the factors as a result of financing accounts. We’ve already established that §9-402 does not make the factor liable for the factor client’s conduct, merely because of the factor’s status as a secured party. But there are situations where the account debtor seeks recovery against the factor. A typical claim which may require the factor to look to Article Three, is when the account debtor has been defrauded by the factor client and pays the factor on accounts that were falsified or paid to the factor by “mistake”. Here the Article Three concept of holder in due course applies.

A check is a negotiable instrument. (§3-104(a)(4)). When one receives a check, that person is considered to be a holder of the check. (§3-301). The holder can indorse the check and receive payment. (§3-201 and §3-203). A holder in due course is entitled to various protections and is not held liable for claims caused by others. This requires that the check holder take the instrument for value, in good faith, without notice to any claim, without notice of any defenses or claims in recoupment. (§3-302).

For instance, if the factor client perpetrates a fraud against the account debtor and the factor, causes the factor to purchase phony invoices, and causes the account debtor to pay the factor on the falsified invoices, all hell will break loose when the fraud unravels. In this situation, the factor is likely going to be sued by the account debtor because the factor has the perceived deep pocket and is still around. Assuming the factor had no knowledge or notice of the fraud (See §1-202); the accounts were purchased by the factor in the ordinary course of its business; and the account debtor paid by check, the factor has a very good “holder in due course defense,” and the account debtor should look elsewhere for recovery. For those who receive payments by wire transfers, electronic transfers of funds are set forth in §4A of the UCC. This article does not get into the level of detail of Article Three for holders in due course. But, the factor should be entitled to the same level of protection as a holder in due course for electronic payments, to be covered in more detail in a different article.

The UCC can be very mechanical and offers a vast array of protections. Knowledge of how the code works will be helpful when you are adverse to the account debtor and have nobody around to assist you. When a factor client goes out of business, it’s amazing how often disputes arise. What were once good customers, who timely paid when the factor client was in business, have nowghosted you when it comes time to pay.

When a factor client goes out of business, it’s amazing how often disputes arise. What were once good customers, who timely paid when the factor client was in business, have nowghosted you when it comes time to pay.
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This conference has been approved for CAEF credits. For information on approved programs & courses, please contact the IFA.
Adventures in Factoring
How to Rescue an Ancient Form of Finance and Move into Modern Lending

When Lee Haskins first entered the factoring business, he spent a lot of time convincing clients he wasn’t going to walk off with their money. His factoring background eventually led him to found Crossroads Finance and focus on inventory finance while continuing to work with factoring companies.

By Lee Haskins

My career in the factoring business began in the mid-80s. I knew virtually nothing about the industry. Nevertheless, I accepted a position at Allstate Financial in the sales and marketing department. I was handed a phone book and asked to bring in business by cold calling companies who would typically offer terms for services or products.

At that time, factoring was not a familiar form of financing outside of the apparel industry. I spent a large amount of time explaining what factoring was because I was offering to advance money against their receivables. There was very little competition in the factoring space, so most business were very receptive if they were not already borrowing from a bank.

The real challenge was educating clients about a notification of assignment letter. This was very difficult to explain to those not familiar with factoring and required a lot of trust in us on the part of the clients. We had many clients who would visit us personally to make sure we were not going to steal their money. They were also concerned that once their...
customers received the notice of assignment, they would assume they were having financial problems or going out of business.

One of the first clients I ever signed up (a cold call from the phone book) was a company based in Baltimore that built submarine parts for U.S. government contractors. It was an important deal for many reasons. Not only was it my first transaction, it was where I introduced the concepts of factoring to the owner of the business -- John Fox. John went on to work for Allstate and has subsequently owned and operated multiple factoring companies and served as president of the Commercial Financial association.

ALLSTATE GOES PUBLIC

In the late 80s, Allstate went public and expanded into providing equipment, real estate and inventory loans, but only in conjunction with a factoring facility. Allstate expanded into financing other assets at a time when the market conditions were very competitive. During that time, banks were being more aggressive and were doing higher risk transactions. This caused traditional asset-based lenders to start looking at deals that would normally have been exclusive to the factoring industry. This drove rates down across all industries.

Allstate decided that rather than compete on rates, it would simply offer greater availability than other factors. Since it was now public, it did not require bank support to fund the other assets, and it could create availability where others could not, especially on inventory.

Most factoring companies are restricted by their access to capital, while banks who provide factoring lines are usually unwilling to provide financing to fund other assets. The greater availability that Allstate could provide to its clients, enabled the company to charge higher rates than factors who could not provide inventory lines of credit.

Allstate was always looking for ways to provide funds in niche financing markets. It starting financing against inventory then began advancing money against life insurance policies. The company pioneered providing settlement solutions against lawsuit claims.

MOVING TO “SOUTHERN NY”

By the time Allstate began focusing on inventory finance, I had left the company. In early 2001, I moved from New York to Boca Raton, FL, or as I like to call it, “southern New York.” At that time, I had been out of the factoring business for five years and eager to start another finance business. The factor community was already crowded, and I wanted to create an alternative type of financing company. I was surprised to learn financing against inventory had still not caught on. I saw an opportunity to fill a much-needed void within the asset-based lending space.

I started Crossroads about 15 years ago to provide a stand-alone inventory financing solution and partner with factors who wanted to continue advances against receivables. These factors were missing opportunities to advance on more accounts receivables. There were no independent inventory financing companies, and I was highly motivated to provide a solution to the factoring community. With Crossroads as its partner, factors could now offer its clients a full financing facility with the ability to leverage both receivables and inventory. Additional inventory creates higher sales and generates more receivables.

We certainly had challenges in the early stages. Creating an inter-creditor agreement to identify our respective collateral positions was not an easy task. Eventually, we were able to get on the same page as the factoring market. We provided a way to create business that would not have normally been possible.

By teaming up with Crossroads, a factor would now be able to provide a full financing solution without tying up capital or developing a back office to support Inventory financing.

I still am involved in the factoring world in many ways. It was my original experience as a factor which allowed me to identify this opportunity and truly understand and address the needs of my fellow factors.

Lee Haskins started Crossroads Financial in 2004 to provide inventory and purchase order financing. Haskins has more than 30 years of experience in the factoring industry.
End the Year on a Strong Note – Join the AFA

BY NADINE BONNER

The winds of change have been blowing nonstop the start of 2019. Tariffs, trade wars, interest rate cuts, real wars have all had an impact on factors. But through all the ups and downs, the AFA has steadily monitored proposed legislation, met with national legislators to explain the difference between factoring and lending, and testified before California regulators.

The AFA has been closely monitoring the progress of California’s SB 1235, as California tends to set the agenda for other states’ regulatory efforts. A similar bill, (Senate 2262), is working its way through the New Jersey legislature, and the AFA is also working with them to discourage passage of this bill — or, failing that, to work with the legislature on implementation to ensure factors can legally and sensibly comply with the law.

Several times a year, AFA organizes a “fly by” in Washington to educate our national leaders about factoring and sharing our concerns. Every IFA member benefits from AFA’s lobbying and educational programs. Yet while there 500 paid members of the IFA and only 90 paid members of the American Factoring Association. To put this in perspective, barely 20% of the IFA members are financially supporting the AFA.

Do you think your company is too small to join? A bronze membership starts are only $500. Think about how that $500 can help your business. The AFA is the cheapest insurance policy a factor can purchase to protect against needless and costly regulation. The AFA needs your help! Your monetary support will help us continue to bring our message to Washington and to be an advocate for our industry. Your contribution helps us to deliver your message.

It is critical to our work that the AFA increases its membership and financial support from every IFA.
member. We urge every IFA member to contribute to the AFA. Not only do the member contributions fund our lobbying efforts, but numbers bring strength. The larger our organization, the more gravitas we bring when we meet with our leaders in Washington.

The time of year is approaching when our mailboxes and inboxes are flooded with requests for end-of-the-year donations. This year, give yourself a gift as well. Joining the AFA is a contribution that helps our entire industry — and will help your business as well.

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.

As of October 28, 2019

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- Accord Financial, Inc.
- Apex Capital Corp
- BAMfi, LLC
- Crestmark Bank
- D & S Factors
- Great Plains Transportation Services, Inc.
- Gulf Coast Business Credit
- International Factoring Association
- J D Factors
- MP Star Financial, Inc.
- Sallyport Commercial Finance, LLC
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- Integrated Logistics & Associates
- MarcFunding, LLC
- Neville Grusd — EVP/COO, Merchant Factors Corp.
- S3Capital, LLC
- Sherri DeJong — Vice President, Great Plains Transportation Services
- Terry Keating — President, Accord Financial, Inc.

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- FactoringClub
- Hawaii Receivables Management, LLC
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- Plus Funding Group
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OCTOBER 2019

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ASSOCIATIONS

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Commercial Factoring Expertise Committee of China (CFEC)
www.cfec.org.cn
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Romanian Factoring Association (RFA)
www.associatadefactoring.ro
World of Open Account (WOA)
https://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 product lines for commercial 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.

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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:
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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 higher recovery amounts more quickly with less cost. At TCLG we call our approach our “Attorney Driven Approach”.

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www.ansoniacreditdata.com

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Purchase Order Financing: The Perfect Complement to Factoring
E-commerce has accelerated the pace of business today, and companies often face challenges obtaining working capital quickly enough to close a deal. Paul Schuldiner points out that PO lending is also changing and expanding into new areas. To offer flexible financing, factors are working with PO lenders to meet clients’ needs.

BY PAUL D. SCHULDINER

For entrepreneurs and business owners, e-commerce has had a transformative effect on nearly every aspect of managing and operating a business. It’s made it effortless for companies to reach their customers where they are — in their homes and on their phones. It’s accelerated the pace of production, upended traditional inventory models and created opportunities to leverage data to create more personalized experiences. But for lenders — factors, in particular — e-commerce has completely changed the way we finance and support companies, whether during critical periods of growth or inevitable disruption.

Rosenthal recognized the significance of this shift early on and began laying the groundwork to offer more flexible lending products to current and prospective clients whose bottom lines were being squeezed by the new challenges associated with e-commerce. Then in 2016, we launched Rosenthal Trade Capital, a division dedicated solely to purchase order financing. Designed to work in tandem with Rosenthal’s already robust factoring and asset-based lending divisions, the PO financing division focuses on providing alternative inventory financing solutions to cash-constrained businesses.

No business today — importer, exporter, wholesaler, assembler or light manufacturer — is immune to the complexities of operating in the e-commerce space. For direct-to-consumer businesses or those that straddle brick-and-mortar and e-commerce, challenges like seasonality, rapid growth and under-capitalization are common hurdles that every business eventually faces. In today’s retail environment, it’s more important than ever that companies learn how to effectively manage the relationship between their e-commerce and brick-and-mortar platforms.

PO CAN FUND E-COMMERCE

Historically, PO financing has been used by wholesalers selling into brick-and-mortar retail and has proven to be enormously helpful for clients serving big box retailer customers. In the case of big box retailers, PO financing helps businesses take advantage of sales they would otherwise be forced to decline because of unfavorable trade terms with suppliers or liquidity issues. In fact, many lenders are quickly realizing that the components of the upfront inventory audit required for financing a company selling into brick-and-mortar retail — everything from quality control and product sourcing to logistics and delivery — can also be leveraged to fund and finance an e-commerce business.

This scenario plays out every day with companies looking to secure additional short-term inventory financing to support that once-in-a-lifetime order from a brick-and-mortar retailer, while balancing it with their growing online sales order book. Depending on the kind of financing the
Company can secure — and how quickly it can secure it — that single order can either make or break the business.

We recently saw this when a consumer goods importer approached Rosenthal after the company discovered it was facing an unexpectedly large order book from a slew of new customers, both e-commerce and brick-and-mortar. Hustling to fulfill the orders in time for the holiday season put a significant squeeze on the company’s cash flow, so it sought additional financing with its existing lender, a third-party factoring company. With an already multi-million-dollar facility in place, including an approved overadvance, the existing lender declined the request. To add insult to injury, the overseas supplier that had, up until then, granted open terms to the company, was unwilling to extend those terms and was requiring pre-payment for goods before shipping.

**FACTOR RECOMMENDS PO SOLUTION**

The company faced a conundrum. But the existing factor, even though it could not extend credit itself, recognized the value of such a large seasonal inventory build and encouraged the company to explore PO financing as a solution. Rosenthal entered the picture, introducing a soundly structured PO financing program into the company’s financing mix. We established an inter-creditor agreement that would easily transition PO financing back to factoring once the related accounts receivable were generated from the purchase order financing. And with a new multi-million-dollar PO financing facility in place, the client would be able to obtain goods from more than one overseas supplier by issuing letters of credit. Freight, duty and logistics costs would also all be financed, and the required inventory would be funded at an advance rate of 100%.

Because the existing lender — the factor in this case — had the foresight to recommend PO financing and connect the dots to Rosenthal, there was a positive outcome for all parties involved. The factor was not forced to increase its overadvance and was even better positioned because the PO financing generated incremental cash flow that repaid the initial overadvance. The client was able to use its higher brick-and-mortar orders to provide additional support for its e-commerce orders. The new suppliers now had the credit enhancement it needed to ship the products, so the client met its shipment deadlines to the end customers.

Another recent example illustrates how PO financing can be more than just a valuable tool for traditional trade cycle financing. It has also become beneficial for companies needing production financing or work-in-process financing. A third-party factor approached Rosenthal to provide a PO financing solution that could support the overall supply chain finance solution for one of its clients. The company, a manufacturer and importer of HVAC equipment, needed to fund the purchase of raw materials, components and direct labor costs for product that was backed by e-commerce forecasts and program commitments from large industrial customers.

The complex production financing requirements of the transaction involved the structure of purchases from several component suppliers as well as funding the fabrication of the final products by a multi-national contract manufacturer. Working closely with the factor, Rosenthal was able to establish a multi-million-dollar PO financing facility that worked alongside the existing factoring facility.

These scenarios — and the complex confluence of unexpectedly large orders, difficulty securing additional financing from existing lenders and challenges with overseas suppliers — have become all too common in recent years. Lending in this environment requires flexibility, tolerance and a level of expertise that stretches far beyond simply lending on an invoice.

Most lenders, and factors in particular, often do not have the internal infrastructure required to address these challenges in a comprehensive way. If it’s executed at all, it’s often done piecemeal or as a special accommodation for select clients and is rarely offered as a formal service or dedicated program. Factoring companies are superior at checking and analyzing end customer credit, verifying and collecting receivables and managing all aspects of accounts receivable administration, not to mention lending on receivables. Marrying that expertise with an experienced and nimble PO funder can help to ensure transactions remain secure and less risky for all parties involved. Aligning with a PO funder that is a trusted, friendly partner and has the expertise needed to operate in a challenging credit environment is essential for any factor, asset-based lender, or bank looking to gain a competitive edge. •

Paul Schuldiner is executive vice president and division head of Rosenthal Trade Capital. Paul is a seasoned financial executive with over 20 years of experience in the purchase order and trade finance business and has previously held senior leadership roles at Wells Fargo Capital Finance, King Trade Capital, and as a principal of Transcap Trade Finance. In addition to purchase order financing, Paul started his career in the asset-based lending and factoring division of a NYC based finance company and practiced as a CPA in public accounting.
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**TRAINING COURSES & EDUCATIONAL MEETINGS FOR THE RECEIVABLE FINANCE INDUSTRY**

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**UPCOMING EVENTS**

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Inflection Point: Scale or Specialize
In today’s competitive market, transportation factors cannot afford to stay in one place. Aaron Graft, Geoff Brenner and Keith Beckman explain why scaling up is critical and examine alternatives for companies that cannot scale up organically.

BY AARON GRAFT, GEOFF BRENNER AND KEITH BECKMAN

WHAT KEEPS YOU UP AT NIGHT?

For many in the transportation factoring industry, a few recurring questions keep us up at night. Have we achieved the necessary scale to compete effectively? If not, how do we scale our business to achieve the desired scale? Or, if we cannot achieve scale organically, is it time to merge or acquire?

Tackling the transactional question first, many companies have opted for the mergers and acquisition process. According to research by Hovde Group, from 2004 through August of 2019, the number of transactions in the commercial finance industry, in which transportation factoring is included, peaked in 2005 at 41. The number then fell to a low point of 12 in 2011 and roared back to 37 in 2015. Transactions have averaged approximately 27 per year since the crisis in 2008.

TBK Bank participated in this process when it acquired Interstate Capital in 2018, which it incorporated into its subsidiary, Triumph Business Capital. In the pursuit of scale, the transaction pushed Triumph Business Capital forward. The seller, a material top-10 sized factor in its own right, assessed that it simply could not build the scale it needed quickly enough, or effectively, without a partner. The same question of scale, answered from different perspectives, led two parties to an opportunistic intersection and the transaction occurred.

Of course, transactions close for a wide range of reasons. The transportation factoring industry routinely sees new entrants attracted by the industry’s high yields or its diversification value to an existing portfolio of businesses. In other cases, a factoring company simply needs rescue capital to survive a credit problem or to weather a declining portfolio amid escalating competition. However, the race to achieve scale will likely become, if it is not already, the primary factor accelerating consolidation within the industry.

WHY THE RACE FOR SCALE?

At its core, transportation factoring is a highly fragmented industry characterized by attractive margins and relatively low barriers to entry. It is subject to disruption by innovative technology. One of the more classic business strategy tools, Porter’s Five Forces model, would tell you that any one of the aforementioned industry attributes will invite fierce competition and ultimately consolidation. Harvard Business School professor Michael Porter developed this model to analyze the competitive environment and described the five forces as: buyer power, supplier power, substitution threat, new entry threat, and competition among rivals.

We can briefly run through a few examples within transportation factoring. First, the relative ease by which factoring clients can switch providers results in high buyer power. Non-bank factoring companies face higher supplier power as measured by the cost of their capital compared to that of a bank or other financial partner. The introduction of merchant cash advance products produces a high substitution threat. New factoring companies are also relatively easy to start, which equates to a high new entrant threat. And lastly, competition among rival factors is high within certain markets and niches. Clearly, Porter’s model accurately diagnoses the transportation factoring industry as highly competitive and, therefore, highly subject to consolidation.

Porter’s model is not alone. Other models, such as the consolidation curve (or industry life cycle curve), also predict consolidation based on the need for scale. The consolidation curve model argues that the industry begins in Stage 1 with only one player, which in the case of factoring, dates back hundreds if not thousands of years ago. If the margins are attractive, it attracts multiple competitors to the industry. Competition escalates, and the march towards eventual
consolidation begins. Stage 2 is marked by a few major players that achieve significant scale and emerge through consolidation. Stage 3 entails the major players’ expanding their businesses.

The focus is on profits after the consolidation stage, and the top three players usually command 35 to 70% of the market. Stage 4 is illustrated by the top three players controlling 70 to 90% of the market and looking to develop spin off products and services in order to continue to grow revenues. Despite its age, transportation factoring is in early stage 2 and the pace will quicken toward Stage 3 as technology, investments and consolidation continues.

Even a casual observer at recent transportation conferences would know this to be true, noting the visual influx of new, highly-interested parties who have an uncanny resemblance to venture capitalists, private equity or Silicon Valley investors. These players, holding billions in investable capital and looking for attractive returns, have awoken to the early Stage 2 potential of the transportation factoring industry. As that capital continues to surface within the industry, small, unscaled factors that are unable to make the capital investments to keep up in the race for scale will be significantly challenged.

If scale will not or cannot be achieved, the most viable alternative would be double down on specialization, which is inherently most successful within smaller organizations given the difficulty in replicating true specialization beyond a certain size. Specialization is observed within many industries, including banking, where a relatively small bank (i.e., $100 million in assets) may operate more profitably than the largest banks in the country precisely because they run highly efficient and specialized value propositions. However, assessing a company’s true viability as a non-scaled, specialized, industry player requires the ultimate in corporate self-awareness, as creating and sustaining this market position is rarified air indeed.

**WHAT DOES SCALE LOOK LIKE?**

Scale in the transportation factoring industry has many facets. How competitive is your cost of capital? Are you exploring and embracing forward-facing investments in innovative technology? What other services can you offer your clients? How are those services integrated? What is your client’s experience? As the race for scale heats up competition and margins compress, how will you differentiate your value proposition? What are the true switching costs for your clients? Clearly these are tough questions and the answers are not inexpensive or quickly developed.

The race for scale is straightforward. If a dominant player in the transportation factoring industry can spread its fixed costs over a materially larger client base, it can drive higher margins and use those profits to fuel potentially disruptive investments, such as innovative technology. That will in turn not only further decrease its servicing costs, but continue to grow its margins. Investments in sophisticated technology, such as AI-driven fraud countermeasures, will become increasingly more important as we move further into the digital age. Competitors that achieve scale and lay claim to this enviable position will further extend their lead over rivals and enter Stage 3.

Although factoring has existed almost as long as commerce itself, the decision point within transportation factoring has arrived: either join the race to achieve scale, or double down on specialization. The only bad choice would be to ignore the choice altogether and take residence in the middle, where you lack scale and specialization, unable to fortify your value proposition or differentiate yourself in an increasingly more competitive industry.

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Aaron Graft is the founder, vice chairman and chief executive officer of Triumph Bancorp. He also serves as the vice chairman and chief executive officer of TBK Bank and the vice chairman of Triumph Business Capital.

Geoff Brenner is chief executive officer of Triumph Business Capital, a subsidiary of TBK Bank. He is also a member of the Triumph Business Capital board of directors.

Keith Beckman, CFA is senior vice president, Corporate Development & Strategy for Triumph Bancorp. His primary focus is on the identification, negotiation and execution of acquisition targets for the Triumph group of companies.
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