

ALSO IN THIS ISSUE: LEGAL CHALLENGES IN AI
AND TRANSPORTATION MARKET UPDATE

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TSL COVER STORY

Appraisers Assess the Impact of Tariffs, Economic Worry on Valuations

A publication of:  Secured Finance
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RISK AND REWARDS

Moving Forward During Global Uncertainty

As we navigate the ever-evolving landscape of secured finance, today's environment presents both familiar and emerging challenges. Heightened geopolitical tensions, the ripple effects of new tariffs, and persistent uncertainty in global markets are adding layers of complexity to risk assessment and deal structuring. SFNet is hearing from members across the industry who are adapting in real time—rethinking underwriting, reassessing exposures, and seeking new ways to support borrowers while managing volatility. As we move forward, it's critical that we stay connected, share insights, and advocate for the tools and policies that keep capital flowing. In this issue, we examine how these risks are affecting our industry—and how we can continue to lead with resilience and foresight.

Tariffs and their looming effects remain at the forefront of our minds. The recent surge in tariffs and retaliatory measures from trading partners is reshaping the global economic landscape, leaving businesses and secured lenders grappling with uncertainty. In *Appraisers Assess the Impact of Tariffs, Economic Worry on Valuations*, on page 4, SFNet members provide their views on the challenges posed by these sweeping changes.

On page 35, economist John Silvia offers his insights on the new tariffs, which he says mark the beginning of a critical and uncertain phase for the U.S. economy. While the full impact is still unfolding, early signs point to a significant economic slowdown, rising prices, and heightened inflation, according to Silvia. Turn to page 35 for his full economic outlook.

On page 37, in *Navigating the Challenges Facing the Factoring Industry in North America*, Oscar Rombola explores the key challenges affecting the factoring industry in North America, with a focus on sector-specific issues in freight, healthcare, and manufacturing, as well as the impact of trade policies and tariffs.

On page 8, in *Q1 Transportation Market Update*, Bryan Courcier of Hilco Global dives into the current state of the class 8 truck and trailer market, exploring how freight rates, used truck values, tariffs, and looming EPA regulations are shaping the outlook. With a longer-than-expected downcycle and new challenges ahead, how will the market rebound?

Since its 2022 release, ChatGPT has revolutionized industries, but its integration into legal and business operations raises critical concerns. In *Addressing Legal*

Challenges in Utilizing AI, on page 24, Parker, Hudson, Rainer & Dobbs attorneys explore pressing AI legal issues, such as compliance with evolving laws, data protection, and the consequences of AI errors in real-world applications.

With the end of Windows 10 support in October 2025, companies must act fast to avoid supply chain disruptions, cybersecurity risks, and operational inefficiencies.

On page 33, in *What is the Tech Supercycle in 2025 and What Does it Mean for Supply Chains?*, Chris Wohler of Wells Fargo explores how delayed IT investments could affect your business and your clients' businesses and provides key strategies to ensure you're ready for the upcoming shift.

On page 28, Charlie Perer sits with Bob Love, Asset-Based Lending (ABL) Group Director for Flagstar Bank, to hear his views about his new role at Flagstar Bank, bank vs. non-bank competition, the future of ABL, executive development and competition, among other things.

Hiring and retaining talent is an ongoing challenge for the industry. In response to this, the Secured Finance Foundation launched the Guest Lecture Program in 2019. The program aims to educate and inspire young, diverse talent in the secured finance industry by introducing students to asset-based lending (ABL), factoring, and other secured lending disciplines. Senior editor, Eileen Wubbe, interviews four students who participated in the program, on page 14.

SFNet remains committed to fostering collaboration, knowledge sharing, and innovation. Together, our community will continue to lead with resilience, adaptability, and a steadfast focus on responsible, forward-looking growth.



■ **RICHARD D. GUMBRECHT**
SFNet Chief Executive Officer

COVER STORY

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Appraisers Assess the Impact of Tariffs, Economic Worry on Valuations

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Inspiring the Next Generation

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An association of professionals
putting capital to work

The Secured Finance Network is the trade group for the asset-based lending arms of domestic and foreign commercial banks, small and large independent finance companies, floor plan financing organizations, factoring organizations and financing subsidiaries of major industrial corporations.

The objectives of the Association are to provide, through discussion and publication, a forum for the consideration of inter- and intra-industry ideas and opportunities; to make available current information on legislation and court decisions relating to asset-based financial services; to improve legal and operational procedures employed by the industry; to furnish to the general public information on the function and significance of the industry in the credit structure of the country; to encourage the Association's members, and their personnel, in the performance of their social and community responsibilities; and to promote, through education, the sound development of asset-based financial services.

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Secured Finance Network

370 Seventh Avenue, Suite 1801,
New York, NY 10001.
(212) 792-9390 Email: tsl@sfnet.com
www.SFNet.com

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Editorial Staff

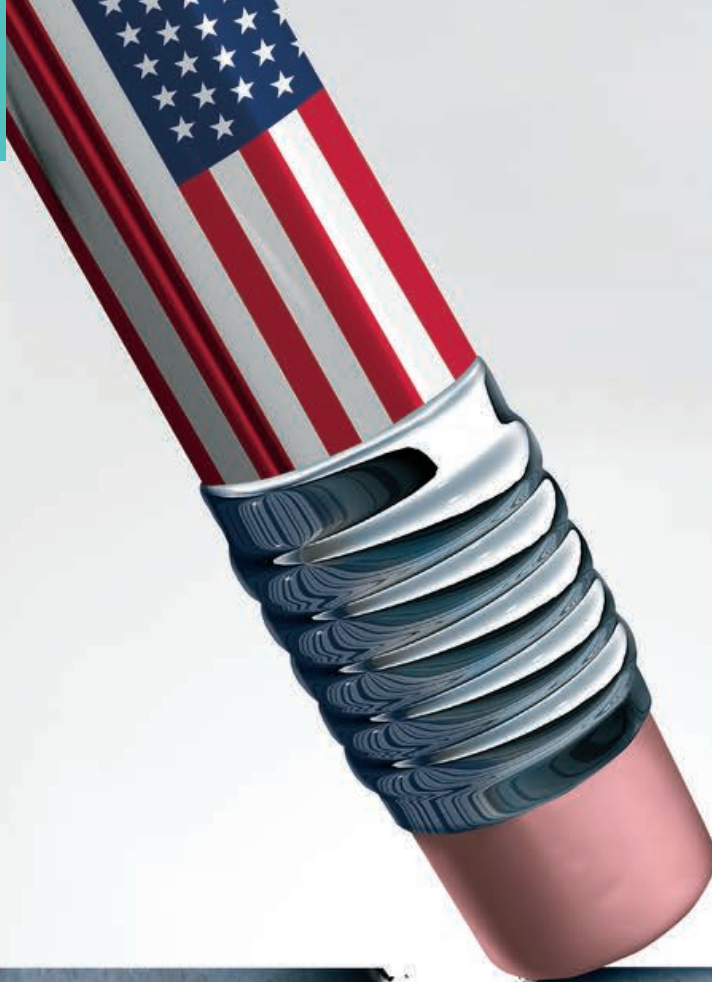
Michele Ocejo
Editor-in-Chief and SFNet Communications Director
mocejo@sfnet.com

Eileen Wubbe
Senior Editor
ewubbe@sfnet.com

Aydan Savaser
Art Director
asavaser@sfnet.com

Advertising Contact:

James Kravitz
Business Development Director
T: 646-839-6080
jkravitz@sfnet.com



Appraisers Assess the Impact of Tariffs, Economic Worry on Valuations

The recent surge in U.S. tariffs and retaliatory measures from trading partners is reshaping the global economic landscape, leaving businesses and secured lenders grappling with uncertainty. From rising costs to shifting valuations, this article dives deep into the challenges posed by these sweeping changes.

BY MYRA THOMAS



W

hether it's massive and sweeping increases in U.S. tariffs, retaliatory tariffs from trading partners, or an about-face on those numbers, secured lenders and their clients are bracing to see just how it will all shake out. The obvious and most direct concern is the rising costs for

American companies reliant on the global supply process, as well as the economic fallout. A day after the announcement of a new and significant round of U.S. tariffs on April 2, the stock market responded with a huge sell-off. Those new tariffs were put on a 90-day pause shortly thereafter. However, steep tariffs remain on China, along with a massive retaliatory tariff from the country.

With other new tariffs already in place and greater risk of inflation, asset-based lenders and factors are noting that appraisers become more essential than ever to provide accurate and speedy valuations. A baseline tariff of 10% stands on most countries. According to Alex Sutton, managing director, head of research for Gordon Brothers, asset-based lenders and factors are justifiably worried about rising import and procurement costs for their clients and what it will ultimately mean for valuations. He says company leaders are also finding it difficult to develop business plans in the long-term given the swift changes in tariffs. Historically, the time from announcing a new tariff to its implementation has not been as short as it has been in the first few months of 2025. "There really hasn't been a lot of time for people to react and do things, like proactively purchasing inventory," he adds. In turn, secured lenders are keeping the steady lines of communication open with their clients and staying apprised of any new changes to U.S. tariffs and retaliatory ones, as well.

Assessing the Changes

U.S. companies using metals to manufacture everything from cars to soda cans are sure to feel the pinch from sizeable tariffs currently instituted on steel and aluminum imports. Some imported car parts will be subject to a 25% tariff in May. U.S. lumber is facing retaliatory tariffs from China, one of the country's largest markets. Valuations, in turn, are expected to take a hit. With the complexity of supply chains today, companies sourcing base materials from abroad and then only to send them back abroad for finishing and final sale in the U.S. might also be burdened by more than one tariff, says Sutton. The United States-Mexico-Canada Trade Agreement (USMCA), that went into effect on July 1, 2020, exempts some items from tariffs between the three countries. However, President Trump imposed a 25% tariff on Canada and Mexico in March for most goods that do not satisfy the USMCA rules of origin.

At the moment, much of the implementation of tariffs remains unclear. The option to buy from a country with lower tariffs might not be as easy as it might seem. Supply chains are often too complex to unravel quickly, says Sutton. U.S. car manufacturers, for instance, have strict procedures on sourcing parts. It isn't a



■ **STAN CZUPRYNA**
Loeb Equipment



■ **STEPHEN D'AQUILA**
Hilco Valuation Services



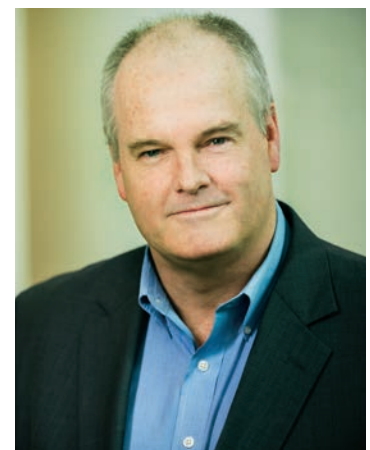
■ **JONATHAN DEPTULA**
Hyper Valuation Services



■ **RICHARD HAWKINS**
Atlantic RMS



■ **STEVE QUALE**
Tauber-Arons



■ **ALEX SUTTON**
Gordon Brothers

simple process to shift to another original equipment manufacturer in another country. OEMs operate on small margins, and contracts are out to bid and awarded for multiple years.

Passing on the Costs

Companies will have a big decision to make, says Stephen D'Aquila, senior vice president at Hilco Valuation Services. "Do I just raise my prices, and will the consumer withstand that type of price increase? It really depends on what the product is and what your customer base looks like." If companies are selling to high-income households where price is less of a priority, then companies might have more flexibility with adjusting prices. "If you're selling product to low-income consumers, then price is a major factor in the decision making,"

he says. It's a delicate proposition, especially for companies focused on producing or selling items with low profit margins to begin with, such as groceries or other consumables.

Shoppers remain focused on the potential price hikes on retail items, and they are responding by keeping their wallets closed, worried about what may be in store, figuratively and literally. Consumers are already facing steadily rising grocery prices.

The Labor Department reported those costs were up 28% from five years prior. It's not surprising that consumer confidence dropped to its "lowest level in 12 years and well below the threshold" that indicated a possible recession ahead, according to March data from the Conference Board. Any additional impact on sales is certain to dampen valuations.

Understanding Consumer Habits

If it's any bellwether, discount stores are reporting lackluster sales. On an earnings call on March 13, Dollar General's CEO Todd Vasos noted, "Our customers continue to report that their financial situation has worsened over the last year as they have been negatively impacted by ongoing inflation. Many of our customers report they only have enough money for basic essentials, with some noting that they have had to sacrifice even on the necessities. As we enter 2025, we are not anticipating improvement in the macro environment, particularly for our core customer." D'Aquila says the financial position of low-income consumers has certainly deteriorated, and the middle-income

consumer's financial health is trending downwards too.

Appraisers are already getting a sense of consumer shopping patterns and, consequently, valuations, from a steady stream of retail store liquidations. "It gives appraisers additional data points when each of these real-time events occur," says D'Aquila. "We are able to see how consumers are responding to discounts, and we're finding that it's getting a bit more difficult to incentivize individuals to buy, and so that challenges recovery value. And whichever a liquidator may choose, a longer sale or greater discount, it impacts net value, and that certainly flows through to appraisals." The worry, he says, is the downward pressure on non-performing loans.

The bright spot may be retailers and other companies that cater to upper-income consumers. But those shoppers might be

a bit more hesitant to purchase too with the tumult in the markets and the possibility for currency fluctuations. D'Aquila notes, "Upper-income consumers, while they might be resilient, they're also not bulletproof. When the stock market is moving dramatically, they're going to be less likely to make that big purchase, and that's going to be another factor that's influencing inventory appraisals." The uncertainty could influence top-line demand.



That insight is key to navigating what's ahead. If companies stockpile, make a bad decision, and consumers stay away from stores, valuations are inevitably impacted.

Geopolitics and Economics

There is certainly warranted trepidation from secured lenders, when it comes to

valuations, notes Richard Hawkins, CEO at Atlantic RMS. "It's difficult to fully understand the implications of the tariffs combined with the geopolitical outcomes regarding the war in Ukraine, whether it's additional costs or difficulty in getting raw materials. And secondly, we have to wonder about the volatility of the price of that raw material, and how companies should react to that." Geopolitical tensions are also set to exacerbate rising costs on key metals. Hawkins notes that the current ramp up in defense spending in Europe and the related demand for key metals is sure to add to the rising costs of items produced with aluminum, steel, and other commodities.

In the meantime, Hawkins says that most business owners across the globe appear to be in a holding pattern, trying to work out what happens next. "No one is making major decisions right now," he says. "They're more concerned about how to get through the next few months." M&A activity has stalled, not that it was in great shape anyway. "Companies are holding off on development,

recruitment, investment, or anything else that would lead to good economic indicators,” he adds. There is a fear of supply chain disruption and global sourcing problems. Businesses could try to stretch their working capital facilities and carry more inventory. But, says Hawkins, “They also need to worry if that’s the right decision because of price volatility and future demand patterns.”

For some manufacturers, the solution might be in cutting back on production or selling off equipment, which will inevitably impact valuations. Steve Quale, vice president at Tauber-Arons, notes he is definitely seeing some companies trying to get ahead of tariffs by selling off older equipment. He notes that supply chain adjustments will be a more difficult proposition, especially when it comes to onshoring. “Are companies going to be willing to spend billions to shift manufacturing to the U.S., considering when all of this could change again in a few months or in four years?” he adds. Onshoring can be a stretch, considering the capital investment for new facilities and equipment, as well as additional labor costs. A more logical strategy is to pass the costs on to the consumer—a cost the consumer may not be willing to bear.

The State of Auctions

If sizeable tariffs hold, Quale is predicting an increase in auction sales, much like the oil industry went through in the 1980s when there was a drop in oil prices and related machinery lost considerable value. Manufacturing, industrials, and the technology sector are likely to feel the brunt, he adds. And while appraisers do use data, trends, and comps to assess inventory and equipment, the current environment warrants more frequent comprehensive inspections. “I hear a lot of talk about how technology is changing the face of this game, and it is,” he notes. But he adds that it’s still a very hands-on process to provide objective valuations, especially when there’s economic headwinds.

According to Stan Czupryna, senior appraiser at Loeb Equipment, the tariff changes are making it a very unpredictable time for companies dependent on equipment—equipment critical to processing and packaging everything from cheese to cooling and separating natural gas. “When I go into factories, I do a lot of talking with CFOs, and no one’s hedging.” He has seen a negative trend when it comes to auctions. He notes, “The equipment auctions that we have gone through have been dismal. The only thing that’s selling for any reasonable amount, or where you think they should be, are units that are five years old or younger. Those are still commanding a high-price. But anything that goes past that five to ten-year mark, they’re selling for pennies on the dollar.”

A Holding Pattern

Given the uncertainty, company leaders are not making capital decisions, if they can avoid them. Most companies are focused on short-range planning, says Czupryna. “They’re just going at it day by day, and that’s all they can do.” Businesses are not only worried about tariff increases impacting costs but also the possibility of it hurting supply. “They don’t know if the policy will impact getting the materials they need, especially if it’s aluminum and steel or parts from Europe and China,” he adds. Czupryna says that secured lender and client

collaboration are always key to weathering economic uncertainty. Secured lenders can offer insights and leverage their industry knowledge, especially as the impact of tariffs take hold.

That insight is key to navigating what’s ahead. If companies stockpile, make a bad decision, and consumers stay away from stores, valuations are inevitably impacted. Jonathan Deptula, president of Hyper Valuation Services, notes that companies may be forced to write down obsolete or overpriced stock. “We’re already seeing more distressed assets. Our auction group has been very busy. It’s tricky to look at inventory market prices. They’re fluctuating daily.” He predicts new tariffs will hurt ecommerce, retailers, and the industrial sector the hardest. Consumers are also more likely to pass on discretionary items, like home décor and furnishings.

The Great Unknown

Appraisers are working overtime to better understand the risks to the supply chain. There is truly no historical reference to a large tariff increase, says Deptula. “It’s like what we faced during the pandemic—a complete unknown.” Importers, as well as some small and midsized businesses, will pay more due to the massive bump in US tariffs on China and the recent elimination of the de minimis provision for low-value parcels from the country. “There are so many moving parts and costs involved,” he adds. “So, it just seems easier to pass price increases along to the consumer than on the industrial wholesale side, where companies tend to push back.” But any pushback in the market affects valuations.

Fortunately, secured lending is quite dynamic and flexible, providing working capital when other providers may not. “I don’t think there’s a bad economy for secured lenders, just a harder economy to manage,” Deptula notes. Inventory values are likely to shift quickly with new tariffs, so asset-based lenders and factors will need to be diligent in getting updated appraisals and field exams earlier and more often. And they will need to be ready to communicate with borrowers and modify loan terms and covenants at a moment’s notice when the situation warrants. 📌

Myra Thomas is an award-winning editor and journalist with 20 years’ experience covering the banking and finance sector.

Q1 Transportation Market Update

BY BRYAN COURCIER

As we move into early 2025, the trucking industry is navigating a shifting landscape with signs of recovery, but also lingering uncertainties. In this article, we dive into the current state of the class 8 truck and trailer market, exploring how freight rates, used truck values, tariffs, and looming EPA regulations are shaping the outlook. With a longer-than-expected downcycle and new challenges ahead, how will the market rebound? Keep reading for insights into what's next.

In this article, we briefly look back on the post-Covid market and quickly move on to observe early returns for 2025 related to the class 8 used truck and trailer space. Followed by commentary on freight rates, tariff rollout, new and used truck values, persistent likelihood of negative equity in many operators' fleets, tariff uncertainty and regulatory changes with a spotlight on 2027 EPA standards begging the question: will pre-buy even be a thing?

Longest Downcycle in Recent Memory

One year ago, pundits around the country painted a cautiously optimistic outlook for the new year. Refreshed expectations for a downward trending market in rapid correction over the previous 18 months. Looking back now, 2024 proved to be another rough year for commercial transportation assets ending in an additional 12 months of value slide for trucks and trailers. It feels as though the transportation and logistics community has been talking about this forever - enjoyment of the hot freight market from Q2 2020 - Q2 2022 immediately followed by a well-anticipated sharp correction. To use an old saying, the market takes the escalator up and the elevator down. This is a good description of the truck market through 2020 - 2023. The unexpected part was the long tail of continuous downward trending extending through 2024. Hilco attended the 72nd ACT Research Seminar in Columbus, IN in February. There are always a number of great perspectives from dealers, OEMs, economists and operators. During the dealer panel, Warren Auwae, senior vice president of Global Remarketing - Velocity Vehicle Group, noted this downturn is far longer than anyone has experienced in many years. This has not been the deepest, but the longest, downcycle. While the initial severity of the correction felt normal, the length of time it lasted was surprising and unprecedented. This was corroborated several times over by other veteran industry representatives during the two-day event.

The consensus outlook for 2025 felt more grounded in tangible signs the market is finally bottoming out. Year-over-year average

auction values for class 8 truck tractors sold in January '25 were up 2% from January '24, representing the first YoY month of positive movement in 29 months - nearly 2 ½ years. During that period starting in September of 2022 until January of 2025, the average YoY monthly negative split was an astonishing -22%. Only three of those consecutive negative months were in the single digits, with the largest YoY negative performance coming in at a whopping -50% in February of 2023.



BRYAN COURCIER
Hilco Valuation Services

Why the Correction Appears to Be Ending

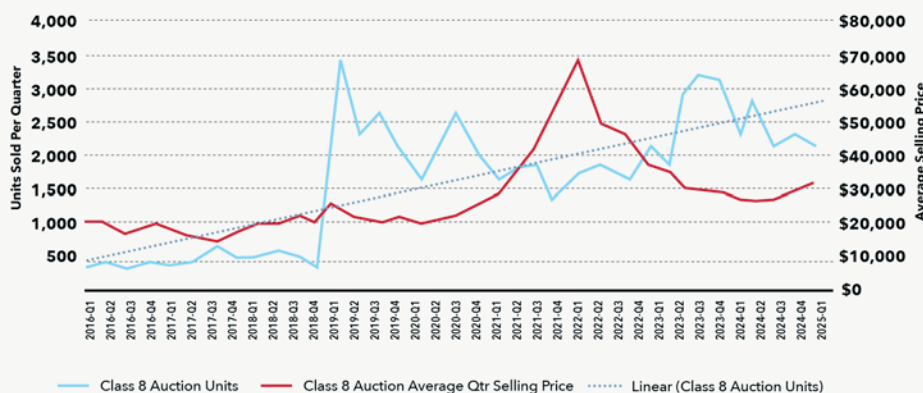
Volume of market participants has corrected. Reduced trucking capacity due to smaller (and some larger) carriers leaving the space, stabilizing inventory levels, and forecast of slight rebound in spot rates down the stretch of 2025 are signs the correction appears to be ending.

The ground freight industry has rightsized. Nearly 88,000 trucking companies closed their doors in 2023 joined by 8,000 brokerages. While many of those trucking entities were single-owner operators or managed small fleets, the figures are substantial. Comparatively, the 2024 numbers for operators and brokerages are as follows. There was a 10% drop off in the number of motor carriers in 2024 (FMCSA) representing a roughly 20,000 motor carrier reduction compared to 88,000 the year prior. And according to Freightwaves, 2024 closed with 3,104 fewer registered freight brokerages compared to 8,000 that closed in 2023. Both substantially lower

exits than the previous year. While the headlines were dominated by big, longtime players that were forced to depart from the market, most of those who exited were smaller and relatively new entries into the space going after easy dollars in an abundantly easy profit environment. The window for that has now closed. Those who remain are a healthier mix of long-term and serious commitments to the trucking and logistics space.

Inventory levels are also decreasing according to Sandhills Global market reports. Sandhill's platforms include TractorHouse, Machinery Trader and Truck Paper.

Auction Units Sold Quarterly and Average Price/Unit



Source: ACT Research Co.

With US inventory of used heavy-duty trucks declining 10.23% m/m and 19.62% yoy in January. Thinner inventory levels means pricing movement in the right direction. Hilco always feels obligated to emphasize it is naïve to expect appreciation of asset value when talking improvement in the market. More stable inventory levels and a pricing environment that includes marginal reduction in depreciation rates and YoY average pricing improvement are positive signs the market looks to be rounding the corner.

On par with modest used trucking pricing gains and inventory rightsizing, spot rates are expected to improve gradually, with Freight Transportation Research (FTR) predicting a 5% - 6% year-over-year improvement by the end of 2025. Expectations are muted for the first half of the year, but again, any movement in the right direction signals a shift in the market.

April 2nd, 2025 Tariffs and Potential Effects

The tariffs introduced by the Trump administration could have meaningful effects on the freight industry. These tariffs include a baseline 10% duty on imports from all countries (effective April 5), reciprocal tariffs targeting nations with high trade deficits (effective April 9), and a 25% tariff on imported autos and auto parts (effective April 3, with parts tariffs phased in by May 3). The 25% duties on autos and auto parts, and the broader reciprocal tariffs, are expected to reduce import volumes, which directly affects freight demand. Trucking moves about one-third of the U.S. transportation sector's goods, including 85% of surface trade with Mexico and 67% with Canada. All projections for the short term spell cost increases for parts and components, and eventually even higher pricing (more below) for new vehicles. If tariffs persist for any material amount of time, some production might shift back to the US with potential to increase domestic freight opportunities. However, this would require significant time and investment beyond 2025. US manufacturing capacity is currently limited and if the administration is serious about real bolstering of domestic capabilities the trucking sector may be in for a rough ride over the next several months. Soft consumer demand in response to higher pricing for goods will have a real dampening effect on freight rates and profitability for haulers leading slower market recovery and serious downward pressure on smaller freight providers. Consensus is – tariff disruption and its ripple effects starting day 1 will likely outweigh any potential gains over the long term. If the aim of the Trump administration is to create free trade void of tariffs, reciprocal or otherwise, then there is merit to their efforts. However, that is a best-case scenario and the current uncertainty is having a universally negative effect on all markets in real time. Uncertainty is ever-present in trucking, but this is peak fluidity.

Inverse Relationship with New and Used Trucking

Tandem axle, long-haul, sleeper-truck tractors are more expensive now than ever before. In Hilco's Q2 2024 article, we mentioned the average asking price for a new 2024 Freightliner Cascadia 126 tandem axle

sleeper-truck tractor was advertised for around \$189,000 before any discounts related to volume purchases and other OEM concessions. Compare that to a one-year-old unit of the same make and model truck with standard utilization, and the average auction value is \$115,000. That's about a 39% depreciation year over year for a one-year-old vehicle. The wild thing is when new trucks were selling for something in the range of 140K – 150K, a one-year-old carbon copy would have a market value of around 110K – 115K (78.5% – 82% of new value). During ACT Research's February 2025 dealer panel, the general consensus on the sweet spot for a good used truck was 4 years old, 400,000 miles, at a \$40,000 valuation. That's a whopping \$37,250 year-over-year straight-line depreciation schedule. As an appraisal firm and fully invested market observer, the reasons for pricing increases are numerous. Just about everything that goes into making a truck has gone up over the past four years. And the truth is, used values are not following suit, and depreciation is experiencing a big falloff in the years immediately following production. This should also be reflected in market-based appraisals, especially for asset-based lenders. If you are lending against a fleet of brand-new trucks and they are going to work right away, fully expect and budget for material value change year over year.

EPA Uncertainty

We are entering into a very interesting period for the truck market. There are a handful of macro factors that will be affecting new and used values.

EPA changes may create more uncertainty than tariffs: With the Trump administration taking the reins, Hilco forecasted the most burdensome commercial EV mandates by the previous administration would be cancelled out. Specifically, mandates to fast-track adoption of EVs as a direct replacement for combustion engine units. However, we expected the 2027 and Later Light-Duty and Medium-Duty Vehicles Regulation and Greenhouse Gas Emissions Standards for Heavy-Duty Vehicles would remain on schedule. That is no longer a probability for the industry as Environmental Protection Agency Administrator Lee Zeldin announced on March 12th that he would be reconsidering the pivotal deadline.

"As we reconsider nearly one trillion dollars of regulatory costs, we will abide by the rule of law to protect consumer choice and the environment," said EPA Administrator Zeldin via [epa.gov](https://www.epa.gov)

This determination will be seen as a positive move for the industry at large. Most operators prefer an open market unburdened by an overtly restrictive regulatory environment. But Americans and the markets they live in operate on a month-to-month or quarter-to-quarter basis, where there is a real whipsaw effect. Manufacturers and fleet operators will be feeling burned by trying to actually plan for the long term. The industry has been gearing up to integrate advanced emission control systems to meet the new requirements. OEMs have dedicated massive sums of money, research and development preparing for the January 2027 deadline. Fleet operators were expected to accelerate purchases of pre-2027 models to sidestep or delay the effects of new more

stringent standards. In the absence of that nationwide deadline adoptions will be viewed as less critical to most small to midsize operators in particular. There was at least a blueprint for how new EPA mandates play out from 20 years ago, when the Heavy-Duty Vehicle Greenhouse Gas Emission Reduction Regulation went into effect at the end of 2007. However, this regulatory situation is not the same. Trucking industry participants at all levels will need to quickly reassess what is best for their business following the EPA's new position.

Positive aspects:

- Commercial EV adoption - The trucking industry will have less pressure to transition to electric vehicles as quickly as previously anticipated. It is hardly debatable if the country is ready for adoption of commercial EV fleet vs. traditional diesel. This is common-sense pullback of unrealistic regulatory requirements.

- No Nationwide EPA deadline for January 2027 - Potential cost savings. Trucking companies will see reduced costs associated with transitioning to cleaner technologies, as the need to invest in expensive new technologies has lessened. Some estimated price increases as high as \$20,000 - \$30,000/unit passed on to the buyer/operator equating to a roughly 12% - 17% raise in up upfront costs.

Negative aspects:

- Increased uncertainty - The trucking industry faces uncertainty as the EPA reevaluates the regulations, potentially leading to changes in the long-term plan for emissions reductions.
- OEM's are still going to produce new and updated CARB compliant units starting in 2027 whether truckers like it or not.
- Uncertain order volumes on the horizon - OEM's were against the clock when it came to production models starting January, 2027. In terms of technology and build plans this date was right around the corner. Those trucks

with new EPA technology are still going into production and will be delivered to buyers. How will order levels be affected over the next two years?

- Fleet operators have the same problem. Strategically planning for how they were going to manage their capex and purchasing plans over the next 2 - 4 years is daunting enough. How will fleet managers use their capex in this shifting environment?

- Pre-buy is subdued at the very least

- Potentially leading to new order volumes being muted and used pricing following suit. Something to keep a close eye on.



Trucking moves about one-third of the U.S. transportation sector's goods, including 85% of surface trade with Mexico and 67% with Canada. All projections for the short term spell cost increases for parts and components, and eventually even higher pricing for new vehicles.

A pre-buy was completely dependent upon there being a tangible reason for an industry-wide trend. With the 2027 regulations evaporating, more resilient demand in the market for good used fleet before and after the EPA deadline is lessened. Units produced and put into circulation prior to the EPA deadline would have been exempt from the new standards and equipment required on all new truck and trailer models. Order volumes and purchasing behaviors for new and used is now a bit up in the air. While the market does look to be at the beginning of a rebound, the elimination of the 2027 deadline removes an inorganic element everyone could point to directly as a tangible driving force behind increasing demand for used assets.

Van Trailer Market

The dry van trailer market is still transitioning from overheated order cycles to a more balanced state. January 2025 net trailer orders hit 21,300 units - a 51% year-over-year increase per preliminary industry data. These figures remain below peak levels, signaling replacement-driven demand rather than speculative growth. With an estimated 1.83 million dry vans in the U.S. fleet, many units are approaching the end of their 10-15 year lifecycle, creating a steady yet unexciting need for new equipment. However, for the conservative investor, steady and unexciting can sound pretty darn good. Like trucking, initial numbers suggest the recovery has slowly begun.

Dry Van Trailers

Sandhills Equipment Value Index (EV) & Inventory Trend



Source: Copyright 2024, Sandhills Global

"Today, moving forward, inventory has continued to increase to the point where there are roughly 8,500 dry van trailers on the marketplace today," says Lubischer. "That increase in inventory is placing pressure in the opposite direction on price. This is a normalization process in the marketplace, and a lot of that adjustment is happening among older trailers, mainly in the five- to 10-year-old dry van trailer category and, although to a lesser degree, in the 25-plus-year-old category."

Opportunities:

- ABL lenders who focus on mid-tier fleets with strong balance sheets need to begin replacing 2010-2015 vintage trailers. Collateral risk is generally mitigated by the liquidity of van and reefer trailers, though careful underwriting is essential given rate pressures. We are hearing loan-to-value ratios of 70-80% remain viable, with terms tied to utilization metrics.
- Leasing models are proving to be extremely viable with operators who favor flexibility over ownership. Residual value models are supported by steady replacement cycles that make the space as predictable as reasonably possible.

Challenges:

- Oversupply is still a thing. Excess inventory from the last two years means 2025 is still a muted environment with limited lift in asset values.
- Tariffs and fuel pricing can be variables to keep an eye on.

The van trailer market in 2025 is not going to be a high-growth story. For investors and asset-based lenders, a return to stability will have to do. Predictable replacement demand, moderate yields, and opportunities in leasing or distressed assets should be welcomed as familiar market trends. Success lies in targeting resilient operators, leveraging asset longevity, and staying agile amid economic shifts. In a market rewarding discipline over exuberance, dry vans remain a foundational investment.

In summary, through Q1 2025, the truck and trailer market appears to be finding its footing with modest improvements in year-over-year performance. The real short-term wildcard is how

the Trump administration's tariff policies will play out. The EPA's shift in longstanding deadlines will slow used asset pricing improvement in the near to mid-term, while new unit pricing seems to be only going up. However, a more gradual recovery may be the best recipe for the industry at large over the next several years. We will keep an eye on the market through the spring and summer and report back on developments in this dynamic environment. 📊

Bryan Courcier is senior vice president at Hilco Valuation Services. He is responsible for business development, sourcing and relationship management within Hilco's expanding transportation, energy services and heavy equipment sectors in both the valuation and asset acquisition/liquidation practices. He also serves as COO within two of Hilco's portfolio companies in the trucking and vehicle leasing space – H19 Sutton Leasing and H19 Capital.

A background image of a woman in a dark business suit and pink shirt, looking down and using a magnifying glass to inspect documents on a desk.

1

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Even though asset-based lending primarily relies on the value of collateral, lenders still review a credit report to assess a borrower's overall financial health and potential risk, helping them determine the loan-to-value ratio and potentially identify any red flags regarding their ability to manage debt, even if the loan is secured by assets; this can influence the final loan terms and interest rates offered.

Key reasons why lenders look at credit reports in asset-based lending:

Assessing overall financial stability:

While the focus is on collateral, a good credit history can indicate a company's ability to manage finances responsibly and potentially repay the loan even if asset values fluctuate.

Fraud detection:

Credit reports can reveal past instances of fraudulent activity, helping lenders identify potential risks associated with the borrower.

Loan-to-value ratio determination:

A borrower's credit score can influence the percentage of the asset value that a lender is willing to lend against, with higher credit scores potentially leading to better loan terms.

Payment history evaluation:

Past payment behaviors on other credit lines can provide insight into how likely a borrower is to make timely payments on the asset-based loan.

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Inspiring the Next Generation:

**How the Secured Finance Foundation's Guest
Lecture Program and Martin I. Katz Scholarship
Are Shaping Future Secured Finance Leaders**

BY EILEEN WUBBE

Launched in 2019, SFFound's Guest Lecture Program aims to educate and inspire young, diverse talent in the secured finance industry by introducing students to asset-based lending (ABL), factoring, and other secured lending disciplines.

In support of this lecture series, the Secured Finance Foundation connects industry leaders with undergraduate and graduate finance students. Each Guest Lecture is led by individuals from SFNet's network of Foundation and Board members, committee leaders, or our local and community-driven chapter network, providing students with a high-level look at secured finance as an industry and a career path.

Guest Lectures provides access to SFNet's database of current internships offered by SFNet's member companies and a scholarship program to support internship acquisition and networking opportunities, both at the local level and at the national level.

To help ease the financial stressors that often come with internships, such as rent in a new city, commuting and work attire, the Martin I. Katz Guest Lecture Scholarship was created by the Katz Family to help bring diverse talent to the secured finance industry.

"My dad, Martin I. Katz, was one of the early turnaround consultants, long before it was considered an industry," said his son, Robert Katz, managing director, Eisner Advisory Group LLC. "He founded Executive Sounding Board Associates Inc. in 1978. One of the places he always attributed his success to was the Commercial Finance Association (CFA), the Secured Finance Network's predecessor. Prior to me joining the industry, at our dinner table, he would share captivating stories about the Association and its luminaries, many (but not all) members of the Hall of Fame, such as Larry Marsiello, Joe Pollicino, Sr., Bill Davis and Walter Einhorn, just to name a few.

"He loved education and being a part of the Secured Finance Foundation. He was an early member and constant contributor of the SFFound. The SFFound brought out his passion and he was always making sure his opinions were heard. I am sure, some would say, too active. I too, became an active member of the SFFound.

"When my dad passed away almost three years ago, I could think of no better way to honor his memory than establishing a scholarship in his honor and memory. At the time, Jennifer Palmer, president, JPalmer Collective, was SFNet's president. So, I reached out to her and two of my dad's favorite SFNet leaders, Jeff Goldrich, president, SLR Business Credit, who founded, along with another SFNet legend, Ted Kompa, Business Alliance Capital Corp., to establish a scholarship. That was the origin of the Guest Lecture Scholarship Program."

Katz hopes to see others contribute to the Guest Lecture Program and help it grow.

"Marty loved the SFNet and knew education made a



■ **NICOLE BYREN**
University of South Carolina



■ **JACKSON LANDA**
University of Chicago



■ **CHAPIN MEMMOTT**
Southern Methodist University



■ **JASRAJ SINGH**
Wayne State University

significant difference to him, a kid from an underserved community who put himself through college, and became a leader as a turnaround consultant, honored in 2018 by the Turnaround Management Association's Hall of Fame. What could be better than paying/playing it forward for our future?", Katz said.

The program has already impacted students, including Nicole Byren, a senior psychology major at the University of South Carolina; Chapin Memmott, a corporate communications & public affairs major at Southern Methodist University; Jackson Landa, an economics and data science major, University of Chicago; and Jasraj Singh, a junior accounting major at Wayne State University - Mike Ilitch School of Business, who completed their 2024 industry internships thanks to SFNet's Guest Lecture Program and the Martin I. Katz Scholarship.

Guest Lecture Experiences

SFNet presented “Opportunities in Lending” to undergraduate business program students at Baruch College in New York City in fall 2023. Ikhwan A. Rafeek, partner, Blank Rome, was the moderator and panelists included Jeff Austin, senior vice president, SLR Digital Finance, Joe Barbuzza, VP, credit officer Portfolio Management, Bank Hapoalim, and Ryan Kerner, vice president, JP Morgan Chase.

The presentation was presented “coffee table” style to discuss various topics such as what is SFNet, asset-based lending and panelists’ academic backgrounds and what led them to a career in secured commercial finance. They also discussed the various types of banks, non-bank lenders and service providers in the industry and what roles are available as well as different job opportunities, internships and networking. Michael Ticehurst, partner and field exam manager, Rosenberg and Fecci Consulting, helped coordinate the lecture and has since had two summer interns from SFNet’s guest lecture programs.

“Rosenberg and Fecci Consulting was very excited to get the exposure through the SFNet internship program and offerings, and the scholarship opportunity was the ‘cherry on top!’,” Ticehurst said. “Our interns provided their resumes, contact information and general information as requested, and were very excited when they learned they were selected for the scholarships. Our internship is a true introduction to ABL. It is hands-on. Mornings are spent learning new concepts, and the afternoons were spent refining the concepts. The interns were in the office with our team and often worked to aggregate information and recreate work completed by our field exam staff. The interns were a true part of our team, engaging in our firm meetings, on calls with lenders and clients, and even going on-site to clients for field work review and inventory test counts with a partner or manager of R&F. The goal of the internship is to give the intern an opportunity to understand field exam, and the important role it plays in lenders making informed and timely decisions regarding their collateral. We are very happily expecting to bring on 1 or 2 interns for summer 2025, and the door is open for both 2024 interns to be offered a full-time position upon graduation, should they be interested, as both Chapin and Nikki exceeded our expectations with their performance, professionalism, and personalities.”

Robert Bowles, founder, executive director, Bluewater Transaction Advisors LLC, guest lectured at Wayne State University in Detroit, MI, and was invited to speak to an accounting class virtually to a different set of students.

“We reached about 50 students and received six applications since then. Students were engaged and asking questions,” Bowles said. “Many students expressed that they had never heard of secured lending or of a collateral field exam. There needs to be an effort made to pass along the knowledge and experience to the next generation of industry professionals.”

2025 Guest Lectures:

Baruch College
Georgia State University
Kean University
Kennesaw State University
Lehman College
Northeastern-Chicago
Rider University
Rutgers University
St. John’s University
University of Georgia
University of Illinois

2024 Guest Lectures

Bentley University
CUNY Future in Finance
Florida Atlantic University
Georgia Tech
Hofstra University
Kennesaw State University
Lehman College
LIU Post
Marist University
Rutgers University - Newark Campus
Nova University
Queens University
Rice University
Rider University
Rutgers University - New Brunswick Campus
St. John’s University
Stony Brook University
University of Texas at Austin
University of Illinois
University of Indiana
Wayne State University

Internship Experiences

Jasraj Singh attended the guest lecture at Wayne State University, having never heard of asset-based lending or its

associated careers in school and had only had an “inkling” of knowledge about the field from research he did prior to the event.

“I was surprised by the depth of coverage the lecture went into,” Singh said. “I was interested in the process in which the industry operated on, and where Bluewater fit into the whole process. Interning with Bluewater solidified my interest and led me to think positively about possibly entering into a career in the industry. My experience at Bluewater was nothing short of amazing. I was able to learn something new about the industry and different situations every day. The professionals I worked with showed me the high level of quality and expertise they put into their work, which inspired me to put more effort into my own projects to meet that high standard. I was able to work on projects that were meaningful and that contributed to my learning and growth. After completing my internship, I was grateful to have been able to work with some of the brightest people in the industry and learn firsthand about the opportunities available.”

Singh’s internship consisted of helping Bluewater professionals with projects that allowed him to understand the in-depth field examination process and the best practices that went along with it.

“My favorite aspects about my internship were the collaborative aspect and being able to ask questions when needed. I greatly appreciated the mentorship I received, and all the lessons I learned have helped me excel in my academic journey. I was able to take away a lot from the experience, including more knowledge about the field as well as a greater understanding of financial statements and understanding lending processes. Accounting is a field that I had not associated with the ABL industry prior to my internship, but in the process, I learned just how important it was to understand how financials work alongside the impact of various accounting principles.”

After graduating from WSU in December 2025, Singh plans

to pursue his CPA and become an auditor. He is also interested in a career in the ABL industry.

“At WSU, I help lead the largest professional finance club on campus, the Financial Management Association (FMA), that helps fellow students start their careers through networking opportunities and internships. Through this, I have come to understand that many fields put great emphasis on early recruiting that end up making students think that no other fields exist outside of them. My internship with Bluewater opened my eyes to this, and I now encourage my fellow students to pursue opportunities outside the more generic paths that may exist. Organizations like Bluewater may get overlooked by many students, but still provide an equal, if not greater, opportunity as a whole to have a career in.”

For Rosenberg & Fecci interns Nicole Byren and Chapin Memmott, their internships gave them insight into opportunities where they could use their degrees once they graduate.

Byren had a contact who had interned at Rosenberg & Fecci the previous summer who spoke highly about the experience and was from her nearby hometown of Rumson, NJ. She heard about the scholarship through Ticehurst, who reached out to her about the guest lecture event and scholarship.

“The internship gave me a clear understanding of what a career in auditing and consulting looks like,”

Byren said. “It helped me develop technical skills, like financial analytics, and critical thinking skills, such as communication and teamwork. As a psychology major, I found out a lot of what I studied, like understanding human behavior, communications and problem-solving, complemented my internship experience. Working with clients and teams required strong interpersonal skills and the ability to analyze situations from different perspectives. Psychology has helped me approach challenges thoroughly and communicate effectively, which is a big part of succeeding in a job like that and in a career. Going into it, I



“We reached about 50 students and received six applications since then. Students were engaged and asking questions,” Bowles said. “Many students expressed that they had never heard of secured lending or of a collateral field exam. There needs to be an effort made to pass along the knowledge and experience to the next generation of industry professionals.”

was nervous because I was going to intern for a company that I thought had nothing to do with psychology, but it gave me so much insight into how companies work and how to collaborate with other people. The internship really made me want to go more into management.

“I was lucky enough to be able to go onsite to conduct an inventory check that wasn’t in office during the internship. With that, you go out and talk to people in a variety of industries to do inventory checks. Someone was with me, giving me the rundown on how the inventory checks work step by step. Not once did I feel like I was out of the loop.”

Graduating this May, Byren has been commuting into the New York City area while home on breaks speaking with prospects and networking with companies such as Merrill Lynch and UBS, for positions within sales, management and CRM assistant roles, to figure out her future plans.

Chapin Memmott was also encouraged to apply for the Guest Lecture Scholarship from Ticehurst and Steve Rosenberg and interned during summer 2024.

“The staff at Rosenberg & Fecci didn’t treat us as interns, but more so as employees who worked at the company, which was really special,” Memmott said. “I know that at other places, that’s not exactly what you do. You’re just shadowing people. They made us feel like we worked at the company and wanted us to be as involved as we could, joining meetings with everyone and have us check the work and trust we did it correctly. It really made us feel like they didn’t have to watch over at all times.”

When Memmott graduates in May 2026, she plans to move back to the East Coast and seek a job in finance, and is interested in trading, sales, private equity and wealth management.

“I’ve been looking at jobs this summer in those fields. I really enjoyed learning things on the accounting side during the internship and what I could do in my career. I found that helpful and it gave me an understanding of what fields I would like to go into.”

For advice for future interns, Memmott advised to fine tune Excel skills since she often used Excel during her internship.

Jackson Landa interned at San Francisco-based BizCap during the Summer of 2024. He attended the Wayne State University Guest Lecture over Zoom.

“I knew that I wanted to work in San Francisco, and do something in finance, whether it was credit investment or banking-related,” he explained. “I went on LinkedIn and reached out to people at firms that I thought would be interesting to work at, and I reached out to the BizCap team and asked if they could hop on a call and talk about a potential internship. I spoke with BizCap’s CEO, Chuck Doyle, and things took off from there and I had a great summer with them.”

Landa was based in San Diego at the time and stayed with cousins in the San Francisco area, but had to commute an hour and 20 minutes via ferry and car to the internship,

crediting the Guest Lecture Scholarship money in helping with his transportation and meals.

At BizCap, Landa helped with financial analysis, teasers for companies that are looking to help creditors lend and worked with SIMs and confidential information, such as memorandums and organized financial statements.

“I also offered some of my own investment recommendations, which was taken with a large grain of salt, and was more of an educational opportunity for me than anything serious for the team. But it was something fun for me to do after I’d finished all the financial analysis and number crunching on Excel sheets. The people at BizCap were absolutely amazing and I’m so grateful for them for letting me spend the summer there and work with them. They took me in with open arms and taught me a lot and spent time with me.”

This summer, Landa will be interning at private credit firm Apogem Capital LLC in Chicago.

“I’m really excited for that. Private credit has been one of my interests for a while and I am also part of a credit-focused club at school. I think I’d like to stay in the realm of credit for the time being because I have been learning about credit for a couple years now and it is an area that has really interested me and it obviously has had a lot of growth in the past few years. I’m also interested in special situations, more complex debt and equity investing, and potentially restructuring investment banking.”

Eileen Wubbe is senior editor of The Secured Lender magazine.

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Steady Under Pressure:



ABL and Factoring Navigate Shifting Economic Tides

BY SFNET DATA COMMITTEE

From Plateau to Pivot:
ABL Navigates New Economic Crosswinds

In 2024, asset-based lending (ABL) remained stable. The market moved away from the disruptions caused by the pandemic and returned to a more typical, fundamentals-driven environment. However, with persistent inflation, uncertain monetary policy, and new tariffs, lenders are now preparing for increased volatility.

Drawing from SFNet's 2024 Annual ABL Survey, syndicated market data from LSEG LPC, and new macroeconomic insights from KeyBridge Research, we'll examine where ABL stands—and where it's heading—as the lending landscape adapts to a higher-stakes economy.

Macro Backdrop: A Market on Shifting Ground

The U.S. economy entered 2025 with mixed signals. The labor market remained healthy through Q1, averaging +152,000 new jobs per month, and real disposable income grew in both January and February. But below the surface, consumer fatigue is setting in. Retail sales fell sharply in January—the worst month in over three years—and barely rebounded in February. Consumer confidence dropped for the fourth consecutive month in March, with expectations for future conditions at their lowest level in over a decade.

Then came tariffs.

The impact of the escalating tariffs on China and many other countries is already sending ripples through the economy: import prices are soaring, U.S. businesses are scrambling to shift supply chains, and inflationary pressures are reemerging. Production cuts are being reported in sectors reliant on low-cost Chinese goods, and credit quality risks are intensifying. "Credit quality will decline," economist John Silvia, founder of Dynamic Economic Strategy, had warned. "Slower growth and higher input prices will reduce the cash flow for companies... and lead to poorer business credit quality."

Now, economists are issuing even starker warnings. "Tariffs of this magnitude effectively function as a tax on American consumers and businesses," said Mark Zandi, Chief Economist at Moody's Analytics. "They will raise prices, slow growth, and introduce new financial stress on firms already dealing with tight credit conditions." Small businesses are already reporting layoffs, frozen inventory, and halted production plans. The broader concern, Zandi adds, is that "these tariffs could tip the economy closer to recession if retaliatory actions escalate and investor confidence erodes."

Markets have taken note: Treasury yields initially went down and at this writing are up significantly, corporate credit spreads are up, bond markets have largely shuttered for highly leveraged credits and global responses—from China to the Americas to the EU—are just beginning. For asset-based lenders, this landscape is both a challenge and an opportunity. It is a challenge to assess credit risks given uncertainty over

tariff impact and the overall direction of the economy. The opportunity lies in the ability of the asset-based market to provide a steady source of liquidity in times of uncertainty.

Lender Sentiment: Confidence with Caution

Despite macro headwinds, the Lender Confidence Index compiled by SFNet and KeyBridge ticked up in Q4 to its highest level in three years. Banks rose +7.1 points to 63.2; non-banks climbed +8.7 to 65.8. Lenders expressed especially strong optimism for new business demand and staffing growth, though banks remained more cautious on portfolio utilization and economic outlooks.

Notably, this survey was conducted in February 2025 before the tariff announcements. Future readings may be more guarded.

2024 In Review: Syndicated vs. Full-Market Activity

Let's not forget the fundamentals. LSEG LPC reports \$105B in syndicated ABL volume in 2024, down 29% YoY, but still the fourth-highest year on record. However, when we zoom out using SFNet's full-lens view—including both syndicated and non-syndicated deals—the story balances out:

- Total new commitments in 2024 exceeded \$22B across all lenders
- Non-bank lenders posted a +9% YoY gain in new commitments, while banks declined -18.8%
- New outstandings surged for non-banks (+25.7%), but fell for banks (-17.8%)
- Utilization rates remained below historical norms: 35.7% for banks, 48.0% for non-banks

This dynamic reflects a market in transition. Banks are tightening risk, while non-banks are capturing lower middle-market demand with faster execution and flexibility.

Q4 Momentum: A Tale of Two Lenders

Fourth quarter activity paints a picture of divergence:

- Banks experienced muted deal flow. Commitment runoff jumped +88%, exceeding new commitments and driving down net balances.
- Non-banks, by contrast, saw an 11.9% increase in total commitments and a 168% jump in new outstandings, driven by faster underwriting cycles and sustained portfolio performance.

Still, credit quality remained mostly stable. Non-accruals and write-offs stayed well below historical norms, and even with a slight uptick in criticized loans, the industry isn't flashing warning signs—yet.

Key Trends to Watch in 2025

1. Tariff Uncertainty and Stagflation Risk

With core PCE inflation at 2.8% and tariffs likely to push prices higher, the Fed faces a balancing act. Markets are pricing in four rate cuts by year-end; the Fed projects just two. Stagflation—the toxic mix of high prices and low growth—is now part of the economic conversation.

2. Refinancing Surge Incoming

ABL commitments totaling \$347B are set to mature over the next 24 months (LSEG). With traditional credit markets still unstable, refinancing volumes may rise significantly.

3. Non-Bank Expansion Continues

Non-banks increased their share of new commitments and outstandings in 2024, a trend expected to accelerate. Purchased participations by non-banks grew to 5.9% of outstandings—up 223 bps from 2022.

4. Sector Rotation: From Retail to Industrial

Retail's share of outstandings fell 200 bps YoY, while wholesale and manufacturing continued to dominate. ABL is well-positioned to support companies navigating reshoring, supply chain complexity, and energy transition challenges.

5. Operational Efficiency Through Tech

Underwriting headcounts are growing, but portfolio management and field exams are shrinking. Digital adoption is underway, and lenders investing in automation will see faster closings and improved risk tracking.

Final Word: Resilience With Eyes Wide Open

The story of 2024 wasn't one of decline—it was one of repositioning. ABL proved once again that it's not just a product for downturns but a strategic, scalable financing solution in uncertain times.

Looking ahead, lenders should brace for macro-induced volatility, but remain confident in the structural strength of the market. As SFNet's CEO, Rich Gumbrecht, put it: "ABL has long been seen as an 'all-weather' industry—and it's well-positioned to provide borrowers the capital they need to navigate uncertainty."

As tariff effects take hold and inflation dynamics evolve, expect a more discerning lending environment, more competitive deal structures, and increased differentiation between bank and non-bank strategies. If history is any guide, ABL lenders will adapt, and pick up the pieces left behind by aggressive leverage.



Factoring 2024

Solid Footing in Uncertain Times

If there's one word that defines the factoring industry during the early part of 2025, it's "adaptation." As economic uncertainty collides with regulatory, geopolitical, and technological forces, factoring continues to be the bedrock financing solution for businesses in need of working capital.

The Secured Finance Network's 2024 Year-End Factoring Survey reveals an industry that is both steady in its fundamentals and evolving in response to dramatic shifts. Volume was down slightly, but client counts are surging. Margins are compressing, but innovation is on the rise. As Oscar Rombola aptly notes in his article on page XX, factoring is at a crossroads—and those who embrace change will come out ahead.

Volume Down, Clients Up: A Nuanced Landscape

Let's start with the numbers. According to the SFNet survey:

- Overall factoring volume declined 3.9% year-over-year.
- U.S. volume slipped 4.3%, while international volume rose 3.4%.
- Total factoring clients surged 24.1%, with U.S. clients up 19.8% and international clients soaring 48.2%.

What does this tell us? The appetite for factoring is growing, even if transaction values are tapering. As Rombola observed, businesses are turning to factoring amid tightening credit and volatile interest rates—and many are first-time users. Industries like freight, healthcare, and manufacturing are especially active, driven by supply chain pressures, regulatory lag, and prolonged payment cycles.

Macroeconomic Drag Meets Tariff Tension

The U.S. economy ended 2024 with 2.4% GDP growth, driven by consumer and government spending. But cracks have emerged. Retail sales fell 1.4% in January and consumer confidence hit a 12-year low in March. New tariffs from the Trump administration—a 10% universal import duty and 104% on Chinese imports—are adding new layers of uncertainty, particularly for industries like apparel and textiles, which still represent 49.3% of factoring volume.

Rombola highlighted these tensions in his analysis of manufacturing factoring: "Tariffs and rising input costs are squeezing margins and delaying production." Factoring firms must monitor global trade policy closely and adjust risk models accordingly.

Meanwhile, the Federal Reserve remains cautious. Core inflation at 2.8% Y/Y in February continues to challenge its 2% target. While the Fed projects two rate cuts in 2025, markets are betting on four, signaling fear of stagflation. That's a dual-edge sword for factoring: tighter bank credit will increase demand, but also heighten risk.

Portfolio Stability in the Face of Risk

Despite the macro headwinds, factoring portfolios remained healthy in 2024:

- Write-offs ticked up slightly to 0.18% of volume, still below long-term averages.
- Loan loss provisions were conservative at 0.16% of volume.
- Advance rates improved by 93.6 bps, reaching 84.3%, while
- DSO remained steady at 45.8 days.

Rigorous credit vetting, especially in volatile verticals like freight and healthcare, is needed. Carriers are facing margin compression, broker risk, and digital disruption from platforms like Uber Freight. Healthcare, meanwhile, continues to wrestle with HIPAA compliance, slow reimbursements, and consolidation.

Technology, Compliance, and Margin Pressure

Revenue rose 21.0% half-over-half, but expenses jumped 31.3%, eroding pre-tax income by 2.1% year-over-year. Staff investments, particularly in business development (+20.8%) and underwriting (+39.1%), reflect the industry's pivot toward smarter origination and risk tools.

Yet, the pressure is real. Fintech challengers are offering near-instant invoice finance. As firms must double down on digital underwriting, fraud detection, and cybersecurity, especially as threats like invoice fraud and phishing become more sophisticated.

Client Needs Are Shifting—And So Is the Product

The type of factoring being used is evolving:

- Non-recourse made up 83.8% of volume, while full recourse remains the dominant model by client count (78.2%).
- Notification factoring represented 54% of volume but a whopping 97.7% of client relationships, up 9.2 pp year-over-year.

This signals a shift toward more open and digitally enabled borrower

relationships. Factoring firms are no longer just silent funders—they're integrated financial partners.

Outlook: Strong Fundamentals, Smart Adaptation

The Factoring Sentiment Index held steady at 70.5, suggesting continued optimism. But that figure preceded the announcement of broad-based tariffs. The real test will come in the second half of 2025 as supply chains absorb the impact.

Still, history shows that factoring thrives during financial dislocation. As banks pull back and liquidity gaps widen, collateral-based lenders step forward.



Meanwhile, the Federal Reserve remains cautious. Core inflation at 2.8% Y/Y in February continues to challenge its 2% target. While the Fed projects two rate cuts in 2025, markets are betting on four, signaling fear of stagflation.

Final Word: Resilience with a Tech Edge

The 2024 SFNet data backs this up.

Invest in technology. Sharpen your credit tools. Embrace compliance. Diversify clients. Monitor trade flows. That's the blueprint.

Addressing Legal Challenges in Utilizing AI

BY DANIEL H. ENNIS AND DREW STEVENS

Since its 2022 release, ChatGPT has revolutionized industries, but its integration into legal and business operations raises critical concerns. This article explores pressing AI legal issues, such as compliance with evolving laws, data protection, and the consequences of AI errors in real-world applications. Understanding these concerns is essential for businesses to navigate AI adoption successfully.

ChatGPT was first released to the general public in November 2022. Generally accepted as the first mass-market, large language model artificial intelligence (AI) program, ChatGPT and its competitors have rewritten how many industries envision integrating (or integrate) technology into their operations. Suddenly, outcomes that were only the realm of science fiction appeared achievable; however, the use of AI in practice comes with a myriad of legal issues to address, and some are more novel than others. This article discusses some of the most pressing AI legal issues.

Hallucinations and Accuracy

One of the primary concerns with AI is its propensity to provide incorrect or untrue responses, often referred to as hallucinations. Studies have put the hallucination rate for some prominent AI programs, depending on task and complexity, in excess of 25%, with some solutions achieving a lower error rate only through refusing to answer some questions. In the legal field, hallucinations have been a significant issue with the usage of AI, and there have been multiple cases where the use of AI (and subsequent hallucinations) in court filings led to adverse consequences:

- A lawsuit in a New York court was dismissed as a result of hallucinated citations and the relevant lawyer was sanctioned \$5,000 and required to write letters of apology to judges cited in the (hallucinated) cases.
- Attorneys in a Wyoming court were sanctioned a total of \$5,000 and agreed to pay legal fees and expenses of opposing counsel in responding to a brief that contained eight cases entirely created by AI.
- An attorney in an Indiana court faced aggregate sanctions of \$15,000 for providing false case citations in three separate legal briefs.

As a result, some courts have begun to require attorneys to provide affidavits as part of their court filings that their work product was either created entirely without the benefit of AI or that any case citations generated by AI were manually checked by the attorney. As an example of how an AI hallucination could impact a non-legal business, Air Canada was required to honor an inaccurate discount promised by an AI-driven online chatbot hosted on its website despite the correct (and less favorable to the customer) discount policy being displayed elsewhere on the website.

Vendor Contract Concerns

Fundamentally, AI is a software product, with all the related contract procurement issues associated with purchasing software. A non-exhaustive list of issues to consider when contracting for any AI product would include:

- Service level agreements, providing for minimum product standards, uptime requirements, product support, and end-of-life treatment
- Agreements on data ownership, access, and usage
- Provisions setting forth the initial term of the contract and the process for renewals and termination, along with the amount and cadence of pricing increases (if any)
- Clauses addressing the impacts of data breaches and related notification requirements
- Indemnities by the AI product provider for, among other things, any copyright violations related to training the AI model

Privacy and Confidentiality

Another major headline issue with the introduction of AI is data privacy and confidentiality. Most publicly

available AI programs retain all user data, which is then used to further train the AI and potentially incorporate findings into future responses provided to different users. As an example, Samsung banned its employees in 2023 from using public AI products after multiple instances of proprietary Samsung source code were being entered into those AI products for editing purposes and subsequently being reproduced for other users. Subsequent developments in “closed” AI models (where user inputs are encrypted and not used to train the AI tool) have reduced this concern, although this approach may not allow for the AI model to grow by including those inputs in potential outputs. A closed AI model also often comes with significantly increased costs and maintenance concerns.

Users of AI products also may have independent contractual duties not to use data otherwise in their possession to train potential AI programs. As examples only, some companies require their vendors (including law firms) to acknowledge that



■ **DANIEL H. ENNIS**
Parker, Hudson,
Rainer & Dobbs



■ **DREW STEVENS**
Parker, Hudson,
Rainer & Dobbs

the company (and not the vendor) owns all data associated or developed by that vendor in connection with matters for that company. Agreements between a company and its customers also may contain confidentiality clauses that may not allow the company to use any customer information to train the company's AI program due to the risk of disclosure of customer confidential information to a third party as part of the AI model's output.

Applicable Law

AI-related enforcement and regulation is in flux and highly dynamic at this time. Shortly after taking office, the current administration revoked the former administration's 2023 Executive Order that had previously set federal policy on AI and, in its place, issued its own Executive Order directing the creation of an AI action plan. According to the new Executive Order, the new action plan should achieve the stated goal of "sustain[ing] and enhance[ing] America's global AI dominance in order to promote human flourishing, economic competitiveness, and national security." On February 6, 2025, the current administration then issued a request for information from interested parties on this proposed AI action plan.

Separately, in January 2025, the current administration deleted from agency websites the multi-agency Joint Statement on Enforcement Efforts Against Discrimination and Bias in Automated Systems, which had been jointly issued by the Department of Justice, Federal Trade Commission, and Consumer Financial Protection Bureau in April 2023. The current administration removed the former Director of the Consumer Financial Protection Bureau—which, under the prior administration, had been active in releasing regulatory guidance on the use of AI in the financial services industry.

Meanwhile, the Department of the Treasury released a December 19, 2024, report titled "Uses, Opportunities, and Risks of Artificial Intelligence in the Financial Services Sector." This report summarized six categories of risks associated

with AI, including data privacy, bias, consumer protections, concentration-related risks, third-party risks, and illicit finance risks. The report then identified potential next steps for financial services firms, including reviewing AI use cases for compliance with existing laws and regulations before deployment and identifying enhancements to existing risk management frameworks.

Against the backdrop of this change in federal policy, state law continues to create a patchwork of compliance obligations. The broadest state AI law enacted in 2024 was Colorado's "Consumer Protections for Artificial Intelligence." The law defines high-risk AI systems as those that make "consequential decisions" (which include, by definition, decisions related to financial services or lending). The law also

requires AI developers to provide information on AI systems to "deployers," the Colorado attorney general, and the public; develop an AI risk management program; notify consumers when high-risk AI systems are used; and provide information on the high-risk AI systems used to make consequential decisions.


States also have been increasingly active in introducing new legislation to regulate the use of AI, including California, Georgia, Hawaii, Illinois, and Washington, and in issuing guidance outlining how existing law applies to certain industry sectors' use of AI. For example, on January 13, 2025,

the California Attorney General issued two legal advisories on the application of existing laws to AI, including statutes on disclosure obligations. The New Jersey Attorney General and Division of Civil Rights also jointly issued "Guidance on Algorithmic Discrimination and the New Jersey Law Against Discrimination" to clarify how the state's anti-discrimination laws apply to automated decision-making tools. This included those driven by AI technologies such as how bias can be introduced and mitigated in AI systems.

While AI continues to promise major changes to how many businesses function, it is important to remember that "the AI did it" is an excellent horror plot, but an unlikely legal defense. Careful



As examples only, some companies require their vendors (including law firms) to acknowledge that the company (and not the vendor) owns all data associated or developed by that vendor in connection with matters for that company.

consideration of the legal issues surrounding AI as part of adopting an AI solution is therefore necessary to enable users to capture more of the benefits (and fewer of the drawbacks) of AI. 

Dan Ennis is a partner with Parker, Hudson, Rainer & Dobbs. He is a lending attorney with a singular focus on closing lending transactions. He works with banks, finance companies, and other lenders to provide the secured debt necessary to power growing businesses across the U.S. and internationally.

Having a concentration in lending work, Dan helps his clients through transactions with a wide range of size and complexity. His deals include single-lender and syndicated credit facilities, often secured by real and personal property.

Dan is committed to the business of his clients and helping them achieve their objectives. His drive and experience help him to see transactions through on time and with favorable terms. Dan's responsiveness, manner, and focus on the latest developments in commercial finance serve his clients well in closing their deals and retaining their customers.

An accomplished civil litigator, Drew Stevens is of counsel with Parker, Hudson, Rainer & Dobbs and has represented clients in complex commercial litigation across multiple industries. Drew has represented franchisors and other employers in enforcing post-termination non-competes, commercial real estate developers in leasing and construction disputes, and hospitals and health systems in defense of claims under the False Claims Act. Drew also has extensive experience litigating intellectual property disputes, particularly trademark infringement matters, and his practice includes national insurance-coverage disputes in the context of mass torts, in addition to class-action defense.

Drew is also passionate about using the law to advance health equity and has developed nationally recognized expertise in the nondiscrimination provisions of the Affordable Care Act. In his healthcare practice, Drew regularly advises and represents health systems in connection with investigations and litigation related to compliance with federal nondiscrimination law, including in connection with investigations brought by the U.S. Department of Justice and the Office for Civil Rights within HHS.



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An Interview with Robert Love, Group Director of ABL at Flagstar Bank

BY CHARLIE PERER

In this installment of our series of executive interviews, Charlie Perer sits with Bob Love, Asset-Based Lending (ABL) Group Director for Flagstar Bank, to hear his views about his new role at Flagstar Bank, bank vs. non-bank competition, the future of ABL, executive development and competition, among other things.

Charlie Perer: Thank you for your time, Bob. To begin, can you please talk briefly about your background?

Robert Love: Charlie, thank you for the opportunity. I began my career at The Bank of New York in 1990, starting, like many in the industry at the time, as a field examiner. I advanced through roles in credit analysis and underwriting before serving as a portfolio manager for three years. At 29, I made the decision to launch my own asset-based lending (ABL) group.

I proactively pitched the idea, unaware that they had already launched an ABL group, to the CEO of Dime Savings Bank. This initiative led to a unique opportunity where I played a key role as one of the group's first three team members. In this capacity, I simultaneously served as a business development officer, underwriter, and portfolio manager, contributing to the group's early success and growth.

After 18 months at Dime, Joe Nemia approached me with an ABL opportunity at GE. My time there instilled a methodical and structured approach to new business, which I carried with me to CIT and Citizens. Eventually, I decided it was time to pursue my long-standing goal of starting an ABL group.

That opportunity came first at Amalgamated Bank, followed by an opportunity with Signature Bank. In August 2013, I launched Signature's ABL group, which has since become the ABL Group for Flagstar Bank following its acquisition of certain assets and liabilities of Signature Bank.

Tell us about Flagstar Bank and why investing in ABL is a strategic priority?

Before the formation of the "New Flagstar," I spent 15 years of my life explaining what ABL is to senior leadership at various companies on the fundamentals and strategic importance of ABL.

While many executives recognized they wanted it, few truly understood its intricacies. As ABL lenders, we have been trained in a discipline, and we don't lose that principal. I have had to explain repeatedly the steps that we take, to not only senior managers, but senior credit people. I would walk away thinking they didn't truly understand, and then at the next credit approval, I would know they really didn't understand everything we do.

This changed in early 2024 when Joseph Otting joined Flagstar as CEO. Given his extensive background as a commercial lender, Joseph immediately understood the significance of ABL within a robust commercial lending program. During our first meeting, he set aside my prepared presentation and affirmed, "Bob, I know what asset-based lending is. To build a strong commercial lending portfolio, we must offer ABL to balance the bank's overall risk profile and drive growth."

Shortly after, Rich Raffetto was appointed as president of Commercial and Private Banking. On his second day, a brief introduction turned into an hour-long discussion about the ABL

group's pivotal role within Flagstar. Later that same day, Rich attended our weekly portfolio review meeting—the first time a senior executive had participated in over a decade.

From that moment on, it was clear—Flagstar Bank values ABL and views it as a cornerstone for expanding the Commercial & Industrial (C&I) loan book and achieving strategic growth. The mandate was clear: accelerate and scale our ABL efforts. As Herb Brooks, coach of the 1980 Miracle Hockey Team, famously said, "Great moments are born from great opportunity." At Flagstar, this is our great opportunity, and we're seizing it.

What groups and products comprise Flagstar's specialty finance efforts?

Flagstar's Specialized Industries Group, led by Adam Feit, encompasses Asset-Based Lending, Sponsor Finance, Healthcare, Lender Finance, Franchise Finance, Sports, Media & Entertainment, Subscription Finance, and Capital Markets. We have collective leadership meetings and new business pipelines. This is the first time in my career, the leadership of these disciplines is meeting regularly, fostering a more cohesive and strategic approach to growth. Beyond structured collaboration, these leaders have developed strong working relationships, which has accelerated opportunities, strengthened our collective impact and is already driving results.

We are receiving new business referrals from Sponsor and Lender Finance, expanding our ABL group's pipeline. We recently hired an underwriter with healthcare expertise, opening the door for collaborative transactions with our Healthcare Finance team. Additionally, having Capital Markets and Lender Finance within our Specialized Industries Group provides us with critical market insights, enhancing our ability to structure competitive and creative solutions.

By operating as an integrated platform rather than siloed



■ **ROBERT LOVE**
Flagstar Bank



■ **CHARLIE PERER**
SG Credit Partners

business units, Flagstar's Specialized Industries Group is positioned for significant growth and expand market share.

What's your go-to-market strategy and competitive differentiation?

Previously, our ABL group operated with a more limited, direct-only approach. Today, Flagstar's strategic structure allows us to cover every channel of origination. A key shift under new leadership is the removal of previous hold restrictions. We can now pursue transactions ranging from \$10 million to \$100 million, significantly expanding our addressable market. With this capability, Flagstar ABL covers approximately 90% of the bank ABL market nationwide establishing us as a dominant force in the industry.

Flagstar ABL can do direct and indirect transactions. Leveraging the strength of our Specialized Industries Group and the broader bank, we can originate business across multiple channels and offer a suite of complementary financial products, enhancing our competitive position.

Beyond our expanded market reach, our competitive edge lies in execution. We prioritize talent acquisition and development in underwriting, recognizing that speed and certainty are critical to both sales and portfolio management. Every ABL lender claims to have a fast process—our best-in-class underwriting team ensures we deliver. By focusing on underwriting efficiency, we provide quick turnarounds that give prospects confidence and enable our sales team to execute decisively.

Flagstar ABL is built for growth, combining national reach, broader origination channels, expanded lending capacity, and a relentless focus on execution speed. These differentiators position us to win in today's competitive market.

How is regional bank-ABL evolving and how are you shaping it?

At Flagstar, ABL is positioned as a core product with a dedicated P&L to measure performance. Unlike a siloed business unit, ABL operates as a national platform structured across three key regions—East Coast, Central, and West Coast—aligned with the

bank's core markets. With offices in New York, Chicago, and Los Angeles, each regional team supports all business units in its respective geography, ensuring full national coverage.

Our current leadership team focused on removing both legacy and geographic distinctions between the three banks that comprise the Flagstar we know today – New York Community Bank, Signature Bank, and Flagstar— with a unified national ABL strategy. This structure allows us to book loans across the country, enhancing regional portfolio diversification and reinforcing Flagstar's resurgence as a rising force in ABL.

How important is culture to you as part of building a business?

Culture is the most important factor in building a high-performing organization. To quote Herb Brooks, "it's about having the right players." All it takes is one bad apple to ruin the whole bunch. I don't care how talented they are. In our industry, there is no shortage of exceptional credit professionals and salespeople—but if they can't collaborate effectively, they don't belong in my organization. The real challenge, and the real differentiator, is finding top talent that also fits the culture.

I prioritize protecting my team from unnecessary distractions so they can stay focused on their individual goals and the broader objectives of the ABL group. A culture of growth isn't just about business expansion—it directly impacts employee satisfaction, retention and the quality of their work.

Work is a significant part of our lives. Personally, I spend more time in the office than at home, and while that may not be for everyone, it's what works for me. What's critical is ensuring that our team environment is one where people want to be. My door is always open, I always call my team back, and I review write-ups as quickly as possible—because I recognize the effort that goes into preparing them. Respecting people's hard work is fundamental.

At the end of the day, no one should feel miserable coming to work. We spend too much time here not to enjoy what we do and who we do it with. Building a business isn't just about strategy and numbers—it's about people, and culture is what makes great teams thrive.



In another instance, our capital markets team faced SBA restrictions on syndicating loans. We went to Washington, DC, made our case, and ultimately created a new market by establishing syndication guidelines exclusively for SBA-approved lenders.

Are there more similarities or differences between the ABL industry today compared to when you were at GE in the 1990s?

In the late '90s, we were creating new markets. Today, we are optimizing every inch of the opportunities we pioneered, leveraging technology to refine risk management and expand the boundaries of traditional ABL. The ABL industry has evolved significantly since my time at GE in the late 1990s. Back then, GE was an entrepreneurial environment—fast-moving, innovative, and willing to push boundaries. If a deal made sense and we could justify the risk-reward, we found a way to get it done. We weren't just adjusting advance rates; we were expanding the very definition of ABL by entering new markets.

For example, when I originated Sotheby's at GE, critics claimed it wasn't true ABL. But we took a fresh approach, structured the deal safely, and proved that ABL could be applied in unconventional industries. In another instance, our capital markets team faced SBA restrictions on syndicating loans. We went to Washington, DC, made our case, and ultimately created a new market by establishing syndication guidelines exclusively for SBA-approved lenders.

That period of innovation paved the way for the industry's expansion, allowing new players to enter and diversify the ABL market. Today, however, most of those frontiers have already been explored. The industry has matured, and the focus has shifted from market creation to maximizing the opportunities that were built over the last few decades.

One of the biggest shifts today is the growing divide between bank and non-bank ABL lenders. Banks are focusing more on lower-risk deals, while non-banks are handling higher-risk transactions. At the same time, the industry is being pushed toward higher advance rates. While this raises concerns, technology has dramatically improved our ability to monitor assets, assess risk, and refine liquidation values. Enhanced reporting, frequent appraisals of inventory, machinery and equipment, and real estate all contribute to more precise lending decisions.

What are you doing to create differentiation and is it more product or approach driven?

Differentiation isn't an either-or decision between product and approach—it requires excellence in both. To truly stand out, we must be better across the board, embracing what I call a "renaissance lender" mindset.

From a product perspective, differentiation comes from structuring ABL loans with deep industry expertise. The broader bank has industry specializations — ABL isn't just a standalone product; it's a discipline that should be strategically applied across these specializations. When done correctly, ABL transforms into a bank-wide solution, enabling us to unlock value across multiple industries. This expertise allows us to stretch where appropriate, provide greater certainty to borrowers, and enhance internal buy-in across business units.

On the approach side, we are leveraging every channel of origination. Flagstar ABL, in partnership with our corporate lending

team, maintains a direct origination strategy while also capitalizing on Sponsor, Lender, and Healthcare intermediaries. Additionally, we actively fund both direct and indirect transactions, focusing on where we can add the most value to the borrower. By taking a broad yet strategic approach, we drive stronger deal flow and create more opportunities.

Ultimately, true differentiation comes from mastering both product and approach—ensuring that we are not only structuring better deals but also reaching more borrowers through a diverse and well-integrated origination strategy.

How helpful has it been to be able to draw on different experiences having seen how different ABL shops are run?

Throughout my career, I've had the privilege of learning from exceptional ABL teams and incorporating best practices into Flagstar's ABL operations. One key focus has been cultivating talent within field examination, providing opportunity for individuals with a strong foundation in ABL before advancing into underwriting, portfolio management, or sales.

While much of the field exam function is now outsourced industry-wide, we've adapted by using operations as our foundational training ground. This approach ensures that new talent learns ABL from the ground up and follows a structured development path.

My experience at GE instilled in me the power of process through its Six Sigma discipline, emphasizing efficiency and precision. I've applied this mindset to banking, where process optimization enhances cycle times, reduces errors, and strengthens regulatory controls. Additionally, I learned to integrate data-driven decision-making into deal structuring and monitoring, making us more competitive and improving win rates.

Above all, I've learned that ABL is fundamentally about people, regardless of the organization. We operate within a specialized discipline that isn't widely understood in banking, fostering a unique culture of competitive camaraderie and shared drive—one that also propels organizations forward.

At Flagstar, I've had the privilege of assembling top talent from past experiences, including Robert Wallace, Phil Carfora, Tom Morante, and Jim DeSantis. Their expertise has been instrumental in building an ABL group that is structurally sound, operationally efficient, and strategically positioned for sustainable growth in today's market.

How has the bank-ABL BDO job evolved over the past ten years and how will it evolve over the next 10 years?

Over the past decade, the role of a bank ABL business development officer (BDO) has evolved from a traditional salesperson into a strategic advisor and internal navigator with deep industry expertise. This transformation has made bank ABL BDOs more effective and efficient in sourcing and winning business.

A decade ago, bank ABL BDOs operated in a purely

transactional, deal-by-deal manner, pursuing opportunities wherever they arose. As regulatory scrutiny increased, the ABL market split between regulated banks and non-bank lenders. Many BDOs migrated to non-bank institutions, believing greater flexibility would lead to more deal flow. While these initially provided advantages, the rapid expansion of non-bank lenders resulted in an intensely competitive, crowded market—one where many pursued the same high-risk transactions.

Meanwhile, bank ABL groups have fundamentally reshaped their go-to-market strategy. Rather than working in silos, today's bank ABL integrates within a broader relationship-driven banking model. Banks are filled with general and specialty relationship managers, and the modern bank ABL BDO must be seen as an internal expert—collaborating across business lines instead of operating independently. Success is no longer just about direct deal origination; it's about equipping relationship managers with the tools, knowledge, and structuring expertise to win future business.

This shift has enabled bank ABL BDOs to expand their reach, manage larger territories, and leverage internal distribution channels—enhancing their competitiveness against non-bank counterparts.

Looking ahead, the next decade will see bank ABL BDOs continue to evolve into specialists who foster internal collaboration, manage risk more effectively, and utilize technology to improve deal execution. Those who master this strategic approach will remain at the forefront as the ABL landscape continues to shift.

How will this next economic cycle test the relationship between commercial banks and their ABL groups?

While the trajectory of the next economic cycle remains uncertain, one thing is clear: Asset-Based Lending (ABL) is a critical skill set that commercial banks rely on to navigate both strong and challenging market conditions. Unlike “ABL Light” structures, which lack the rigor and discipline of true ABL, traditional ABL—rooted in sound underwriting and structured discipline—is designed to withstand economic volatility.

For commercial banks, success in uncertain times depends on empowering their ABL teams with the autonomy and expertise needed to protect principal. When banks allow ABL lenders to adhere to the fundamentals of the discipline, they can effectively mitigate risk—even in the most turbulent economic cycles.

It's essential to approach terms like “ABL Light” with caution. This isn't true ABL—it's a misleading label that often conceals weak structures and insufficient monitoring. Just as you wouldn't hear terms like “Equipment Loan Light” or “Cash Flow Light,” mischaracterizing ABL diminishes the integrity of the discipline. To preserve its value, banks and their ABL teams must remain vigilant, ensuring the product is properly understood, executed, and upheld to the highest standards.

Lastly, tell us something you are worried about that the rest of the market has yet to figure out.

We've made remarkable strides at Flagstar, and I have immense confidence in our leadership team as we continue to transform and thrive under new leadership. Our journey has been a testament to the dedication and progress we've achieved, and our latest successes are proof of the strength of our vision.

As we scale and grow, we embrace the evolving market landscape with excitement, viewing the emergence of new players as an opportunity for innovation. I'm truly grateful for the chance to contribute to Flagstar's continued growth and to meet these challenges with optimism and determination. 🚀

Charlie Perer is the co-founder and head of originations of SG Credit Partners, Inc. (SGCP). In 2018, Perer and Marc Cole led the spin out of Super G Capital's cash flow, technology, and special situations division to form SGCP.

Prior to Super G, he co-founded Intermix Capital Partners, LLC, an investment and advisory firm focused on providing capital to small-to-medium sized businesses. At Intermix, Perer spent significant time sourcing and executing transactions and building relationships within the branded consumer, specialty finance and business services industries. Perer began his career at Oppenheimer & Co. (acquired by CIBC World Markets) where he was a member of the Media Investment Banking Group. He graduated cum laude from Tulane University. He can be reached at charlie@sgcreditpartners.com.

TECH TRENDS AND SUPPLY CHAINS

What is the Tech Supercycle in 2025 and What Does it Mean for Supply Chains?

BY CHRIS WOHLERT

With the end of Windows 10 support in October 2025, companies must act fast to avoid supply chain disruptions, cybersecurity risks, and operational inefficiencies. This article explores how delayed IT investments could affect your business and your clients' businesses and provides key strategies to ensure you're ready for the upcoming shift.

It's been almost five years since most companies overhauled their IT systems as COVID-19 forced companies to immediately reevaluate and revamp their technology to accommodate the pandemic's work-from-home model to keep businesses going. This investment coincided with the IT industry's typical refresh cycle, which happens as technology nears the end of its lifespan and upgrading to new equipment is essential for business operations. In 2020, when demand for IT product was at historic levels, it created a tech supercycle, with significant delays in delivery due to supply chain constraints because factories could not produce at the rate of demand needed by businesses.

As we approach the five-year anniversary of the pandemic, companies may be about to face a similar tech supercycle. This has significant implications across various industries as delayed investments in technology might affect the valuation of assets and overall operational efficiencies. Laptops, notebooks, and other IT devices typically have a 3–5-year lifespan with companies generally upgrading and replacing equipment on a regular basis. This creates a relatively standard ebb and flow of demand. Five years post-pandemic, the industry is now overdue for a refresh as companies have delayed the replacement cycle over the past few years.

Replacement has likely been delayed for various reasons – capital expenditure budget constraints, shifting of budget to support AI-related investment, and awaiting the next generation of AI-enabled devices. However, this delayed investment cycle can only last so long, as a significant upgrade deadline is looming – the end of Windows 10 support by Microsoft is currently scheduled for October of this year, which will require companies to upgrade devices to Windows 11-compatible equipment. Devices that do not meet Windows 11 requirements may not simply be upgraded to 11, they

must be replaced. Typically, older devices purchased 5-6 years ago, and prior, may not meet the requirements. It is important to check equipment soon; the clock is ticking.

According to Canalys, “2025 is expected to be a year of accelerating growth as the Windows 10 end-of-support deadline in October pushes hundreds of millions of PC users to refresh their devices.” The longer companies wait to invest in these important business initiatives, the more the supply chain window narrows, making it more crucial for businesses to be ready by October.



■ **CHRIS WOHLERT**
Wells Fargo

What Does This Ultimately Mean?

- PC growth was steady in 2024, up by only 1%, which signals that companies are slowly making the changes to get ready for Windows 11...it has also signaled to the market that a lot more orders will be placed in 2025.
- Delaying investment in new technology could create a supply chain disruption at the levels we saw during COVID.
- Businesses may be at risk of their cyber security insurance lapsing. This insurance typically requires policy holders to maintain reasonable protections against attacks. Failure to maintain an up-to-date operating system with the latest security updates and patches may not constitute reasonable protections.
- Middle-market companies could be at higher risk. Why? They are in a precarious position where they are more likely to have cybersecurity insurance to mitigate significant cyber risk, but would not necessarily have a large enough order to secure prioritization of supply (as a large, enterprise company might) from the OEM vendors or distributors. As a result, a supply squeeze is likely to be felt the hardest in the middle market, and this could impact their ability to meet operational needs.
- If this happens, consumers could also be impacted by retailers having limited quantities of new tech devices, as both back-to-school purchases and holiday shopping nears in 2025.

What Should Companies Do to Protect Themselves?

The answer is simple.

1. Assess technology equipment to determine what needs to

be updated ahead of the Windows 11 launch.

2. Get the orders into their IT providers as early as possible to ensure delivery before the Windows 10 expiry.
3. Adopt these strategies early and with trusted advisors to protect against supply chain disruptions and cybersecurity risks. 📧

Christopher J. Wohlert is the global head of sales and risk distribution for the Channel Finance business in Commercial Banking for Wells Fargo. In this role, he oversees strategy, origination, and risk distribution for financing programs supporting technology manufacturers and distributors globally.

Chris has decades of experience in the fields of commercial lending, inventory finance, and factoring where he has managed and structured global financing programs across the Americas, Europe, Middle East/Africa, and Asia Pacific. He has spent more than 25 years in the Channel Finance industry with Wells Fargo and its predecessor companies in roles of increasing responsibility in the areas of portfolio management, special assets, business development, and leadership. In addition, Chris presently serves as the chief executive for the Hong Kong branch of Wells Fargo.



“2025 is expected to be a year of accelerating growth as the Windows 10 end-of-support deadline in October pushes hundreds of millions of PC users to refresh their devices.”

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MARKET TRENDS

Economic Outlook

BY JOHN SILVIA

The announcement of new tariffs by President Trump marks the beginning of a critical and uncertain phase for the U.S. economy. While the full impact is still unfolding, early signs point to a significant economic slowdown, rising prices, and heightened inflation.

These factors are poised to reduce real incomes for households and strain business credit quality. As markets react ahead of tariff implementation, the broader implications—such as reduced cash flow for companies, particularly those with heavy reliance on imports—are beginning to materialize. With global responses still pending, the situation remains volatile, leaving both consumers and businesses to navigate an increasingly uncertain economic landscape. This article explores the immediate effects of President Trump's tariff policies and the potential long-term consequences for economic growth and credit quality.

Credit quality will decline given the tariffs put forth by President Trump. From the economic perspective, economic growth will be slower than earlier expected. Price levels will be higher and for the first six months there will be an acceleration in inflation. Slower growth and higher inflation will reduce real incomes for households and lead to poorer credit quality. Slower economic growth and higher input prices will reduce the cash flow for companies and thereby be associated with poorer business credit quality. Finally, uncertainty has risen and the level of uncertainty has not been reduced as President's Trump statement is only the first step in the tariff implications as we wait for other countries response. What are the details?

In early April President Trump announced a set of new tariffs on foreign nations. Where are we now on the economic outlook?

President's Trump's announcement is only the first step in a sequence of scenarios that will reflect the choices of nations and the response, in turn, by the U.S. We have only viewed the opening move—in chess, we have seen White moves pawn to King 4. We await other countries' response. Yet already we have witnessed markets move ahead of the actual implementation of tariffs.

In the first move, consumers will face higher U.S. prices at the grocery store and hardware store. Coffee and cocoa will cost more at your favorite breakfast shop or confectionary. All this just in time for Easter.

As for the latest data for February, we have already witnessed a rise in import prices for consumer goods, ex-auto, and industrial supplies as importers bid up prices in anticipation of higher tariffs. Import prices rose noticeably for

goods from the EU and Asia non-industrialized nations.

The rise in prices is consistent with the history of the steel tariffs experience of 2002 and the aluminum and steel tariffs of 2018/2019. Prices rose in anticipation of tariffs and remained above pre-tariff levels even after the tariffs were removed.

For economic growth, indicators signal a slowdown. The ISM manufacturing and services surveys both gave down readings in March compared to February, with drops in the subcomponents of production, employment and orders. Meanwhile, prices paid rose.

Auto and steel companies have already announced shutdowns in production.

On the financial front, the total return for the S&P index, Russell 2000 (small cap) and NASDAQ 100 are all down over the last three months.

Ten-year U.S. Treasury rates are also down in anticipation of weaker economic growth and Fed easing. As a signal of slower growth, corporate credit spreads on high-yield and high-grade bonds are up over the last two months.

Finally, the U.S. dollar value has fallen relative to the Euro, for example. In part, this may reflect less incentive to invest in the U.S. as economic expectations for growth decline but also, with less trade, there is less need for the dollars.

President Trump's tariff announcement may be peak uncertainty, but uncertainty remains. Other countries have yet to announce their retaliation moves.

Canada has announced that "Canada will fight Trump's trade war with 'purpose and force,' according to Prime Minister Carney.

European Commission President Von Der Leyen "Vows Response to Trump's 20% Tariffs."

For company indicators, watch Amazon, Target and Apple as they are major buyers and sellers in the China market.

Soybean and pork farmers will be sensitive to any retaliation from China.

Stellantis has already announced a production cutback. GM's final assembly is 54 percent domestic for their vehicles, so they are sensitive to how tariffs are applied to their imported products.

While the full effects of the new tariff policies are yet to be seen, the early signs suggest a period of economic



■ **JOHN SILVIA**
Dynamic Economic Strategy, LLC

turbulence marked by slower growth, higher prices, and increased uncertainty. As tariffs begin to take hold, consumers will feel the impact through higher prices, and businesses may face tighter margins and reduced cash flows. The global response to these tariffs will play a crucial role in shaping the future economic landscape, as retaliation from foreign nations could escalate tensions and further strain economic conditions. With rising inflation, declining credit quality, and an overall slowdown in economic activity, both households and businesses will need to adapt to a changing environment where uncertainty remains high and economic forecasts grow increasingly cautious. The next few months will be pivotal as we await further developments on the international stage. ■

John Silvia is currently president of Dynamic Economic Strategy, LLC and focused on financial and economic advisory works, writing a weekly newsletter, and presenting economic concepts and commenting on economic issues at several conferences. John is the author of four books in Economics and Finance published by Wiley and Palgrave.

John was recently awarded

- *First Place Last Five Years, Housing Price Expectations Survey, Fannie Mae*
- *Ten-Year U.S. Treasury --Bronze Star: Third Place out of 46 forecasters, Focus Economics 2023*

John has been a guest speaker: Philadelphia Association for Business Economics, Georgia Economic Outlook, Pacific Northwest Regional Economic Conference

Formerly, John was managing director and the chief economist for Wells Fargo Securities until July 2018. Based in Charlotte, North Carolina, he has held his position since he joined Wachovia, a Wells Fargo predecessor, in 2002 as the company's chief economist. John has been a frequent guest on CNBC, Bloomberg (TV and radio), Fox Business and the Nightly Business Report.

John also serves as Economic Advisor to Carolinas Investment Consulting headquartered in Charlotte. He is also an Advisor to the AS Staffing Group which focuses on placement for workers.

Before his position at Wells, John worked on Capitol Hill as senior economist for the U.S. Senate Joint Economic Committee and chief economist for the U.S. Senate Banking, Housing and Urban Affairs Committee

John served as the president of the National Association for Business Economics (NABE) in 2015 and was awarded a NABE Fellow Certificate of Recognition in 2011 for outstanding contributions to the business economics profession and leadership among business economists to the nation. He also received several

awards for the quality of research in economics.



While the full effects of the new tariff policies are yet to be seen, the early signs suggest a period of economic turbulence marked by slower growth, higher prices, and increased uncertainty. As tariffs begin to take hold, consumers will feel the impact through higher prices, and businesses may face tighter margins and reduced cash flows.

RISK TRENDS

Navigating the Challenges Facing the Factoring Industry in North America

BY OSCAR ROMBOLA

This article explores the key challenges affecting the factoring industry in North America, with a focus on sector-specific issues in freight, healthcare, and manufacturing, as well as the impact of trade policies and tariffs.

The factoring industry plays a crucial role in supporting businesses with immediate working capital solutions, especially in times of economic uncertainty. As companies across various sectors face tightening credit markets, rising costs, and supply chain disruptions, the demand for factoring remains strong. However, factoring firms themselves are navigating a shifting landscape marked by regulatory changes, technological disruption, and heightened risk management challenges.

Macroeconomic Pressures and Credit Risk

Inflation, Interest Rates, and Market Volatility: The broader economic environment continues to pose challenges for factoring companies. Inflationary pressures have driven up operational costs, while higher interest rates have made borrowing more expensive. While these conditions have led to increased demand for factoring as businesses seek liquidity, they also heighten credit risk.

Factoring firms must balance the need to extend funding with rigorous due diligence to prevent exposure to client defaults. The ability to accurately assess the financial health of businesses—particularly those in volatile industries—is more critical than ever.

Regulatory Compliance and Legal Challenges: Regulatory scrutiny of financial services has increased, adding layers of complexity for factoring firms. In the U.S. and Canada, anti-money laundering (AML) regulations, fair lending practices, and disclosure requirements continue to evolve.

Compliance costs are rising as firms invest in legal expertise and risk management frameworks. Additionally, industry players must navigate differing regulations across states and provinces, which can complicate cross-border factoring agreements. Staying ahead of regulatory changes is essential to avoiding penalties and maintaining client trust.

Technological Disruption and the Rise of Fintech

Competition from Digital Lenders:

Fintech companies have reshaped the financial services industry by offering rapid, technology-driven funding solutions. Digital platforms that provide invoice financing in real-time are attracting businesses that previously relied on traditional factoring.

To remain competitive, factoring firms must adopt digital solutions, including automated underwriting, AI-driven risk assessment, and seamless customer onboarding. Investing in technology can improve efficiency, reduce fraud risk, and enhance the client experience.



■ OSCAR ROMBOLA

Cybersecurity and Fraud Prevention

As factoring transactions increasingly move online, the risk of cyberattacks and invoice fraud is growing. Fraudsters have become more sophisticated, employing tactics such as invoice duplication, identity theft, and falsified financial statements.

Factoring firms must implement robust cybersecurity measures, such as multi-factor authentication, blockchain technology for invoice verification, and real-time fraud detection algorithms. Strengthening Know Your Customer (KYC) and Know Your Business (KYB) protocols is also essential.

Sector-Specific Challenges in Factoring

Freight Factoring: Navigating an Unstable Market: The transportation and logistics industry is heavily reliant on factoring due to long payment cycles and cash flow constraints. However, freight factoring firms face several risks:

- **Rising Fuel Costs and Driver Shortages:** Higher fuel prices and ongoing labor shortages have increased operational expenses for trucking companies, leading to financial instability.
- **Broker Insolvency:** Many carriers rely on a small number of freight brokers, and if a major broker defaults, it can create significant losses for factoring firms.
- **Technology Disruption:** Digital freight platforms, such as Uber Freight and Convoy, are changing how carriers get paid, reducing their reliance on factoring services.

To mitigate these risks, freight factoring firms must diversify their client base, strengthen credit evaluation processes, and explore partnerships with digital freight platforms.

Healthcare Factoring: Managing Regulatory and Payment Complexities

Medical receivables factoring provides liquidity to healthcare providers who face delayed payments from insurance companies and government programs like Medicare and Medicaid. However, the healthcare sector presents unique challenges:

- **Regulatory Compliance:** Factoring firms must navigate strict data privacy laws, such as HIPAA in the U.S. and PHIPA in Canada, ensuring that transactions do not violate patient confidentiality rules.
- **Slow Reimbursement Cycles:** Insurance claim denials, audits, and complex billing codes can result in unpredictable cash flow for healthcare providers, increasing risk for factors.
- **Industry Consolidation:** Larger healthcare networks are acquiring smaller providers, reducing the number of independent clients that typically use factoring services.

To succeed in this space, factoring firms need specialized expertise in medical billing and payer reimbursement structures, along with compliance frameworks that align with healthcare regulations.

Manufacturing Factoring: Supply Chain and Tariff Challenges

Manufacturers often rely on factoring to cover cash-flow gaps caused by long production cycles and delayed payments from buyers. However, the sector faces several external pressures:

- **Supply Chain Disruptions:** Delays in raw materials procurement—exacerbated by geopolitical tensions—can slow down production and affect receivables turnover.
- **Rising Input Costs:** Increased costs for raw materials, energy, and labor are squeezing manufacturers' margins, making it harder for them to maintain steady payments.
- **Tariff and Trade Policy Uncertainty:** U.S.-China trade policies, along with tariffs on steel, aluminum, and other imports, continue to affect North American manufacturers. The unpredictability of trade agreements like the USMCA adds further risk to supply chains.

Manufacturing factoring firms must stay informed about trade policies and adjust their risk models accordingly. Diversifying client industries and securing credit insurance can help mitigate potential losses.

The Role of Tariffs and Trade Policies in Factoring

Tariffs and trade policies have a significant impact on factoring, particularly for industries that depend on international trade. Key concerns include:

- **Higher Costs for Importers:** Companies that rely on imported goods face increased costs, affecting profitability and cash flow.

Key Takeaways for Factoring Firms:

- 1 Invest in technology to streamline operations and compete with fintech lenders.**
- 2 Strengthen fraud detection and risk management to prevent invoice fraud and cyber threats.**
- 3 Diversify client portfolios to reduce exposure to sector-specific downturns.**
- 4 Stay ahead of regulatory changes to ensure compliance and avoid penalties.**
- 5 Monitor trade policies and tariffs to assess risks affecting global supply chains.**

- **Uncertainty in Trade Agreements:** Shifting policies—such as new tariffs or changes to NAFTA's successor, the USMCA—can disrupt supply chains and payment cycles.
- **Relocation of Manufacturing Hubs:** Some companies are moving operations to countries with lower tariffs, which can impact factoring relationships and client portfolios.

Factoring firms must monitor global trade developments closely and adjust risk assessments based on evolving trade policies.

Adapting to a Changing Industry

The factoring industry is at a pivotal moment, facing both challenges and opportunities. Companies that embrace innovation, enhance risk management, and stay ahead of regulatory changes will be better positioned for long-term success.

As the industry continues to evolve, factoring firms that remain proactive, adaptable, and informed will not only survive, but thrive, in the years ahead. 📈

Oscar Rombola is a factoring consultant with extensive experience in the industry. He specializes in advising factoring companies, businesses seeking factoring services, and companies undergoing financial restructuring. He can be reached at oscarrombola@gmail.com.

TARIFF TRENDS

Preparing for Tariff Impacts: Insights for Secured Lenders on Managing Customs Bond Challenges

BY SALVATORE STILE

The Evolving Trade and Financial Landscape

The global trade environment is facing a seismic shift with the imposition of new tariffs on imports from China, Mexico, and Canada—with reciprocal tariffs likely to follow. Historically, duty-free trade agreements under USMCA helped U.S. businesses optimize their supply chains. However, as of the reference point date of March 4, 2025 (tariffs are changing frequently), the United States has imposed tariffs that fluctuate frequently and could likely change at the time of article publication.

In response, trading partners such as China, Mexico, and Canada are considering reciprocal tariffs, which could further tighten liquidity for importers and escalate financing risks for lenders. As borrowing costs rise and customs bond obligations increase, secured lenders must assess the cascading risks these policies pose.

Customs Bonds: The Hidden Financial Risk for Lenders

Customs bonds guarantee the payment of duties, taxes, and fees to U.S. Customs and Border Protection (CBP). These bonds are 10% of the duties, taxes, and fees of an importer's rolling past 12 months. With rising tariffs, importers will see:

- Significant increases in bond values, tightening liquidity.
- Strained credit availability, impacting loan terms.
- Delays in securing bonds, disrupting supply chains.

Reciprocal Tariffs: A New Layer of Financial Risk

If Mexico, Canada, and China impose retaliatory tariffs on U.S. exports, the financial impact will spread beyond importers. Lenders must prepare for:

- Reduced cash flow for exporters facing reciprocal duties.
- Weakened collateral positions for businesses reliant on international markets.
- Potential defaults from businesses facing lower sales and higher costs.

These combined tariff pressures will affect both importers and exporters, creating a ripple effect in financial markets.

Case Studies: Tariff Increases and Bond Implications

(Editor's Note: These examples are meant to be illustrative. Take into

account tariffs in effect at the current time)

China Duties Increase

- A company importing \$50 million annually from China previously paid \$5 million in duties (10%), requiring a \$500,000 customs bond.
- With the tariff increase to 20%, the company now owes \$10 million in annual duties.
- To remain compliant, the importer must terminate the existing \$500,000 bond and secure a new \$1 million bond.
- However, financial exposure under the original bond remains active until all goods imported under that bond are liquidated by CBP—a process that typically takes 314 days or more.

Mexico and Canada Tariffs

- Importers previously paid no duties on \$50 million in goods from Mexico or Canada.
- The new 25% tariff results in \$12.5 million in annual duty costs.
- This requires a customs bond valued at \$1.3 million (10% of \$12.5 million, rounded to the nearest \$100,000).
- Many importers have never carried this level of financial exposure, leading to increased risk for lenders financing these businesses.

Reciprocal Tariffs on U.S. Exports

- If Canada and Mexico impose retaliatory tariffs, U.S. exporters will face:
 - Higher costs to access foreign markets, reducing competitiveness.
 - Stronger liquidity constraints, impacting debt servicing.
 - Lower collateral values, raising red flags for secured lenders.
- Example: A U.S. manufacturer exporting \$50 million annually to Mexico could face a 25% tariff on their goods, increasing costs by \$12.5 million. This would tighten margins, impact loan covenants, and reduce repayment capacity.

The Bond Stacking Dilemma: A Key Risk for Lenders

A major concern is bond stacking, which occurs because an importer



■ **SALVATORE STILE**
Alba Wheels Up International Inc.

must maintain all existing bonds until goods tied to them are liquidated by CBP—a process that takes 314 days or more.

Example of Bond Stacking Risks

- An importer starts with a \$500,000 bond to support \$5 million in annual duties.
- After a tariff increase to 20%, the importer must secure a new \$1 million bond to cover the increased \$10 million duty exposure.
- The original \$500,000 bond is formally terminated, but the importer retains liability for entries tied to that bond until CBP completes liquidation.
- This results in overlapping exposure totaling \$1.5 million across the two bond periods.
- Reciprocal tariffs may further tighten credit, forcing importers to reallocate working capital to meet these increased financial obligations—impacting their ability to service debt and maintain credit lines.

Implications for Lenders

Secured lenders must adapt to the evolving risks of higher tariffs and potential retaliatory trade measures. The combined effect of rising duties and reciprocal tariffs could create systemic liquidity constraints for borrowers.

1. Increased Collateral Demands

- Bonds exceeding \$200,000 often require collateral (e.g., letters of credit (LCs)).
- Rising bond values and reciprocal tariff risks will strain borrower liquidity, increasing default risks.

2. Strained Credit Lines

- Importers with stacked bonds will see reduced access to capital.
- Exporters hit by reciprocal tariffs may struggle to service existing loans.

3. Delays in Bond Issuance

- A surge in bond applications could overwhelm customs brokers and sureties.
- Lenders should anticipate supply chain disruptions, impacting borrower cash flow.

4. Heightened Financial Scrutiny

- Importers and exporters reliant on tariff-affected goods will undergo stricter financial evaluations.
- Lenders must reevaluate borrowers' ability to manage tariffs, bond obligations, and retaliatory trade impacts.

Proactive Strategies for Lenders

To support importers while mitigating financial risks, secured lenders

should:


- ✓ Monitor Tariff & Reciprocal Trade Policies – Stay updated on both U.S. and foreign tariff shifts to assess client exposure.
- ✓ Adjust Loan & Collateral Terms – Modify lending structures to reflect increased bond values and exporter risks.
- ✓ Anticipate Bond Underwriting Delays – Work with customs brokers and sureties to ensure borrowers secure bonds in a timely manner.
- ✓ Encourage Clients to Improve Liquidity – Advise borrowers to prepare for reciprocal tariff impacts, maintaining sufficient working capital reserves.
- ✓ Educate on Bond-Stacking Risks – Help importers understand liquidity constraints caused by overlapping bond requirements.

The Road Ahead: Navigating the New Trade and Finance Environment

The higher tariffs on Chinese goods and the 25% duties on imports from Mexico and Canada—coupled with reciprocal tariffs from key trade partners—will reshape global trade financing.

Secured lenders must proactively adjust their risk assessments and loan structures to mitigate both rising bond requirements and shrinking borrower liquidity. Importers and exporters alike will require more flexible financing solutions to navigate ongoing trade disruptions.

By fostering collaborative financial planning, leveraging global trade insights, and adapting loan strategies, lenders can safeguard their portfolios while helping borrowers weather these challenges.

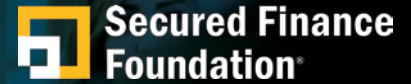
Strategic foresight and financial adaptability will be essential to ensure both lenders and importers thrive amid this new era of trade volatility. 

Salvatore J. Stile II is co-founder and co-chairman of the Board, Alba Wheels Up International Inc., a New York-based shipping and logistics company that handles importing and domestic shipping for a variety of clients, from Asia, Europe, the Americas, and elsewhere throughout the world. He is a licensed custom broker, and the Founder of Wheels Up International 1994.

Stile's vast knowledge of national and international shipping, and the economy, has made him a resource for many of the nation's leading publications - industry and mainstream - and he has been sourced in outlets ranging from The Wall Street Journal, to the New York Post, to Newsday. Sal appears regularly on the FOX Family of networks as an industry expert, and has also made appearances on Bloomberg and New York-metro television stations WABC-7, WCBS-2 News, News 12 and others.



Secured Finance Foundation: Helping to Shape the Future



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The Secured Finance Foundation (SFFound) encourages, facilitates, and supports education, innovation, and charitable works for the betterment of organizations and professionals who deliver and enable secured finance—and for the communities of which they are a part. Below are just a few of SFFound's impactful initiatives:

Guest Lecture Program

- Connects finance industry leaders with students on college campuses
- Provides insights into secured finance careers through lectures from 276 member companies
- Offers access to internships, scholarships, and networking opportunities

Mentoring Program

- Links seasoned professionals with newcomers for learning and growth
- Bi-weekly virtual activities and one-on-one meetings
- Mentees gain skills and network, while mentors give back and shape the industry's future

SFNet Professional Development Courses

- Live-online and in-person courses led by industry experts
- Courses feature practical case studies to help professionals make an impact
- Four free on-demand series in appraisals, factoring, legal issues, and bankruptcies for members

Secured Finance Certified Professional (SFCP) Program

- Prestigious certification in asset-based lending and factoring
- Sets a gold standard for professionals through a comprehensive curriculum and rigorous exam
- Helps organizations attract and retain top talent by focusing on employee development and best practices

**To learn more about these initiatives, please contact
Denise Castagna at dcastagna@sfnet.com.**

What Keeps You Up at Night?

Given the current market volatility, *The Secured Lender* has relaunched our What Keeps You Up at Night? Column. If you're interested in submitting a reply for a future issue, email mocejo@sfnet.com.

■ BEN BRACHOT

Co-Founder, Managing Director
Dwight Funding

The short answer? AI. But not in the “robots are coming for our jobs” sense. What keeps me up is the sheer pace of advancement—and the responsibility that comes with being on the bleeding edge of it.

At Dwight, we've made significant investments in our proprietary loan servicing platform, Atlas, to integrate AI into the heart of our operations. We're not just using it to reduce manual hours or automate reporting (though it does both). We're using AI to fundamentally rethink what it means to be a smart, scalable lender.

That means real-time visibility into our portfolio and advanced industry benchmarking through intelligent data ingestion. It means augmenting underwriting with pattern recognition that surpasses human capacity. It means giving our credit team tools to strengthen already-proactive risk management—and, just as importantly, to partner more effectively with our clients by anticipating potential cash flow issues before they arise.

But building proprietary AI is not plug-and-play. It's a rigorous, iterative process—testing models, validating assumptions, and layering in controls. We're constantly refining our approach to ensure outputs are accurate, applicable, and additive. Can the insights support better client conversations? Can they enhance internal decision-making? Can they scale without sacrificing the judgment that underpins our credit philosophy?

The future of lending operations is already being written in code. At Dwight, we're committed to staying ahead of the curve—not because it's trendy, but because we believe tech-enabled credit is what will define the next generation of best-in-class lenders.

■ SUE DUCKETT

Chief Operating Officer
Franklin Capital Network

I am sure many responses on this will be around the imposed Tariffs and the ever-changing Tariff environment.

We work with many small to medium sized businesses which import their goods. Many are selling-to-large retailers which dictate the sales price and impose deductions, continually eroding margins for our clients. The tariff situation is changing from day to day and with that comes uncertainty and concern for the future of these businesses. Strategic

changes are required to overcome these challenges.

We have seen numerous clients look to change the country of origin, many moving from China to Vietnam or other South East Asian countries. However, switching countries of origin has its own problems, as many do not have the same level of infrastructure as China. Matching supply and quality within the necessary deadlines could be an issue for our clients. Those that were not proactive in 2018 are now scrambling to find new suppliers and unable to fulfil the customer purchase orders due to lack of margin.

The clients that sell nonessentials and consumer discretionary products will be impacted with lower demand if the prices are increased too high. We are seeing a reduction in our PO funding requests where product has historically been sourced in China. Many are not given credit terms by their suppliers and must provide for larger deposits at the time of placing orders. This could be up to 3 months between paying the deposit and the goods shipping. The long gap between deposit payment and shipment leaves businesses vulnerable to sudden tariff changes, which can raise costs unexpectedly.

As always, we will continue to offer our clients monetary solutions where we can, however until there is some resolution and stability we will continue to ride the waves.

■ **MARK HAFNER**
President & CEO
Celtic Capital Corporation

For me, other than stressing about any liquidation we may be in the middle of (stressing that we collect out in full), the only thing is really employee related. Attracting and keeping quality people, ensuring they are challenged and happy, knowing what the market is paying for various positions and getting everyone to work as a team.

■ **JORDAN M. KLEIN**
Partner
Co-Chair, Asset-Based Lending Practice
Co-Chair, Financial Services Industry Group
Winston & Strawn LLP

Darrell Royal was a 3-time national championship coach at my alma mater, The University of Texas at Austin, and is uniformly considered one of the best coaches in college football history. He was a master tactician and recruiter, but he was also an elite philosopher and motivator.

Coach Royal once famously said, "God grants talent, size, and speed. But a guy can control how hard he tries."

It's one of my all-time favorite quotes. And it is the ethos by which I measure my professional career.

Doing fantastic legal work is table stakes for what I do, and there's no substitute for being a subject matter expert. Plenty of lawyers can make the claim that they have mastered their fields. But not everyone can say that they have also mastered the client service aspect of their practices. Because it requires extraordinary effort, day-in, and day-out.

That's what keeps me up at night – are we doing enough for our clients to continually remind them why, when they have a new deal, we are the best finance team around? Are we providing the best client

experiences that we possibly can? At the end of a deal, when we've closed, are our clients saying to themselves, "man, Winston was great on this deal"?

How do we separate ourselves from the rest of the field? Effort. Attention. Responsiveness. How hard we try.

■ **JOSEPH MARCHESE**
Partner and Co-Head of the Turnaround
& Restructuring Group
PKF O'Connor Davies

Given the current economic uncertainty regarding inflation, tariffs and consumer confidence, I am concerned that businesses may not achieve the level of sales, profitability and liquidity needed to operate adequately. At PKF O'Connor Davies, we work to mitigate these issues by providing our clients access to expert guidance and multi-disciplinary teams.

■ **DEBORAH J. MONOSSON**
President & CEO
Boston Financial

What keeps me up at night? Professionally, many of our clients are in the biotech sector and many of them do receive or have received in the past NIH funding...this will no longer be the case. I fear that this will stall them in their research and in fact we have already seen laboratories cutting staff or closing down. I fear the equipment that our clients purchase from overseas vendors will become cost prohibitive. I fear that employees of our clients who are working through green cards or visas will be deported. I fear a recession is really going to hit hard.

Personally...too many things to list keep me up at night!
I will fight the fight.

■ **PAUL D. SCHULDINER**
Executive Vice President & Chief Lending Officer
Rosenthal & Rosenthal

Right now, the uncertainty of the global trade markets, caused in large part by the tariff issues, is giving me concern as it impacts many of the consumer goods companies that are our clients. I see our clients trying to maneuver as best they can to cope with the constant changing environment. These changes include diversification of sourcing, negotiating with suppliers and retailers about absorbing some portion of these significant cost increases. We are encouraging our clients to update their cash-flow projections and business plans for the balance of the year on a regular basis and assume the worst case so we can be in a position to assist accordingly.

Navigating Risk in Secured Finance: The Role of Insurance Analytics

BY EILEEN WUBBE

As financial institutions seek to safeguard their investments, insurance-based risk mitigation strategies have become not just an option but a necessity. Resilience Insurance Analytics (RIA) has positioned itself at the forefront of this effort, delivering tailored insurance solutions that enable lenders to navigate risk effectively, ensure compliance, and protect their collateral interests.



■ **GRETA PEDRAZA**
Resilience Insurance Analytics (RIA)

As a premier insurance risk advisor, Resilience Insurance Analytics (RIA) serves top investment banks, equity funds, commercial banks, and non-bank lenders. With a team of nearly 120 professionals—including risk managers, brokers, attorneys, and financial analysts—RIA transforms insurance from a potential roadblock into a powerful risk management and negotiation tool.

“At our core, we specialize in insurance risk analysis for commercial finance, offering services that include pre- and post-closing insurance reviews, compliance monitoring, and valuation assessments, explained Greta Pedraza, senior director, head of Corporate Finance. “These services allow us to mitigate risk proactively while maintaining the integrity of our clients’ lending portfolios.”

Pre- and Post-Closing Insurance Review: Strengthening Risk Management

Before a loan closes, RIA conducts a comprehensive review of the borrower’s insurance coverage to ensure it meets financing requirements. This process involves working closely with lenders and borrowers to negotiate optimal coverage and structure insurance provisions within loan agreements. If coverage gaps are identified, RIA provides strategic solutions that align with the lender’s risk appetite.

“Our work does not stop once the loan is closed,” Pedraza said. “We continue supporting lenders through ongoing compliance monitoring, tracking insurance renewals, and ensuring borrowers maintain the same or better coverage throughout the loan term. If deficiencies arise, we swiftly intervene to recommend and implement corrective measures. Our clients receive customized monthly reports summarizing the compliance status of each loan in

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their portfolio, offering them peace of mind that their collateral interests remain protected.”

The Power of Data-Driven Risk Assessment & AI Integration

RIA enhances its risk assessment and decision-making through its proprietary database, which integrates transaction data, asset-specific analytics, and real-time market insights. By continuously tracking regulatory changes and industry trends, RIA helps its clients stay ahead of emerging risks. Its data-driven approach improves accuracy in risk evaluation and allows lenders to make informed financial decisions with greater confidence.

Pedraza said the company has explored AI applications to enhance its processes and found it falls short compared to the expertise of its consultants.

“AI can assist in processing data and identifying patterns, but it cannot fully grasp the complexity of its niche service offerings, or the nuanced compliance risk-based assessments we tailor to each client and borrower. Our consultants bring critical thinking, industry insight, and a depth of experience that AI simply cannot replicate. This ensures that our risk evaluations and strategic recommendations are customized, precise, and aligned with each client’s collateral interests.”

Navigating Complex Risks and Challenges

RIA helps lenders address persistent challenges, including fraud, borrower defaults, and economic downturns through tailored insurance strategies. To combat fraud, RIA ensures that lenders are endorsed as lender loss payee on property policies, allowing them to receive insurance proceeds even in cases of borrower fraud or policy breaches. Additionally, fidelity bonds and fraud insurance protect businesses from financial losses caused by theft or embezzlement.

For borrower defaults, RIA reviews credit insurance or default protection policies to safeguard lenders against non-repayment. In the event of an economic downturn, RIA will work with borrowers’ insurance agents to implement or amend their business interruption insurance, maintaining cash flow stability and offsetting financial losses.

“At RIA, one of the most significant challenges in risk assessment is the lack of diligence in asset valuation. We frequently encounter deals with blanket first-tier liens, or where a mortgage is taken ‘in an abundance of caution,’ eliminating the requirement for a formal appraisal,” Pedraza said.

“Unfortunately, without an independent third party to assess the asset’s value, we must rely on the borrower’s good faith valuation or an outdated appraisal. This creates difficulties in determining whether the property policy limit is sufficient to cover potential damages in the event of a loss.”

“Externally, the political climate and tariffs impact borrowers’ supply chains, leading to fluctuating material costs and potential shortages. These changes affect a borrower’s ability to maintain adequate insurance coverage. If inventory

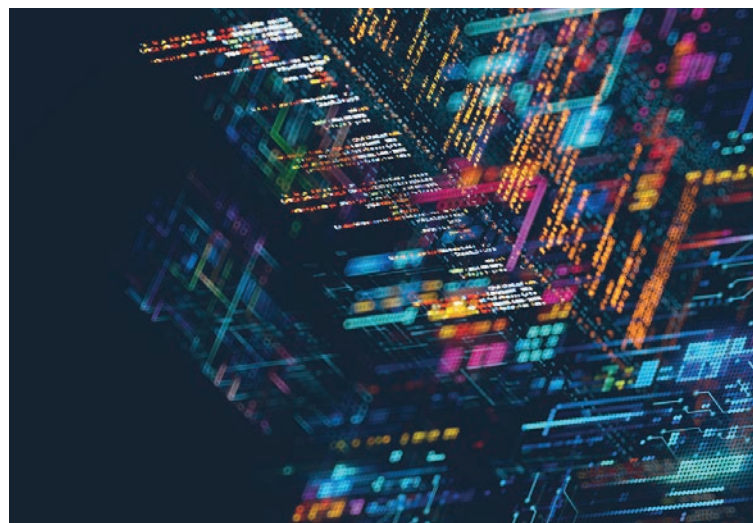
values increase, borrowers may need to adjust their property insurance policies, potentially leading to higher premiums. Conversely, reduced inventory levels may affect the borrowing base and require reassessment. We help lenders navigate these challenges by ensuring that insurance policies remain aligned with both borrower needs and lender requirements.”

RIA’s Valuation team plays a critical role in mitigating risk by providing independent replacement cost assessments for commercial real estate. Using a proprietary methodology that incorporates national

construction costs, labor rates, and market trends, RIA is able to deliver precise valuation reports. “This service is particularly valuable for asset-based lenders when traditional appraisals are unavailable (or not required), ensuring that insurance policies are properly structured to reflect the true value of secured assets,” said Pedraza.

Emerging Trends in Credit and Risk Analytics

Several key trends are shaping the future of secured lending, Pedraza noted. Lenders are increasingly prioritizing customized risk assessments tailored to specific industries and asset classes. “Traditional, one-size-fits-all approaches are proving inadequate as



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Knowledge Is Power

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SECURED FINANCE DEAL TABLE HELPS YOU KEEP PACE

Date	Lender/Participant	Type	Amount	Borrower	Industry	Structure
7/22/2024	Wingspire Capital, Agent	Non-bank	\$110.0M	Phillips Pet Food & Supplies, which carries one of the nation's largest selections of pet food and treat brands including labels such as Nestle Purina, Diamond, Fromm, Tuffy's, Mars, Wellness, Canidae and Natural Balance, Easton, PA	Other	Senior Secured Revolving Credit Facility
7/22/2024	Stonebriar Commercial Finance, Lender	Non-bank	\$25.0M	Major regional lumber company	Other	Secured Term Loan
7/22/2024	Great Rock Capital, Lender	Non-bank	\$25.0M	Phillips Pet Food & Supplies	Other	Liquidity Through a Senior Secured Credit Facility
7/18/2024	First Citizens Bank, Lender	Bank	\$24.0M	To finance the acquisition of a post-acute medical rehabilitation hospital in Tulsa, OK	Healthcare	Financing
7/18/2024	CoVenture, Lender	Non-bank	\$50.0M	TruckSmarter, a digital platform designed to assist owner-operators and trucking companies in optimizing their operations	Trucking	Debt Facility
7/17/2024	Flatbay Capital, Lender	Non-bank	\$1.0M	Midstream manufacturing and service company	Manufacturing	CRL Loan
7/17/2024	SLR Healthcare ABL, Lender	Non-bank	\$7.5M	A chronic care physician services and technology company	Technology	Asset-Based Revolving Credit Facility

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- Comprehensive, interactive information that is fully sortable and downloadable
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- Specifics including deal terms, structure, borrowers, industry, interest rates, contact information, and more

Join the ranks of industry leaders who trust the TSL Express Secured Finance Deal Table to navigate the complexities of secured finance.



Case Study: Addressing Insurance Gaps in Inventory Collateral

In one case, a lender engaged RIA to review insurance coverage for a loan secured by inventory stored across multiple locations. Upon analysis, RIA discovered that three of the 12 storage locations were not insured under the borrower's property policy. The uninsured inventory was classified as "Fulfilled by Amazon" (FBA) and stored in Amazon warehouses, where coverage was provided per the terms of their vendor agreement, which RIA then requested so it could be reviewed in detail. Upon closer examination, RIA identified that Amazon's policy did not guarantee full replacement cost value for inventory losses, posing a significant risk to the lender.

To mitigate this risk, RIA recommended that the borrower decline Amazon's coverage per the terms of the agreement and amend its property policy to include Amazon warehouses, ensuring that coverage limits reflected the full replacement cost value of the inventory. "By working alongside the borrower's insurance agent, we facilitated these policy changes while minimizing additional premium costs," Pedraza said. "This proactive approach secured full insurance compliance before closing, mitigating a substantial financial risk for the lender."

sector-specific risks—such as supply chain disruptions and regulatory changes—become more pronounced," she explained.

Cyber risk is another area that continues to be of heightened concern, particularly as digital transformation accelerates across industries.

"Years ago, we observed a rise in cyber liability claims stemming from online data breaches. Recognizing this trend, we proactively reached out to our clients that engaged us for post-close loan servicing to offer a targeted review of loans in their portfolios that had been onboarded but did not originate with us—i.e., loans closed before our partnership or for which RIA did not conduct a pre-closing insurance review. Our goal was to identify any potential cyber liability risk exposure. Once we completed the review, our clients received a comprehensive report outlining the loans that presented a risk, the severity of that risk, and potential solutions to mitigate exposure," Pedraza said.

As the secured finance industry continues to evolve in response to technological advancements, regulatory changes, and an increasing focus on sustainability, lenders must stay ahead of these trends to remain competitive and effectively manage risk.

RIA is embracing data-driven insights, automation, and

compliance solutions that align with industry shifts. By continuously refining its approach to insurance risk analysis and leveraging technology to enhance efficiency, it remains a trusted partner for financial institutions navigating the complexities of secured lending.

"In an era of heightened risk exposure, insurance is no longer just a safeguard—it is a strategic tool that lenders must wield effectively," Pedraza added. "Our expertise in risk analytics and insurance structuring ensures that our clients can confidently navigate the secured finance landscape, mitigating risk while maximizing financial stability." ■

Eileen Wubbe is senior editor of The Secured Lender magazine.

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