ALSO: REGIONAL NONBANK ROUNDTABLE AND THE 2022 HALL OF FAME INDUCTEES

NOVEMBER 2022 WWW.SFNET.COM

THE SECURED Lender

Putting Capital To Work

TSL INTERVIEW WITH SFNET'S NEW PRESIDENT

JENNIFER PALMER

SHE DISCUSSES THE ROLE MENTORING HAS PLAYED IN HER CAREER, HER GOALS AS SFNET'S PRESIDENT AND WHAT SETS HER DAY UP FOR SUCCESS.

A publication of: Secured Finance Network

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MASTERING DISRUPTION

SFNet's Convention Theme Expands Beyond the Conference

In the last three years we have experienced a worldwide pandemic, a frenetic return to some form of normality despite supply chain dislocations, and then a war, which has caused significant global disruption to energy and commodities, accompanied by spiraling inflation and interest rates. These events inspired the theme for SFNet's 78th Annual Convention: *Mastering Disruption—Putting Capital to Work in the New Global Environment.* This backdrop will continue to drive SFNet's offerings into 2023 to assist members in facing uncertainty. Whether you are a factor, asset-based lender, trade finance provider or any of the many servicers, intermediaries or specialty lenders who make up our secured finance community we will provide you tools to help you thrive in these unsettled times.

In addition to those mentioned above, several challenges facing our community have involved legislative and regulatory issues, with EIDL subordination issues and new disclosure laws among the top concerns. We have good news on the EIDL front. In case you missed the news in *TSL* Express, SFNet, with the assistance of several Advocacy Committee members, has successfully negotiated a consensual form of subordination agreement with the Small Business Administration allowing asset-based lenders priority over certain of the same collateral granted to the SBA under an SBA facility whether the ABL facility is put in place prior to or after the SBA facility goes into effect. For details and links to the forms, visit www.sfnet.com and click on Advocacy or contact Michele Ocejo at mocejo@sfnet.com. New guidance, specifically on the CA disclosure regs from a factoring and ABL perspective, is also now available.

In this issue of *TSL*, we honor the SFNet 2022 Hall of Fame inductees on page 37. During the Annual Convention, we will celebrate these industry icons to whom we are forever indebted. Through their vision, determination and dedication, they've had a profound effect on generations of professionals, shaping our industry and association and deploying the capital that has helped build and sustain our economies. Reading about how these titans of the industry got their start in secured finance, the highlights of their careers and the advice they would pass on to the younger generation is time well spent.

Turn to page 12 for an interview with SFNet's new president, Jennifer Palmer, CEO of eCapital Asset-Based Lending. As one of the rare female CEOs in the finance industry, Palmer is passionate about supporting and encouraging more women to attain C-suite roles. Here she discusses the role mentoring has played in her career, her goals as SFNet's president and what sets her day up for success.

RICHARD D. GUMBRECHT
SFNet Chief Executive Officer

On page 18, we ask several key players in the industry if the long-predicted wave of defaults will come to fruition in *Talk of Wave of Borrower Defaults Overblown.*

On page 22, don't miss Charlie Perer's interview with Michael Scolaro, managing director and asset-based group head for BMO Commercial Bank ABL, to hear his perspective on the state of the ABL market, bank vs. non-bank competition, the future of ABL, executive development and competition.

TSL's editor-in-chief gathered the heads of several nonbank regional asset-based lenders to discuss the industry from their point of view, including the challenges and opportunities, effects of COVID and their predictions for the upcoming year on page 26.

Don't miss *Workout Workshop: A Guide to Navigating Problem Loans* on page 62. Mark Fagnani of PKF Clear Thinking and Daniel Fiorillo of Otterbourg teamed up to write this article which details the anatomy of a workout and serves as a primer for many readers who may have not experienced a workout yet and a refresher course for more experienced lenders.

In November of 2021, SFNet announced its first Cross-Border Finance Essay Contest, sponsored by Goldberg Kohn Ltd. Members of SFNet's International Finance and Development Committee served as judges and chose The *Single Group Facility: Simplifying Cross-Border Receivables Finance*, on page 68, by Ronald Biemans and Tom Gevers of ABN AMRO Asset-Based Finance, as the first-place winner. Second- and third-place winners were published in the September and October issues of *TSL*. The authors will participate in a panel during SFNet's Convention.

I look forward to seeing many of you in Austin! Watch your inbox for further details on what SFNet has in store for 2023.

THE SECURED Lender
A PUBLICATION OF SECURED FINANCE NETWORK

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Secured Finance Network

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.

The opinions and views expressed by *The Secured Lender's* contributing editors and authors are their own and do not necessarily express the magazine's viewpoint or position. Reprinting of any material is prohibited without the express written permission of *The Secured Lender*.

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INDUSTRY
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Lender/Participant	Lender Type	Amount	Borrower	Industry	Structure
Abacus Finance Group, LLC [Senior Secured Credit Facilities Administrative Agent and Sole Lender]	Non-bank	**N/A**	To support the financing of Automated Handling Solutions, a global provider of specialty conveyor and material handling and automation equipment technologies, by May River Capital	Specialty conveyor and material handling	Senior debt facilities
Access Capital	Non-Bank	**$500,000**	EvenFlow, a staffing firm focusing on accounting, finance, and technical placements, Dallas, TX	Staffing	Credit facility
Amerisource Business Capital	Non-Bank	**$2 Million**	Craft beer brewery and distributor, California	Craft beer brewery	Equipment term loan facility
Ares Commercial Finance	Non-Bank	**$30 Million**	Monolith Brands Group, Inc., a consumer products platform focused on acquiring omnichannel brands in niche product categories	Consumer products	Senior secured credit facility
Assembled Brands	Non-Bank	**$2.5 Million**	GiftTree, an online retailer that specializes in gourmet gifts, premium wines and superior-quality gift baskets & boxes	Retail: Online gourmet gifts	Credit facility
Audax Private Debt	Non-Bank	**N/A**	To support Madison Dearborn Partners' acquisition of Unison, a leading provider of purpose-built procurement and contract management software solutions to U.S. federal government agencies and government contractors	Procurement and contract management software solutions	Unitranche credit facility
Austin Financial Services, Inc. (AFS)	Non-Bank	**$3.5 Million**	Fifty-year-old materials recycling company based in the Western Region	Materials recycling	A/R only credit facility
Bank of Montreal	Bank	**$25 Million**	Gold Royalty Corp., a gold-focused royalty company offering creative financing solutions to the metals and mining industry	Metals and mining	Secured revolving credit facility
Bank of Montreal	Bank	**$140 Million**	GreenFirst Forest Products Inc., a forest-first business, focused on sustainable forest management and lumber production	Forest management and lumbar	Financing includes a $125 million asset-backed revolving credit facility and a $15 million term loan
Briar Capital Real Estate Fund	Non-Bank	**$1 Million**	Detroit area manufacturer of high precision cutting tools used across multiple industries around the country	Manufacturing: High precision cutting tools	Real estate loan facility
Business Development Bank of Canada	Non-Bank	**$6.6 Million**	good natured® , a North American leader in plant-based products	Plant-based products	Mortgage financing
Cambridge Savings Bank (CSB)	Bank	**$84.5 Million**	Strategic Land Ventures (SLV), a vertically integrated real estate investment management and development firm	Real estate	
Celtic Capital Corporation	Non-Bank	**$790,000**	Manufacturer of plant-based food products, Colorado	Plant-based food	Equipment loan
Celtic Capital Corporation	Non-Bank	**$3.35 Million**	Provider of concrete polishing and restoration services, Tennessee	Concrete	Consisting of a $2 million accounts receivable line of credit, a $400,000 inventory line of credit and a $950,000 equipment loan in order to facilitate the refinance

Lender/Participant	Lender Type	Amount	Borrower	Industry	Structure
CIBC Innovation Banking	Bank	**$60 Million**	TransMedics Group, Inc., a market leading medical technology company that focuses on organ transplant therapy for patients with end-stage lung, heart and liver failure, Massachusetts	Medical technology	Debt financing
CIBC Innovation Banking	Bank	**N/A**	Userlane, a software company based in Germany	Software	Growth capital financing
CIT, a division of First Citizens Bank	Bank	**$172.3 Million**	FOX Rehabilitation, a physical therapy clinic, Toms River, NJ	Healthcare	Increase in its existing credit facilities
CIT, a division of First Citizens Bank	Bank	**$100 Million**	Stonegate Capital, a middle-market asset-based lender primarily focused on the consumer vertical and opportunistic credits	Asset-based lending	Financing
CIT, a division of First Citizens Bank	Bank	**$50.8 Million**	Seavest Healthcare Properties, LLC for the refinancing of Providence Family Wellness Center and Medical Office Building.	Healthcare	Financing
CIT, a division of First Citizens Bank	Bank	**$110 Million**	Quipt Home Medical Corp., a leader in the home medical equipment industry with a focus on in-home monitoring and disease management services including end-to-end respiratory solutions	Home medical equipment	Senior secured credit facilities
CIT, a division of First Citizens Bank	Bank	**$58.9 Million**	The acquisition of a portfolio of six micro-hospitals	Healthcare	Financing
CIT Northbridge Credit	Bank	**$40 Million**	Biery Cheese, a large-scale manufacturing and distribution operation offering both natural and processed cheeses	Food	Revolving credit facility
CIT Northbridge Credit	Bank	**$65 Million**	Everlane, Inc., a leading retailer of sustainable apparel, accessories and footwear in the U.S.	Retail	Revolving credit facility
CIT Northbridge Credit	Bank	**N/A**	Mohawk Fine Papers, the largest privately held premium paper manufacturer in North America	Manufacturing: paper	Financing
Citizens Financial Group, Inc.	Bank	**$50 Million**	Crosslake Technologies, a provider of data-driven technology due diligence and value creation advisory services for private equity firms and their portfolio companies, Charlotte, NC	Technology	Credit facility
Credit Suisse Group AG	Bank	**$100 Million**	Agora Data, Inc., the FinTech company transforming automotive financing by providing U.S. independent auto dealers and finance companies precision loan performance analytics and access to ample, affordable capital	FinTech	Revolving credit facility
Credit Suisse [Administrative Agent], and affiliate of Bank of Montreal and funds managed by Atalaya Capital Management	Bank and Non-Bank	**C$535 Million**	Flexiti Financial Inc., a leading point-of-sale consumer financing solution for retailers	Flexible financing	Warehouse credit facility
Eclipse Business Capital LLC	Non-Bank	**$10 Million**	Company in the automotive marketing industry	Automotive marketing	Senior secured revolving credit facility

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Lender/Participant	Lender Type	Amount	Borrower	Industry	Structure
ENGS Commercial Capital	Non-Bank	**$1.25 Million**	Growing bottling company	Bottling	Accounts receivable factoring facility
European syndicate of banks	Banks	**€300 Million**	Mercer International Inc., a global pulp manufacturing company	Manufacturing: pulp	Revolving credit facility
Espresso Capital	Non-Bank	**$15 Million**	Innovapptive, a digital transformation pioneer whose platform connects frontline maintenance workers and warehouse operations with back-office systems through easy-to-use mobile apps	Technology	Credit facility
Express Trade Capital (ETC)	Non-bank	**N/A**	Niche producing bakery-style specialty dog treats exclusively out of their facilities in Arkansas	Petcare	Factoring and PO funding lines
Fifth Third Bank, National Association	Bank	**$100 Million**	Tricolor, a U.S. Department of the Treasury certified Community Development Financial Institution (CDFI), Dallas, TX	Finance	Warehouse facility
First Business Specialty Finance, LLC	Bank	**$5.5 Million**	Contract drilling services company seeking to refinance	Contract drilling	Revolving line of credit and equipment term loan
Gateway Trade Funding	Non-Bank	**$1.3 Million**	Specialty accessories company	Accessories	Purchase order facility
Gordon Brothers	Non-Bank	**$72.5 Million**	Academy Bus LLC, recognized as the largest private carrier in New Jersey and the largest privately owned ground transportation company in the United States	Transportation	Credit facility
Huntington Business Credit	Bank	**$35 Million**	Sunbelt Modular, Inc., a manufacturer of modular buildings, Phoenix, AZ	Manufacturing: modular buildings	Credit facility
Huntington Business Credit	Bank	**$35 Million**	Sports Endeavors, Inc., a soccer-focused direct-to-consumer retailer providing soccer apparel, gear, customized team uniforms, Hillsborough, NC	Retail	Credit facility
ING Capital LLC, Wells Fargo Bank, N.A., MUFG Bank, Ltd., and Société Générale [Joint Lead Arrangers], HSBC Bank USA NA and Coöperative Rabobank U.A. [Lenders]	Bank	**$745 Million**	Six One Commodities LLC ("61C"), a global merchant of physical energy commodities and provides physical supply services and structures, Stamford, CT	Physical energy commodities	One-year revolving borrowing base credit facility
Iron Horse Credit (IHC)	Non-Bank	**$3.5 Million**	Online wellness and nutritional supplements retailer	Wellness and nutritional supplements	Stand-alone inventory revolving line of credit
J D Factors	Non-Bank	**$150,000**	Transportation company, Quebec	Transportation	Factoring facility
J D Factors	Non-Bank	**$150,000**	Lawn care and tree maintenance company, Florida	Lawn care	Factoring facility
J D Factors	Non-Bank	**$100,000**	Transportation company, Illinois	Transportation	Factoring facility
J D Factors	Non-Bank	**$100,000**	Staffing company, Ontario	Staffing	Factoring facility
J D Factors	Non-Bank	**$250,000**	Transportation company, Pennsylvania	Transportation	Factoring facility
J D Factors	Non-Bank	**$300,000**	Staffing company, Minnesota	Staffing	Factoring facility
J D Factors	Non-Bank	**$150,000**	Metal fabrication company, Oklahoma	Metal fabrication	Factoring facility
J D Factors	Non-Bank	**$500,000**	Transportation company, Colorado	Transportation	Factoring facility
J D Factors	Non-Bank	**$500,000**	Transportation company, Georgia	Transportation	Factoring facility

Congratulations **Jennifer Palmer**

President of the Secured Finance Network.

We are thrilled to congratulate Jennifer Palmer, CEO of eCapital Asset Based Lending, as she begins her tenure as President of the Secured Finance Network.

An established and respected professional within the industry, Jennifer has been involved with the SFNet community for fifteen years. As a leader who is dedicated to the growth and support of her clients and team, she exemplifies our eCapital values and is a valuable advocate, mentor and changemaker.

We are confident that her experience, commitment, and insights will make a lasting impact on the Secured Finance Network organization.

We applaud Jennifer on this well-earned achievement.

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Lender/Participant	Lender Type	Amount	Borrower	Industry	Structure
J D Factors	Non-Bank	**$200,000**	Transportation company, Ohio	Transportation	Factoring facility
J D Factors	Non-Bank	**$100,000**	Transportation company, Alberta	Transportation	Factoring facility
J D Factors	Non-Bank	**$1.25 Million**	Transportation company, Alabama	Transportation	Factoring facility
KeyBanc Capital Markets, with Goldman Sachs, HSBC Ventures, J.P. Morgan, Morgan Stanley Senior Funding, Inc., Citibank and Deutsche Bank [Joint Lead Arrangers], RBC Capital Markets, Silicon Valley Bank, SMBC, Citizens, MUFG and Bank of America [Lenders]	Bank	**$600 Million**	Celonis, the global leader in execution management	Software	Five-year $500 million line of credit is expandable to $600 million
KeyBank and Fifth Third Bank	Bank	**$186.2 Million**	Greenbacker Renewable Energy Company LLC, a leading green energy investment company and independent power producer	Green energy	Senior credit agreement
King Trade Capital	Non-Bank	**$5 Million**	HVAC equipment supplier, California	HVAC equipment	Purchase order finance facility
LSQ	Non-Bank	**$15 Million**	Wilson Creek Energy, a metallurgical coal producer, Pennsylvania	Coal production	Credit facility
MidCap Funding IV Trust	Non-Bank	**$25 Million**	Medexus Pharmaceuticals, a leader in innovative rare disease treatment solutions with a strong North American commercial platform and a portfolio of proven best-in-class products	Pharmaceuticals	Revolving credit facility
M&T Bank	Bank	**$50.5 Million**	inTEST Corporation, a global supplier of innovative test and process solutions for use in manufacturing and testing in key target markets	Innovative test and process solutions	Expand the existing non-revolving delayed draw term loan facility
MidFirst Business Credit (MFBC)	Non-Bank	**$5.2 Million**	Heat Transfer Tubular Products, LLC (HTTP), a value-added distributor of niche products for heat exchangers, condensers, boilers, feed-water heaters and economizers, Conroe, TX	Distributor: niche products for heat exchangers	Working capital and term facility
Monroe Capital LLC	Non-Bank	**N/A**	To support Arizona Natural Resources' (ANR) acquisition of Contract Filling Inc. (CFI), a leading full-service contract manufacturer, formulator, and distributor of customized hair care, skin care, fragrance, and cosmetic products	Manufacturing: Hair care and skin care products	Senior credit facility
N/A	N/A	**$280 Million**	Allied Motion Technologies Inc., a designer and manufacturer of precision and specialty controlled motion products and solutions	Motion products	A $55 million increase in the size of the Company's existing revolving credit facility
nFusion Capital	Non-Bank	**$5 Million**	Commercial flooring company, Arizona	Flooring	ABL facility

Lender/Participant	Lender Type	Amount	Borrower	Industry	Structure
Neuberger Berman Specialty Finance	Non-bank	**$150 Million**	Oportun Financial Corporation, a mission-driven fintech and digital banking platform, is an A.I.-powered digital banking platform that seeks to make financial health effortless for anyone	Fintech	Senior secured term loan
Ocean Bank	Bank	**$6 Million**	Industry-leading provider of IT services to media and entertainment companies	IT	Factoring facility
02 Sponsor Finance, a division of Old Second National Bank	Bank	**N/A**	To support Prospect Partners' recapitalization, with management, of Blackwood Solutions, a leading electric utility services and its related entities	Electric utility	Senior secured credit facilities
Pitney Bowes Inc.	Bank	**$5.2 Million**	Ash NYC, a provider of interior design and furniture rental for residential developers, high-end hotels and restaurants	Interior design and furniture rental	Consisting of a $3 million working capital line of credit and $2.2 million term loan
Pitney Bowes Inc.	Bank	**$5 Million**	Digital Terrain, which delivers IT services including IT consulting and cloud computing services	IT	To restructure and consolidate its previous loans into a flexible and convenient revolving line of credit and term loan, each for $2.5 million
PNC Bank, N.A.	Bank	**$37.5 Million**	Cyxtera, a global leader in data center colocation and interconnection services	Technology	Accounts receivable securitization facility
Prestige Capital	Non-Bank	**$3 Million**	A Philadelphia-based nonprofit organization offering education programming throughout Greater Philadelphia	Non-profit	Open receivables funding
Rabobank	Bank	**$225 Million**	Sucro Can Sourcing LLC, a rapidly growing integrated sugar refiner	Sugar refining	Senior secured credit facility
RBC Capital Markets [Sole Bookrunner and Sole Lead Arranger]	Bank	**$85 Million**	Itafos Inc., a phosphate and specialty fertilizer company	Specialty fertilizer	Credit facilities
REV Capital	Non-Bank	**$7.5 Million**	Temporary staffing company, Tennessee	Staffing	Factoring facility
Runway Growth Capital LLC	Non-Bank	**$35 Million**	TRACON Pharmaceuticals, Inc., a clinical stage biopharmaceutical company utilizing a cost-efficient, CRO-independent product development platform to advance its pipeline of novel targeted cancer therapeutics and to partner with other life science companies		Non-dilutive long-term debt facility
Sallyport Commercial Finance	Non-Bank	**$400,000**	Industrial manufacturer based on the West coast of the US	Industrial manufacturing	Package is made up of a $120,000 cash flow loan with the remainder accounts receivable facility
Sallyport Commercial Finance	Non-Bank	**$500,000**	Growing wholesaler of seafood products based on the East Coast of Canada	Seafood	Full notification factoring facility
Scale Microgrid Solutions	Non-Bank	**$5 Million**	Nexus Renewables Inc., a North American renewable developer, a pure-play renewable development company, having more than 1GW of solar and energy storage projects under development	Renewable development	Asset-backed credit facility

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Lender/Participant	Lender Type	Amount	Borrower	Industry	Structure
Siena Lending Group LLC	Non-Bank	**$50 Million**	Inseego Corp., a global market leader in developing wireless connectivity products and software services for carriers and enterprises	Technology	Asset-based revolving line of credit
SLR Capital Partners, LLC	Non-Bank	**$4.1 Million**	Spectrum Pharmaceuticals, Inc., a biopharmaceutical company focused on novel and targeted oncology therapies	Biopharmaceutical	Five-year debt financing agreement
SLR Digital Finance LLC	Non-Bank	**$40 Million**	DeepIntent, the leading the healthcare advertising industry with data-driven solutions built for the future	Ad Tech	$40 million revolver with a sublimit for unbilled receivables
TAB Bank	Bank	**$5 Million**	Wood products distribution company, Arkansas	Wood products	Asset-based credit facility
TradeCap Partners, LLC	Non-Bank	**$1.5 Million**	Distributor of recreational sports products based out of the Southeastern U.S.	Recreational sports products	Purchase order finance facility
VNB New York, LLC, an affiliate of Valley National Bank	Bank	**$60 Million**	BRT Apartments Corp., a real estate investment trust that either directly, or through joint ventures, owns, operates and, to a lesser extent, develops multi-family properties	Real estate	Amended credit facility
Wells Fargo N.A.	Bank	**$47 Million**	Farmer Bros. Co., a national coffee roaster, wholesaler, and distributor of coffee, tea, and culinary products	Coffee	Five-year, first lien secured credit facility with increased covenant flexibility
Wells Fargo Capital Finance	Bank	**$55 Million**	good natured® , a North American leader in plant-based products	Plant-based products	Consisting of a $30 million asset-based revolving credit facility with a 4-year term and an uncommitted $25 million revolving facility, available at the discretion of Wells Fargo
WhiteHawk Capital Partners, LP	Non-Bank	**$175 Million**	PWCC Marketplace, LLC—the leader in the trading card investment market—together with affiliates PWCC Services, LLC and PWCC Vault, LLC	Trading card	Asset-based credit facility
White Oak Healthcare Finance LLC	Non-bank	**$42.3 Million**	Cascadia Healthcare, a growing post-acute care provider, Eagle, ID	Healthcare	Asset-based senior credit facility
WhiteHawk Capital Partners, LP	Non-Bank	**$41 Million**	Latshaw Drilling Company, LLC, which operates a fleet of 40 land drilling rigs	Land drilling rigs	Asset-based credit facility.
Wingspire Capital LLC	Non-Bank	**$46 Million**	EMCORE Corporation, the world's largest independent provider of inertial navigation to the aerospace and defense market, including FOGs (fiber optic gyroscopes), RLGs (ring laser gyroscopes), Quartz MEMS, and tactical navigation	Inertial navigation	Senior secured credit facility

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Interview with SFNet's New President

JENNIFER PALMER

Jennifer Palmer is CEO of eCapital Asset-Based Lending, based in New York, NY. Before her current role, she was the CEO of Gerber Finance, an asset-based lending company acquired by eCapital in 2017. She is a dynamic leader known for her dedicated work ethic and for mentoring her colleagues to achieve success. As one of the rare female CEOs in the finance industry, Palmer is passionate about supporting and encouraging more women to attain C-suite roles. She is also committed to making financing more equitable by increasing the number of women-led businesses in the company's portfolio. She holds a Juris Doctor Degree from Fordham Law and a Bachelor of Arts from Marist College.

Here she discusses the role mentoring has played in her career, her goals as SFNet's president and what sets her day up for success.

BY EILEEN WUBBE

Please provide our readers with some background about your career.

I graduated from the honors program at Marist College magna cum laude with a triple major in fashion, art and art history and two minors (Italian and economics). I was going to leave for Italy for a Ph.D. in art history, but it was 2001, and after September 11th of that year, the entire world changed. I shifted gears and deferred my graduate studies to stay close to home and study law at Fordham. I planned on continuing a career in law. Then I heard about an opportunity with Gerber Finance and I met the people and decided to give ABL and the industry a chance. That was more than 15 years ago, and I certainly haven't regretted that decision.

What motivated you to get involved in SFNet?

It was really from my early days of joining the industry that I got involved with the organization. I went to several meetings and I found this community of supportive colleagues who immediately became role models and, fortunately, friends. I quickly recognized early in my career that engaging with the organization provided me with a better understanding of our business. It allowed me to see how our industry works from different perspectives and then learn how my company fits into the global industry.

Over the years, my involvement with SFNet continued to increase because I deeply value and appreciate the work the organization does to support our industry, educate and train future leaders and open doors for women in leadership. Today, I encourage all my colleagues to become involved with SFNet because it is a leader in our industry and a wonderful way to make meaningful connections.

You've mentioned in past interviews about the mentoring role Gerber Finance's founder, Gerald Joseph, played in your career. What is one memorable piece of advice he gave you that you still use today.

I am forever grateful to have met, worked with, and learned from Gerald. He's been my long-time mentor, and the most memorable advice he gave me was to push yourself outside of your comfort zone and try new things. In order to give me the space to do this, he taught me how to delegate, which is so much harder than most of us even realize. It was easy to follow his advice because he always believed in my abilities, encouraged and pushed me to grow, and cheered on my success. So, I pay that forward by serving as a mentor to my team and, especially, other women in finance. I'm particularly committed to supporting women in our industry to help share these lessons that I've learned over the years and provide advice.

I am proud and grateful to be part of SFNet's newly created mentorship program and can support and guide a young woman in our industry. I encourage others to take the time to mentor someone not only in their company, but through groups like this that create experiences for mentor and mentee.

I believe that keeping others engaged, especially younger colleagues, is essential, and the best way to do that is to give them tasks or projects that are outside their job scope and delegate to them. It's the best way for people to learn, and, as a leader, it creates space in your day and in your mind to strategize. So, it's a trickledown effect, if you will, and it's been the greatest piece of advice Gerald's given me.

What advice would you give new entrants in the industry about how to find a mentor, and what qualities should a mentor bring?

If you're looking for a mentor, I think you've got to find someone who inspires you, and not just by title, but how they lead others. So, try to connect with a person who will push you outside your comfort zone, and find someone who is both a cheerleader and a coach and helps you see not just what's in front of you today, but also down the road.

On the other side, if you're going to take on the responsibility of mentoring, you have to create time in your schedule that you can spend with that person, and then you've got to give constructive criticism and meaningful feedback so people can grow. Sometimes it's hard to give real input, but it's essential for someone's development.

What are your main priorities and goals as SFNet president?

I feel very honored to be in this position; so, first and foremost, I plan to continue the excellent work of those who preceded me. From there, I have three main goals. 1) Continue to strengthen and grow the organization and make sure that it is a group that inspires people of all levels to become involved. 2) Build on the robust education program to support the next generation of leaders and help them accelerate their careers and become even more connected with other members. 3) Expand outside of our industry and create meaningful connections with other relevant trade organizations in the core industries our members serve like manufacturing, retail and wholesaling. This third goal is a new initiative for SFNet and I will focus on generating awareness about our industry through these relationships and directly educating business owners. This will create cross marketing and networking opportunities with the goal of expanding our member base.

What are you most looking forward to as president of SFNet?

We have an incredible board and very talented and committed members, so I'm very much looking forward to working with them. I'm eager to continue expanding on the value we're currently offering our members. With many credit training

programs throughout the industry eliminated, SFNet has stepped up to help fill this void. I'm also eager to become more involved in our organization's advocacy work that is creating meaningful change and positively impacting our businesses daily. SFNet has dedicated resources to ensure that it is at the forefront of policy changes representing our members as one and is saving us all an unmeasurable amount of time and money.

And then, of course, I'm keen on meeting new and current members, hearing feedback and making sure that we can listen and learn from one another.

Over the years, my involvement with SFNet continued to increase because I deeply value and appreciate the work the organization does to support our industry, educate and train future leaders and open doors for women in leadership. Today, I encourage all my colleagues to become involved with SFNet because it is a leader in our industry and a wonderful way to make meaningful connections.

What challenges do you see for SFNet's this coming year?

It's certainly going to be an interesting year, that's for sure. There will be a lot of opportunity for our industry as access to funding tightens from traditional lenders. However, we must remember what we learned from previous downcycles. For seasoned management teams, who have weathered the financial storms of 2008 and 2001, they know how these cycles can negatively impact access to capital at traditional lenders and open new doors for the ABL industry. But many firms that were too aggressive during the downturns, found it hard to gain their footing when the industry rebounded. Several firms took on risky clients, opting to capitalize on growth at significant risk. We have the opportunity to educate our younger or less-experienced colleagues about both the opportunities and risks we face.

You're a CEO and mom of four daughters. What is a typical day like for you? What are organizational or time-management tips that help set you up for a productive day?

It's all about being prepared. I couldn't do what I do if I didn't wake up extra early and go into each work week hyper-organized. Having that jumpstart on the day is critical to my success. Now that my children are getting older, they have their schedules, and sometimes those schedules rival mine from an intensity standpoint. I sit down every Sunday and review my schedule, my husband's schedule and my children's schedule for the week. I create a combined weekly Excel spreadsheet, to merge all the schedules. It's massive. I'm sure there's a better app for this, but it's just my process, and it works. I print out seven copies, one for each family member and our nanny; so we're all on the same page.

Managing a successful career and personal life has only been possible because I have the best team in the business. We are a hybrid office. We work two days in the office, one day visiting clients, potential clients and referral sources, and then two days from home. It gives everybody the best of both worlds and allows people to have flexible schedules. I'm a big believer that if you give your team members flexibility, the organization will always win. We have proven that we get more from our team members this way than if we treat them like hourly employees who need to punch a clock. Those employees will only put in the minimum hours and will not think about work outside the office, unlike my team members who are always thinking about our business and even call me over the weekend with ideas because they are so grateful and loyal.

Most of my time at work is spent connecting with our existing partners, helping them solve problems, and collaborating with clients face-to-face about how we can fuel their growth. I collaborate very closely with my team to allow them to continue to grow as well as work on our company's philanthropic organization, which ensures that food insecure children get the food they need to thrive.

You mentioned you studied art and fashion in college. Are those still interests of yours today? What do you enjoy doing outside of work?

They are still interests of mine today. I really do continue to fuel my love of fashion by working with a broad range of fashion brands in the natural product industry with a focus on helping the environment, which is an equal passion of mine. So, for example, we work with Wearpact, an incredible company focused on creating beautiful clothes with organic cotton, and Fair Harbor whose popular signature beachwear is made from recycled bottles. These are just two examples of our portfolio companies that are creating fashion brands for climate-conscious consumers.

I still love design, from home to commercial to fashion. I don't have much time, but I'm fortunate I still find ways to express my creative side. For example, I designed our Bryant Park office, which is definitely not your conventional office. To help give you a visual, we have one wall that is just graffiti and another wall with each team member's favorite picture of themselves. It was designed to create a space where our team members want to be. During weekends, I'm always working on some beautification project around the house. We're currently designing a beer garden for our backyard. It's fun and those projects help fuel my creative side while fostering collaboration. I'm fortunate that I love what I do every single day. I'm so happy with my job today, my team and my partners, I can't imagine doing anything else.

I also try to get away with the family as much as possible. We're avid skiers, and we love to travel. I think change of scenery is important, and it's something that I certainly try to encourage with my team members.

Creating a creative, and healthy work culture is vital to me, and I think part of that is ensuring that people take time off and disconnect so they can recharge. Since the pandemic, we created mandatory personal days (in addition to PTO) to recharge. Putting your phone down for an entire day is healthy, and it's something I practice on the weekends and I encourage others to do it as well. I have found that when a team member is really stressed out, and we have encouraged that person to take a mandatory personal day, they come back completely recharged, with a better perspective and filled with gratitude. Providing a positive work culture is not just kind but also good business, especially in the service industry. Our clients are only as happy as our team.

Eileen Wubbe is senior editor of The Secured Lender.

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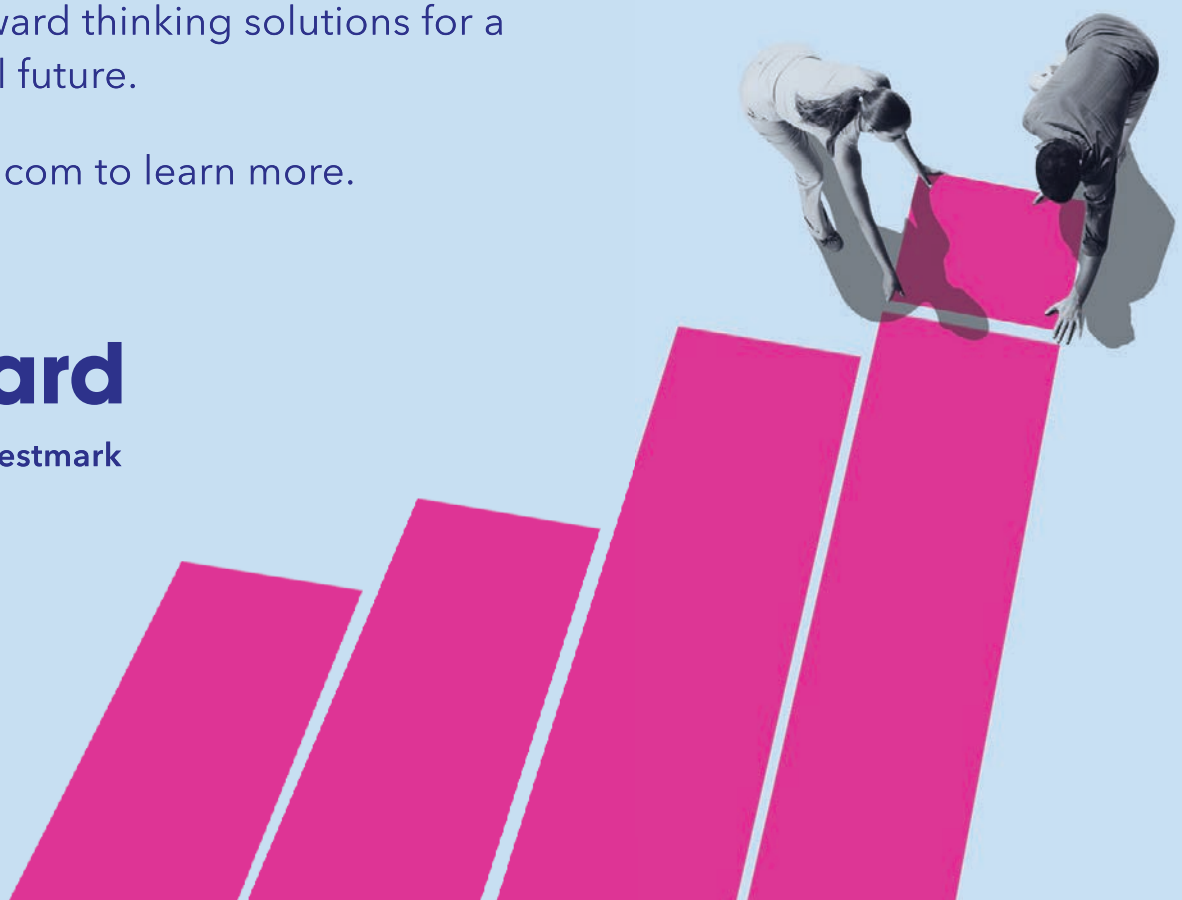

FEATURE STORY

Talk of Wave of Borrower Defaults Overblown

BY MYRA THOMAS

Will the long-predicted wave of defaults come to fruition? Key players in the industry provide their perspectives.

While the secured lending industry is often loath to discuss a wave of borrower defaults ahead, macroeconomic conditions would seem to point in that direction. Certainly, some industries, more than others, are feeling the heat. With inflation putting a dent in consumer wallets, retailers and distributors are most likely to see profits dwindle. And with inflation continuing to outpace wage gains, retailers are worried about sales for this upcoming holiday shopping season. It's a critical time for retailers—a time when stores traditionally make about 20% or even more of their sales. 2022 will be a true test, as retailers try to better predict and get in-demand items into the stores on-time yet move a backlog of less-desirable inventory built up over the pandemic.

According to Jennifer Cann, head of retail ABL portfolio for Bank of America, retailers are certainly most subject to the current economic turmoil. Besides the many macroeconomic factors coming to bear, increased shipping rates are also adding to retailers' woes, she notes. All told, the environment is likely to have a major impact on store margins and cash. She adds, "When these companies are experiencing double-digit negative decreases in sales, it's tough to make the financial metrics work. There isn't a bunch of fat that can be trimmed from the expense side of the business." It's a situation that Cann and other industry experts note will not be stabilizing for retailers anytime soon.

Ongoing supply chain disruptions are also adding to retailers' woes. Barry Bobrow, a respected industry veteran and host of SFNet's "In the Know" podcast, notes that retailers are also "at the whim of the current changes in consumer shopping habits." For instance, during the pandemic, consumers hunkered down and purchased more items for the home. Post-pandemic, home goods sales are expected to shrink. Bobrow notes that while retailers always need to make decisions about in-demand items for the holiday season, given the economic conditions, supply chain delays, and ever-changing consumer preferences, this year will be more difficult than most. Retailers will need to make smart choices to deal with the excess inventory positions built up over the pandemic, whether it's packing up some items for next year or offering steep discounts on others.

A Deeper Understanding of the Environment

For now, secured lenders are aware of the challenges for borrowers in the retail space. But retail and distribution aren't the only industries feeling the heat. Continuing worker shortages and the lingering impact of this summer's drastic rise in fuel costs have also left other businesses, across a variety of sectors, dealing with the blow. It's a time, says Bobrow, asset-based lenders and factors should be especially mindful of any and all holes in credit documentation that can be exploited. It's also a time for lenders to remember to dot all the "I's" and cross all the "T's" when it comes to field exams and monitoring too. Fortunately,

BARRY BOBROW
SFNet's "In the Know"

JENNIFER CANN
Bank of America

STUART KESSLER
PKF Clear Thinking

YVONNE KIZNER
Cambridge Savings Bank

DAVID MORSE
Otterbourg P.C.

Bobrow notes that the macroeconomic dynamics impacting borrowers have made banks become much more conservative when it comes to structuring deals. Secured lenders are looking at borrowers closely and handling them on a case-by-case basis, as always.

Borrowers aren't being given the benefit of the doubt, as they might have during the pandemic. Cann notes, "During the pandemic, all lenders had no choice but to be flexible, as many businesses were forced to shut their doors overnight and shipments came to a near standstill." Lenders were there, at the ready, to provide support and capital to get through the unprecedented times. But that's simply not the case anymore, she says. Now, two years past the start of the pandemic, secured lenders are less patient, looking for their borrowers to have turned the proverbial corner and made consistent profits.

And while lender flexibility and forbearance will always be an option, David Morse, member of Otterbourg P.C. and co-chair of the firm's finance practice group, agrees that secured lenders are now much less lenient than they were during the pandemic. "A lender may choose to stretch those elements for a well-performing company or in the context of sponsor pressure, but where you see the focus in these transition times is, necessarily, on the collateral." Most asset-based lenders and factors are much less accommodating when they realize a borrower's financial problems are more structural than a momentary downturn. He predicts that secured lenders are likely to be more focused on a restructuring sooner than later and with less cushion in triggers, allowing the secured lender to take further actions more quickly to better protect their recovery. And, he says, advance rates and pricing are holding firm.

Lessons Learned

The focus, as always, says Yvonne Kizner, senior vice president of asset-based lending at Cambridge Saving Bank, is on borrower liquidity. With much of the government-supplied stimulus funds exhausted at this point, asset-based lenders and factors are honing in on portfolios, keeping an eye out for troubled assets. Cambridge Savings Bank moves quarterly-watch meetings to monthly when needed, and their ABL group closely monitors trends such as weekly sales, weekly cash receipts, and shifts in AR and AP aging buckets, looking to identify potential troubled assets as early as possible. Kizner also says that smart asset-based lenders and factors understand the value of a diversified portfolio of borrowers to head off the significant risk of a downturn in one sector or another.

More than anything, asset-based lenders and factors are well-aware of how to respond to economic uncertainty, none as great as the financial crisis of 2008 and 2009. "A properly structured deal should have the necessary guardrails in place," Kizner says. For instance, secured lenders are stepping up their due diligence and scrubbing data when it comes to retailers. "It takes a close monitoring of the value of our collateral to ensure an understanding of how things like labor challenges, shipping rates, and a slowdown in sales could impact appraisals and trying to get ahead of any deterioration," she adds.

Ultimately, for secured lenders, it remains essential that the lenders stick to time-tested monitoring practices, including trend analysis and consistent communication with borrowers to ensure the best results during a downturn, says Kizner. In the end, a very well-structured ABL deal and experienced and very attentive lenders and portfolio managers should protect the secured lender from risk of loss in any environment.

The Silver Lining

Stuart Kessler, CEO at PFK Clear Thinking, acknowledges that while the economy is in a rough patch, the U.S. isn't yet in a full-blown recession. While borrowing is edging up, most companies are weathering the storm and others are actually seeing growth, he says. GDP, while predicted to shrink some, and unemployment, expected to slightly worsen, are still relatively favorable.

An additional stumbling block might be additional rate hikes by the Fed. Despite that, the market is still seeing a substantial amount of liquidity for many industries. "There's investment—capital being spent on warehousing and upgrading distribution capabilities and capital being spent on R&D," notes Kessler. And, while retail is predicted to be the hardest hit by current economic trends, consumers are spending more on experiences post pandemic, he adds. The hospitality sector, as well as the airline and cruise industries, are seeing strong gains. However, one significant issue tempering their growth, notes Kessler, is the worker shortage.

Fortunately, for borrowers, there is an ever-growing number of secured lenders and private equity firms looking to lend and invest, and not all have the same risk tolerance. "Some secured lenders are certainly willing to take on a higher level of risk than others," Kessler notes. "But if a business should require a default waiver or some other type of accommodation related to their loan agreement, you'll see fees commensurate with it."

A Look Ahead

A very public bellwether for borrower troubles—bank write-offs—seem to show that distress has not yet had a significant impact on bank balance sheets. "We aren't seeing huge write-offs at this point," says Bobrow. "And banks simply aren't experiencing the level of stress typically associated with recession." The Stress Test results showed that while some banks need to build their capital buffers a bit, overall bank balance sheets are very strong and resilient. Problems appear to be limited to the companies that were overleveraged to begin with or those that have immediate problems with the maturity schedule on bonds and loans due in the short term.

The toughest place will be at the low end of the market, as is often the case, says Morse. The current liquidity in the market will most certainly soften the blow of economic upheaval and provide options for most businesses. "Meanwhile, many of the larger companies seem to have adapted, albeit not without difficulty, to issues around the supply chain, worker shortages and inflation, and have improved capital structures and leverage since the worst of the pandemic-generated downturn during the first half of 2020," he adds. All in all, it's putting borrowers, and subsequently secured lenders, in a much better position to deal with the potential challenges ahead.

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

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Interview with Michael Scolaro, BMO Commercial Bank ABL

BY CHARLIE PERER

As part of our series of executive interviews, Charlie Perer sits with Michael Scolaro, managing director and asset based group head for BMO Commercial Bank ABL,to hear his perspective on the state of the ABL market, bank vs. non-bank competition, the future of ABL, executive development and competition, among other things.

Thank you for your time, Mike. To begin, can you please talk briefly about your background?

Charlie, I grew up in suburban Chicago before attending the University of Notre Dame. My father owned a small fruit and vegetable wholesaler, where my brother and I worked over the summers. The job started at 4:00 am and ended when the last case was delivered. He taught me the importance of customer relationships, the value of exceptional service and the necessity of making the workplace an enjoyable place.

What are the challenges and opportunities facing ABL leadership groups right now given all signs point to a recession?

The obvious challenge is going to be talent, retention, recruitment, and development. In terms of retention and recruitment, BMO has committed to paying competitive compensation, we have designed a workplace which fosters collaboration, we recognize the value of a diverse workforce, we foster continuous learning and we offer a hybrid office solution. Further, it is fun to be on a winning team.

In the face of a recession, we will all be faced with heightened standards and increased reporting, especially as the financial outlook deteriorates. Risk ratings may deteriorate, liquidity might tighten, lenders may become reluctant. However, the bold will understand their customers' needs and create logical, timely solutions, thereby securing long-term clients.

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

I can't speak for other banks, but at BMO, the relationship between our commercial banking teams and the ABL group has never been stronger. Our operating model very clearly codifies the roles and responsibilities of both groups, which include both ongoing relationship management and portfolio management. As approximately two thirds of our business is originated by our commercial banking partners, we stress the importance of our internal relationships. The most important thing for both groups to remember is to overcommunicate with your partner.

These relationships will be put to test when a recession occurs in each of three scenarios: 1) for existing ABL clients covered jointly by the commercial bank and ABL 2) for existing commercial bank clients contemplating a move to ABL and 3) for prospects of both the commercial bank and ABL. Again, an operating model fostering collaboration amongst the groups will be paramount to success.

How would you characterize the current state of the ABL market?

It is a fascinating time to be in the ABL market. Pricing has moved to ultra-competitive rates; portfolios have their best weighted-average risk rating since the creation of the ratings systems; utilization has soared in the past year, all while fears of a deepening recession are growing. In summary, it is the potential perfect storm for continued ABL growth.

What will be even more interesting will be the response of the lenders. The bold will dedicate resources to ABL.

What are your predictions for the future of ABL over the next 5 to 10 years?

I have a number of predictions I am very confident in:

1. Bank consolidation will continue, leading to larger ABL teams at the acquiring banks
2. Banks love low LGD businesses such as ABL (and rightly so) and they will continue to provide resources to the teams. When coupled with increased customer demand for covenant lite debt, ABL will be in demand.
3. Every major bank ABL team will have at least four industry verticals.
4. The pace of international ABL will continue to accelerate.
5. Investment in technology, making due diligence and ongoing reporting both easier and more accurate for both the client and the bank, will further establish ABL as a preferred method of financing.

MICHAEL SCOLARO
BMO Commercial Bank ABL

CHARLIE PERER
SG Credit Partners

How has bank-ABL evolved to keep with the proliferation and innovation in middle-market, non-bank ABL?

The bank ABL players have and will continue to play to our strengths – size, cost and availability of funds, technology, training and scope.

However, a recessionary environment could test these natural, inherent advantages. Without the ability and desire to finance collateral sound, cash burn loans in a competitive fashion, the bank ABLs face losing at least some ground to the non-banks.

Does the competition from non-banks force bank-ABLs to take more risk or is it the other way where the non-banks are forced into a higher risk-premium curve for their return?

The punitive nature of capital allocation based upon risk rating forces banks to cede much of what was considered "core ABL" 20 years ago to the non-regulated lenders. However, this will likely remain a small percentage of the overall ABL industry.

Do you think the sheer number of large non-bank entrants is going to lead to consolidation similar to what we have seen in the traditional bank-ABL market?

It always has.

What I foresee is the non-bank lenders continuing to consolidate, with the larger lenders picking off smaller finance companies. As we head out of the next recession, the larger non-bank lenders, fresh off of a series of acquisitions, riding impressive, cyclical loan growth and possibly at the end of their owners' investment cycle will seek to monetize their positions. The number of well-capitalized buyers seeking such an acquisition would be impressive.

Is the trend of ABL vertical specialization, i.e. retail, healthcare, etc., just getting started?

Customers have always welcomed the opportunity to work with lenders who understand their industry. At BMO ABL, we currently have verticals in metals, retail, healthcare and tansportation. These teams compete on a national basis, working with their local counterparts to create a tremendous advantage of both local coverage and industry expertise.

In addition, we are in process of considering verticals in food & consumer, technology, staffing & business services, chemicals, building supplies, automotive and others. This trend will only continue to accelerate over the next five years as lenders try to become even more entangled with their clients.

Every generation of lenders seems to think they had it the toughest. Can you give us perspective over the past 20 years?

Charlie, you meant 40 years, not 20, right? In the beginning of my career, I witnessed competition over advance rates, pricing, sizes of term loans, tenor. Does this sound at all familiar to today?

The next part of my career saw the most sweeping changes in ABL history as lenders and borrowers alike realized the value of springing covenants and springing dominion based upon excess liquidity. This change happened almost overnight and left the unwilling falling by the wayside.

Today we see competition over all of the above and hold size has also become a bigger determinant than ever before.

In summary, the market has always been competitive, and over the long run more favorable to the borrower.

Our group is structured into three primary teams, which together have eight portfolio and underwriting team leaders. The mentorship for young talent primarily occurs at the portfolio and underwriting team leader level. Responsibility for developing young talent is also pushed down in the organization, as we want our VPs, AVPs, and associates to have the opportunity to coach in addition to being individual contributors.

How is your time spent these days between running your group and mentoring/developing young talent?

Our group is structured into three primary teams, which together have eight portfolio and underwriting team leaders. The mentorship for young talent primarily occurs at the portfolio and underwriting team leader level. Responsibility for developing young talent is also pushed down in the organization, as we want our VPs, AVPs, and associates to have the opportunity to coach in addition to being individual contributors.

With that said, everyone on the team has a voice. At BMO ABL, the question is never "what do you think we should do?" Rather, the question is "I think we should do this, do you agree?"

How do you think about adding value to a new or existing client situation and how do you mentor your team to do this?

We always strive to fulfill an advisory role with our clients. This includes frequent client contact, which has been aided by the advent of video calls that occurred during the pandemic, and

a deep understanding of our client's financial needs. Then we search for solutions, whether it is cash management, various hedging products, purchase cards, trade finance, or other financial products. We also look to make introductions between clients that can be mutually beneficial.

Customers also want to hear from and have relationships with decision makers. At BMO, we delegate authority, creating the mutual trust with clients that serves as part of the glue in the relationship.

What are you doing to develop and retain talent in this labor market that you might not have five or ten years ago?

Three areas that come to mind are, first, we have a hybrid work model, which we feel strikes a good balance between the benefits of mentorship and collaboration that we find are best achieved in person and work/life balance. Second, we are focused on using technology to automate low value-added monitoring activities. And third, we are conducting more frequent pay-scale reviews to ensure that pay is competitive with the current market.

Has technology changed the way you approach lending?

We use technology in monitoring and operations, but believe experience continues to be a key factor in evaluating a potential client's creditworthiness or an existing client's credit request. Or, said another way, technology is not significantly changing how we approach lending, but it definitely assists with portfolio decisioning.

Also, the pace of technological change is picking up. One such example is the proliferation to programs to assist with and automate borrowing base creation, which helps to reduce borrower time spent on the task and improves data quality. Step-function change will occur when real-time data extraction allows for the creation of up-to-date borrowing bases (daily?) with minimal effort on the client's behalf due to EDI interfaces. We anticipate this would first be adopted with tougher-to-underwrite credits, where the real-time data is more important from a credit perspective and then gradually make its way to the traditional ABL market

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

Now why would I tell you that?

Charlie, thank you for the opportunity to discuss ABL. I hope my passion for both BMO ABL and the industry comes through.

We use technology in monitoring and operations, but believe experience continues to be a key factor in evaluating a potential client's creditworthiness or an existing client's credit request. Or, said another way, technology is not significantly changing how we approach lending, but it definitely assists with portfolio decisioning.

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.

Perer joined Super G Capital, LLC (Super G) in 2014 to start the cash flow lending division. While there, he established Super G as a market leader in lower middle-market second lien, built a deal team from ground up with national reach and generated approximately $150 million in originations.

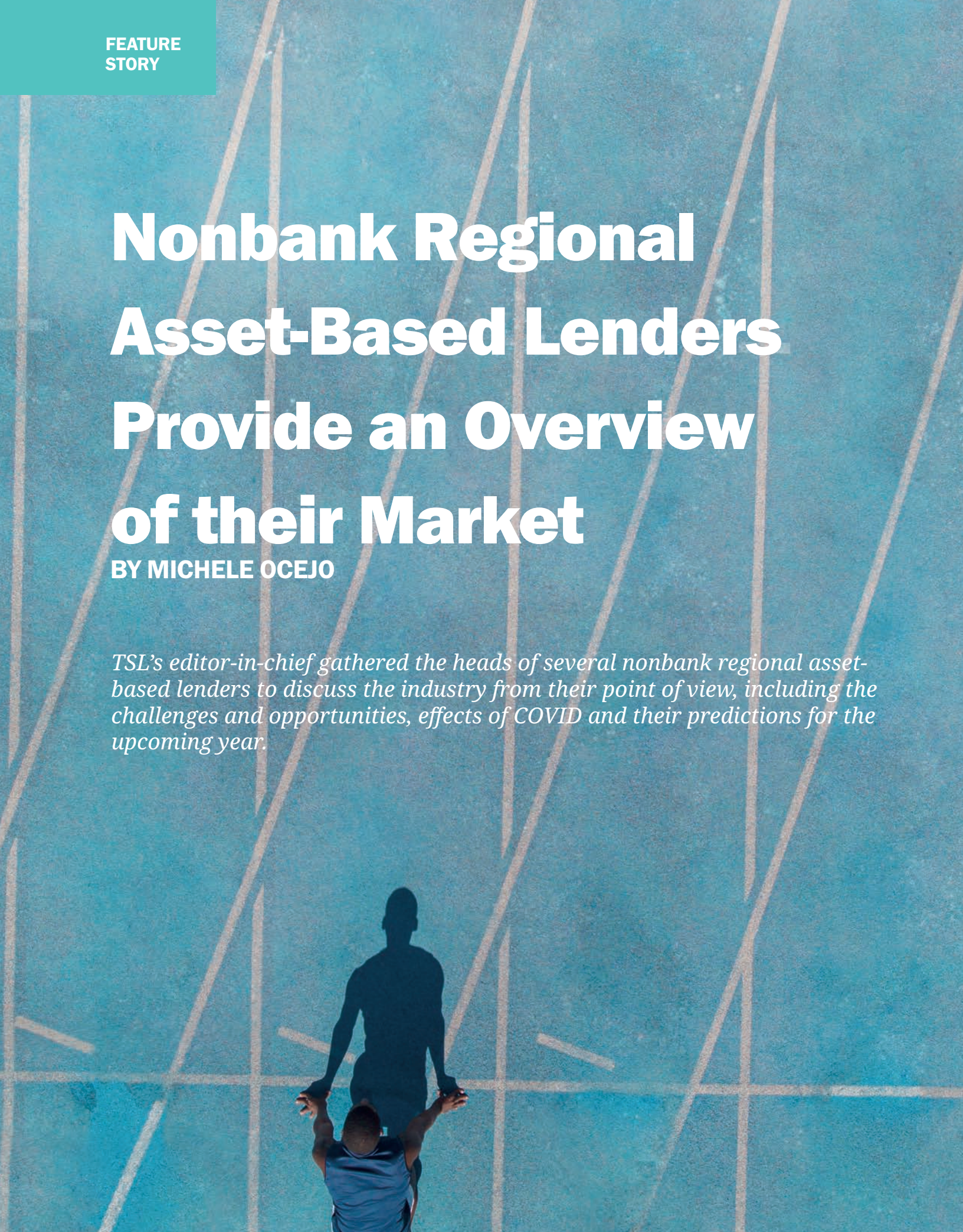
Prior to Super G, he co-founded Intermix Capital Partners, LLC, an investment and advisory firm focused on providing capital to small-to-medium sized businesses. He graduated cum laude from Tulane University. He can be reached at charlie@sgcreditpartners.com.

FEATURE STORY

Nonbank Regional Asset-Based Lenders Provide an Overview of their Market

BY MICHELE OCEJO

TSL's editor-in-chief gathered the heads of several nonbank regional asset-based lenders to discuss the industry from their point of view, including the challenges and opportunities, effects of COVID and their predictions for the upcoming year.



The executives interviewed are Tom Cleveland, managing partner, Access Business Finance; Michael Fussell, president, Aegis Business Credit; J. Brad Leach, president & CEO, Lighthouse Financial Corp.; Rhett Rowe, CEO, Great Lakes Business Credit; and Patrick Trammell, founding member and president, Southeastern Commercial Finance.

Thank you to Rhett Rowe and Charlie Perer, guest editors of this issue of *TSL*, for their assistance.

TOM CLEVELAND
Access Business Finance

MICHAEL FUSSELL
Aegis Business Credit

Please provide readers a little background on your companies and yourselves.

ROWE: At present, Great Lakes Business Credit is in its 20th year of business. We're a privately held, non-bank focused in the Eastern and Central US time zones, offering up to $6 million credit commitments to impaired operating companies which have quality accounts receivable. We additionally accommodate advances on inventory, machinery & equipment as well as owner-occupied commercial real estate.

One of our competitive advantages is that we are nimble. We field of team of in-house field examiners, generally closing/funding within 21 to 30 days of proposal acceptance. Secondarily, we have zero termination (prepayment penalty) structures. We offer every credit facility on a discretionary demand-note basis with one-year maturities. Our historical average tenor is 22 months and we extend beyond the initial 12 months routinely. Our pure mission is to bridge the gap of our clients to their next lower-cost solution, oftentimes a conventional bank.

We follow our bank group's prohibited and restricted industry type list. At times we are asked if we dabble in cannabis or other industry types which banks will not finance. We pass on non-bankable transactions as we look to banks, in general, to be our takeout source.

FUSSELL: Aegis Business Credit is a commercial finance company based in Tampa, Florida. We are celebrating our 15-year anniversary this month. Aegis provides factoring, asset-based loans, inventory and purchase order financing to lower middle market companies across the United States with a focus on the Southeast. We also have two sister companies, Aegis Real Estate Capital, which provides real estate bridge loans, and Aegis Venture Fund, which can provide more flexible capital structures for early-stage companies, oftentimes in the software and technology space.

TRAMMELL: Southeastern was founded in 1996 in Birmingham, Alabama. We are a very traditional non-bank ABL lender. Over the past 25 years we've evolved a bit into more of an asset-based lender for banks without asset-based departments. We do transactions from $2 to $40 million, often we will lead and a bank who brings it to us will participate. We will manage the credit and share the risk. And that's been a very good business model for us.

Our footprint is south of the Ohio River, east of the Mississippi and Tampa, Florida. We were recently acquired in March of 2022 by one of our partner banks, Renaissance Bank, which is a $17-million commercial bank with offices in six southern states headquartered in Tupelo, Mississippi. We continue to operate as Southeastern Commercial along the same business model.

CLEVELAND: Access Business Finance was co-founded in 1996 by Doug McDonald and me. We are celebrating our 26th year in business. We are a senior secured asset-based lender. The majority of our balance sheet is made up of lines of credit secured by accounts receivable and inventory. We also are very active in interest-only bridge real estate lending and often combine our real estate lending capabilities to provide additional borrowing under operating lines of credit. As well, we do equipment lending where we have lines of credit exposure. Our loan amounts range up to $20,000,000 to as low as $300,000 and our footprint in national. Before we fund any deal either Doug McDonald or I will visit the borrower at their location; this really helps the process for us and our clients.

LEACH: Founded in 1987, Lighthouse passed the 35-year mark in May. We are very proud of this accomplishment and owe our longevity to terrific business and referral partners, the quality of our team, and the service we provide. Lighthouse is a traditional asset-based lender providing working capital lines of credit and term loans against machinery and equipment in the $1,000,000 to $5,000,000 range and occasionally larger with participants.

Based in Greensboro, North Carolina, our geographic footprint covers the Eastern and Central time zones, or the eastern half of the country. Lighthouse provides loans for growth and expansion, refinancing and financial restructuring, business turnarounds, mergers, acquisitions, partner/shareholder buyouts, and debtor-in-possession financing. Lighthouse is widely recognized for its creative loan structuring, rapid credit evaluation and approvals, expedited loan

BRAD LEACH
Lighthouse Financial Corp.

DOUG MCDONALD
Access Capital

closing schedules, and superior service.

What are the unique challenges and opportunities in your sector right now?

ROWE: The challenges that we face are two-fold: One, the scalability of our business model, considering the size of the credits that we're limiting ourselves to, we're generally up to $6 million, but our comfort zone is $2 to $4 million. As a result, in terms of growing and scaling, that's adding significant numbers of clients to grow to a couple hundred-million-dollar portfolio.

Second, we will not pretend to match pricing which bank ABL platforms offer on larger credits, so we view our niche to be just that, a niche that we favor in that there's many more companies needing less than $5 million than there are needing $10 million or more. We have less competition in our space, but it's hard to scale considering it is a referral-based business model. We do partner (similar to Pat had mentioned) with a significant number of banks that are looking for an exit, oftentimes without their own ABL unit, so that's kind of a nice basket for us.

As for opportunities, I mentioned in our business model we're very nimble, so we can generally beat any bank-owned platform to the table in terms of not only proposal stage but closing timeline as well. So, generally, most of our prospective customers are very high sense of urgency, they need the money or help yesterday, so that's really what we pride ourselves in: delivering a very nimble product and reliable product at that.

TRAMMELL: It's interesting to follow up on what Rhett said. In '96, when we formed Southeastern, one of the things that we did not have to contend with from a competition standpoint was that most of the non-bank ABL lenders were owned by the principal and several outside investors, which I would call "friends and family money."

Today, the majority of the independent ABL lenders are owned by private equity, or funds or family offices. So, you know, the competition amongst ourselves is a lot larger. So that's how the industry has evolved.

One of the challenges for us as an independent was getting a bank line of credit to work with and there's an old adage that says why would we lend to somebody that lends to somebody that we wouldn't lend to and it's very difficult as a startup. I went through this, and I'm sure everyone else has, too, to access capital to grow with.

I think the opportunities are staring us in the face once again. I was going back through our history and I think this is our third full-blown recession and it's not true that we double our business in a recession, but it is true that we see more opportunities. It has always been an opportunity for us to use our expertise to work with our referral partners, which for us has generally been commercial banks.

FUSSELL: I spent the first 15 years of my career in traditional commercial banking, both in sales, credit and then special assets. So, for me, given that perspective, now being a nonbank finance company, I think one of the key differences is that we are more forward looking. Since we are not regulated by the FDIC or other federal regulators, we do not have to restrict our clients to specific historical financial covenants and ratios.

Risk management and underwriting is very important to us, however, we have more flexibility in the criteria we look at and take a more common-sense approach to credit risk. We are more understanding of clients with historical financial performance issues than banks, however they must have clearly defined turnaround and growth plans and have a management team capable of executing on those plans.

We've had several clients during the COVID era over the past two years or so that were seeking lower-cost bank financing and spent upwards of six months trying to obtain loans from a bank and were ultimately unsuccessful and, as a result, they missed key opportunities in their industry and lost significant revenue due to the lack of working capital financing. Those companies ultimately came back to Aegis and we were able to structure credit facilities around their specific needs. So, for us, the speed to close and the certainty to close is key compared to some of our bank-owned competitors.

LEACH: Competition is prevalent in any industry, but ours seems to shift as players come and go. Other than the U.S. government, community banks have been one of our biggest competitors over the last couple of years. However, as in the past, we expect this competition to decrease during economic downturns. Also, there are typically a few new ABL players that enter the space annually. Over our 35 years, we have withstood new entrants competing on price or overly aggressive structure by remaining steadfast and providing a creative, competitively priced product backed by quality service from experienced account managers.

I would say the biggest opportunity of non-bank status is the ability to prosper and grow during and immediately after an economic downturn. Asset-based lending is well suited for this environment due to our reliance on the conversion of working capital collateral to

RHETT ROWE
Great Lakes Business Credit

PATRICK TRAMMELL
Southeastern
Commercial Finance

cash as our primary source of repayment. Conversely, banks usually tighten credit standards or seek to exit lending relationships where the borrower has suffered balance sheet deterioration as a result of losses incurred during a downturn. As a non-bank lender, Lighthouse can provide financial support to companies that may have more balance sheet leverage, whether from growth or distress, than a bank can accept.

CLEVELAND: I don't think our challenges ae much different from regulated lenders; we are all impacted by the same economic forces. Currently, we are in a recession/stagflation situation and it will be hard to predict the length or severity of this situation. Leveraged loans from non-bank lenders and banks as well are all under pressure. That pressure is twofold: Slowing revenues and increasing interest rates and other costs as well. That all impacts cash flow, earnings and the ability to meet debt obligations. Clearly, banks are restricting credit generally and, in some cases, those restrictions are pointed at certain industries. Banks are less patient with tough credits and are moving those credits out of their portfolios quickly. Over the past few months, we have noticed a pickup in referrals within our network. Additionally, we are receiving increased activity and inquiries from private equity sponsors, which provided good activity for Access over the past several years in markets throughout all sectors of the U.S. I think for us, since we are comfortable with $10mm credit facilities or more and we also do Real Estate Bridge Loans, we have enough financial capacity and product diversity to compete with any other ABL lender and even sometimes banks.

Doug McDonald and I started Access Business Finance 26 years ago and have been business partners for over 34 years, all in financial intuitions. We have experienced many economic cycles and this will be another one. But the one thing Doug and I have learned is credit is serious business, regardless of economic conditions and credit losses cannot ever be reclaimed. Many private lenders and banks have come and gone during our careers, the list is very long and the common denominator in that graveyard is credit losses. Credit does not change. It is not technology, it is not space travel. Credit is like gravity: it's laws never change. That's what we focus on: good companies, good management, good partners, good collateral, good cash flow and, most especially, highly qualified and well-trained colleagues who are like minded.

How has COVID affected how you work? Are you remote, hybrid, totally in the office?

ROWE: We were fortunate and fully prepared to operate 100 percent remotely in April of 2020 as lockdowns became prevalent, especially in the state of Michigan. We relied on our disaster protocol recovery plan, and as an essential industry type, we returned to the office more and more, meeting with prospects and conducting field exams.

We have added at least eight (8) staff members over the last two years as our platform is growing and, moreover, we have adopted a hybrid model whereby we're requiring each of our employees at our Troy, Michigan offices to be in office at least twice per week.

Importantly, we also have a mandatory in person staff meeting each month, including a team luncheon. We remain focused on furthering our firm's culture in these respects.

FUSSELL: We've had a similar approach. We tried to be quite flexible our first year of COVID and most of our staff, just as the rest of the country, worked remotely. I think we're finding that the younger generation prefers a very flexible work structure, but we also find that the younger generation has the most to gain from being in the office and learning in a team environment, so we are trying to do our best to come up with a good hybrid structure where there are certain days that everyone is in the office while still providing some remote work flexibility.

LEACH: The pandemic had multiple effects on Lighthouse, including portfolio shrinkage and employee loss. The initial effect of the pandemic was a rapid decline in loan utilization rates within the Lighthouse portfolio. Typical utilization rates (loan outstanding as a percentage of availability) average around 80%; however, this dropped to an average of 65% within one month of the first round of PPP funding in 2020. All but one client of Lighthouse took PPP loans in round one. Utilization rates have still not recovered to pre-Pandemic levels as approximately 45% of Lighthouse borrowers qualified for the 2nd round of PPP, and several took advantage of EIDL loans and ERTCs. The resulting strengthening of borrower balance sheets also led to an above average level of attrition in the portfolio as well.

At the beginning of the Pandemic, we gave team members the option of working from home or continuing to come to the office. We are fortunate to have more space than we need; therefore, social distancing at the office was not an issue. All employees continued to work from the office unless they contracted COVID. We did lose one employee to another industry early in 2022. One of the reasons this employee gave was the desire for a more flexible work schedule and the ability to work from home. Other than regional business development staff, Lighthouse has no direct plans to institute a work from home policy.

TRAMMELL: Like everybody else, we set out when the pandemic "hit," we evaluated where we were. Number one, we put a lot of focus on keeping in very close touch and monitoring a lot of new metrics for our customer base. We decided that we would begin to track sales every day, for example. And I think that made us better lenders on a long-term basis. And we've kept some of that. It did give us an opportunity to look at how we did things in the heat of the battle and I think we're better for that.

From a staffing standpoint, everybody in our office is a 15-to-20-year professional and I certainly have trust in them to do what they need to do. I don't have any issue with working outside the office if nobody is comfortable from a health perspective. But everybody decided in our shop that they would try to keep the routine as much as possible.

I agree it is a concern when you have young people. They need to be in the office if they want to grow with the team. I think we're hiring skillsets as opposed to future leaders. This business is so much about tribal knowledge and hearing the stories of loans from long ago and the success stories.

CLEVELAND: The pandemic has made it difficult for all of our customers due to labor shortages, supply chain disruptions, you name it. Those conditions have not gone away although they seem to be waning. The current inflationary pressure has added to the pandemic effects and we will have to be on guard for changing conditions.

As far as Access Business Finance is concerned our model has not changed, we all work from the office and we did during the heart of the pandemic. We are a very collaborative group and talk about new deals and existing deals constantly. That type of collaboration is a constant training exercise throughout the company (operations, credit, legal and sales) for all of us including, Doug McDonald and me. I simply don't know how a company can get better without constant internal communications and development.

What do you think the outlook is over the next year? What should lenders be concerned about especially with the economic challenges, supply chain issues, etc.?

LEACH: As e-commerce continues to grow with the potential impact of decreased traditional distribution businesses, Lighthouse, like many other commercial finance companies, is now considering financing e-commerce businesses. This financing requires a greater emphasis on inventory financing. Lighthouse has already provided inventory heavy deals to borrowers with e-commerce platforms along with their more traditional distribution channels. We are now in due diligence for a line of credit to a pure e-commerce business. We will still rely on our 35 years of experience in lending against retail inventory within the distribution model, but will need to lean a bit more on our inventory valuation partners for support to determine prudent advance rates and liquidation strategies.

We are hopeful that manufacturing will continue to return to the U.S. and increase deal opportunities for all finance companies and banks.

Fintech and technology enabled finance companies will continue to grow and provide more competition to traditional ABLs and factors; however, this tends to occur at the lower end of the finance spectrum, sub $1MM. Lighthouse will pay attention to whether the new providers start growing the size of transaction they consider.

As has been the case over my 25 years in banking and finance, 21 of those with Lighthouse, ABL remains popular during times of economic downturn or leveraged growth. I do not see this changing and expect to see activity pick up over the coming months as we work through this period of high inflation and rising interest rates.

Remote work appears to be here to stay. We are seeing more and more borrowers and prospective borrowers managed remotely. We can provide examples of instances where it appears to be working and others where it does not. Also, 3rd party providers such as field examiners and appraisers continue to perform a large percentage of their work remotely. We are still on the fence about the effectiveness of this remote work. We remain firm believers that it is better to be face to face with your borrower when discussing financial and collateral matters.

TRAMMELL: Again, this is probably our third recession we've gone through as a company. In 2008, the banks were without capital. As we sit here in 2022, the banks have billions and billions of dollars in excess capital. And I think that's probably going to inform how they work through this recession.

Loan volume is still at a premium in the banks and, as opposed to playing games up a balance sheet, which to the banking industry's credit they were well reserved for, I don't think we're going to see a waterfall of business within the next 6 to 9 months. Now, where the economy goes from there is anybody's guess, but I think from a bank standpoint you'll see a lot of extend and pretend going on and not a lot of banks tightening up to a great degree from a credit standpoint.

CLEVELAND: I think the outlook is good and we will continue to see consolidation within the industry. Operating costs will continue to increase and efficiency will become paramount in maximizing profitability.

FUSSELL: Just as there is general COVID fatigue now throughout the country, I think there is growing COVID fatigue in the bank's credit departments with borrowers that are still having weak financial performance after the pandemic. I think there will certainly be more bank soft exits over the next 12 months, but to Pat's point, I haven't seen the banks taking a very aggressive approach to exiting loans so far. For companies that are still missing key financial covenants I think banks will now begin to act on those defaults whereas they were more lenient over the past 24 months. So, I do think there will be opportunities for us in the nonbank ABL space to take some of those stronger credits off of the banks' balance sheets that haven't quite rebounded to the point where they perfectly meet all of the criteria for a bank.

The second point regarding the outlook of the ABL industry over the next year has to do with the lingering effects from the supply chain issues. Working capital lenders have been seeing more and more requests to finance larger inventory balances recently for

manufacturers and distributors. These companies had real pain points over the past year with shortfalls of inventory and inability to meet demand for product. In addition, most are seeing vendors require longer lead times for inventory orders and are requiring larger order quantities. Now as demand is cooling in some sectors, companies have found themselves overstocked. Lenders will have to tread lightly in these situations to find the right balance between meeting client needs without getting overextended.

ROWE: In our historical upper Midwest territory, we're seeing banks get quite tight – the community and regionals that we work with routinely are pushing to exit credits, at least in our sphere of credit size, prior to year-end. Our counter-cyclical business model is built exactly for this type of environment. With tight credit, inflationary pressure, as well as low consumer confidence, that's a perfect storm for our business model.

What I foresee over the next year is a continuation of consolidation of companies like ours in that our yield is quite attractive to banks as well as equity firms.

Most banks which acquire firms like ours oftentimes make the mistake of holding same within its regulatory frame. Attempting to mirror yields demonstrated by a non-bank whilst attempting to conform with bank policies can be disastrous. We know of two that were in our market (as nonbanks) which are now part of bank platforms. They rue the day because bank application of credit does not win deals in our space. As a former CEO of bank(s), we effectively offer a specified and unique skillset required to do what we do very carefully.

How concerned are you about the various financial disclosure laws popping up around the country? (Editor's Note: SFNet is creating a compliance guide for members focused on the California financial disclosure law, which should be available at the time this is published.)

CLEVELAND: California has implemented its new law and New York just issued its second set of regulations. We suspect other states may follow at some level. California's law is aimed at small transactions. Nevertheless, if one wants to be in this business, the legal requirements will need to be followed.

FUSSELL: I'm in Florida, so I'm curious to see how it plays out and I will be watching it more closely over the next year. I have mixed emotions. I think in some states like California and maybe New York, I'm concerned that they may restrict opportunities for small businesses to obtain financing, which is a negative. But at the same time, I appreciate that certain segments in small business finance area probably do need to have some regulatory oversight and I'm really pointing more towards the MCAs. There have been a multitude of online lenders that have popped up over the past 5 to 7 years and I feel small business owners really don't understand what they're signing up for or know the true cost of capital in most cases. But there is a clear distinction between that type of MCA capital and the factoring and asset-based lending space.

TRAMMELL: I think it's very important, as Mike pointed out, to be very intentional about not having ourselves thrown into a basket with generally predatory consumer lenders. And I think that's the intent of these laws, but some are poorly written.

The SFNet universe is a $4 trillion impact on the economy and helps support multiple billions of jobs. By and large our industry has always been full of good citizens, and I think it's very important as an organization that we tell that story.

ROWE: After a successful banking career, and after my initial stint with Great Lakes Business Credit beginning in 2012, I was lured into the MCA space in mid-2015 for two years. The more I learned about the space, I realized that MCA (and similar offerings) need to be regulated.

The company I led offered only first-position MCAs and maintained a good reputation in the space. However, there was a number of other firms which would offer additional financing (stacking) behind our first position, oftentimes choking business(es) out of existence.

As Great Lakes Business Credit is focused on the eastern US, we generally have no issues with states which (or will) require disclosures.

LEACH: As this issue has yet to directly affect Lighthouse, we have spent little time discussing its repercussions. However, we are not ignoring it and wonder if similar laws will make it to more states where we are active. Lighthouse has always been completely transparent in its pricing to borrowers, so disclosure is not an issue. However, having to institute new policy with regard to regulatory disclosure is, of course, a concern. We do not currently provide financing in California and have no immediate plans to expand our current geographic footprint, which is the eastern half of the U.S. We are discussing whether to institute a deal size floor ($2,500,000) in New York once the law becomes effective. The majority of the transactions we see and close are north of this amount anyway. However, we will make that decision once we have a full understanding of the disclosure requirements. It's hard to say no to a new deal.

Michele Ocejo is editor-in-chief of The Secured Lender and director of communications for SFNet.

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Secured Finance Network

Hall of Fame 2022

On the following pages, we honor the industry icons who have been inducted into the 2022 SFNet Hall of Fame. We all owe a debt of gratitude to these leaders. Although they represent the industry during various periods of time, they have all made criticalcontributions to secured finance and deserve our appreciation for making the industry and our association what it is today. As you read their profiles, you will be struck by the immense talent, hard work and creativity the inductees have expended not only for the good of their respective businesses, but in order to better the industry as a whole. The following profiles are a testament to the ingenuity and vision not only of the pioneers who are long gone, but also those who are leading our industry today.

Secured Finance Network

Hall of Fame 2022

WILLIAM D. BREWER
Winston & Strawn LLP

Bill Brewer is co-chair of Winston & Strawn LLP's global Debt Finance Practice. He concentrates in the areas of debt finance and corporate finance. Mr. Brewer has extensive experience in asset-based, cash flow, leveraged, and other finance transactions, acquisition finance, related securities offerings of both equity and debt, and health care financing. In addition, Mr. Brewer routinely represents financial institutions in workouts and restructurings, both in and out of bankruptcy. Mr. Brewer received a B.A. in economics, magna cum laude, with distinction, from Yale College in 1983 and a J.D. from Harvard Law School in 1986. In addition to serving as co-chair of the firm's global Corporate Lending Practice, Mr. Brewer is a member of the firm's Corporate Opinion Committee. He is a former two-term member of the firm's Executive Committee. Mr. Brewer is the former secretary of the Yale Club of New York City and a former three-term member of its governing Council. He is the Co-Chair of the 30th reunion of his Harvard Law School class (and previously served as Co-Chair for the 20th and 25th reunions). Mr. Brewer is the Vice Chair of the 35th reunion of his Yale College class (and previously served as Vice Chair of the 30th reunion).

What advice would you offer to someone just starting out in the industry?

Don't be afraid to learn new things, reach out to your network, and broaden your circle of contacts. You can learn so much from new people—a one-off conversation with a new connection can directly affect your entire career trajectory. Look for good mentors and thought leaders in the industry that you think are great at what they do and take every opportunity to work with them. You will work hard, but try to have some fun with it and enjoy the wonderful people you meet along the way. I cannot express how grateful I am for my colleagues, mentors, and clients I have had the privilege of working with over the tenure of my career.

What are some of the most memorable moments of your career?

When I look back on my career, what my team has done in the ABL space is bigger than just the deal work. We are making a difference with ABL lenders by preserving jobs, providing liquidity, and helping the economy and those moments have been so memorable.

For example, during the financial meltdown, we worked on the DIP and exit financing for Dura Automotive, a large auto supplier. The ABL lenders we represented were able to provide support throughout the chapter 11 process which allowed the company to remain operational. The exit financing enabled the company to not only come out of bankruptcy but also continue the business. I also worked for years on a series of liquidity transactions for Vertis Communications during a lengthy restructuring process. In the final transaction the business was sold as a going concern to Quad Graphics in a 363 bankruptcy sale process.

For many years, I have also helped train dozens of attorneys in the area of ABL financing through official and unofficial mentorships. Watching my mentees learn and develop their respective practices has been both memorable and extremely rewarding.

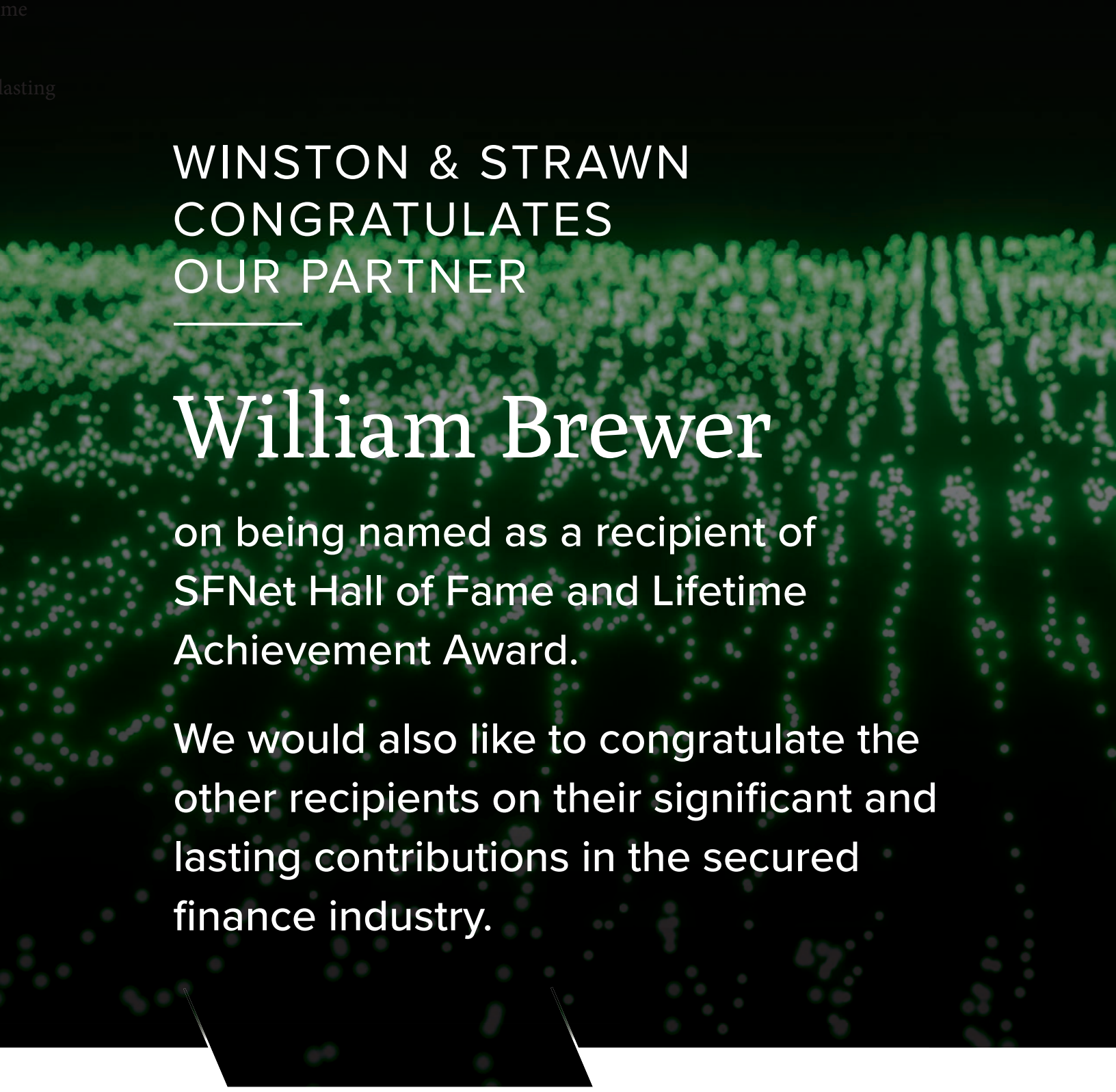
What role did SFNet, its events and connections play in your career development?

Words cannot express how grateful I am for SFNet and the role this organization has played in my career. All the networking opportunities, both nationwide and locally, mentorship, and the opportunity to meet and develop deeper relationships with clients at banks and non-bank lenders, I would be remiss not to thank SFNet for shaping me into the professional I am today.

I currently serve as chair of the Secured Finance Foundation and have been a long-serving member of its Board of Directors. I have been active with the Foundation and SFNet (and its predecessor the Commercial Finance Foundation) for over 25 years, including service on its Executive Committee, as Campaign Chairperson of the CFA Education Foundation, and as a member of the Board of Governors of the Education Foundation. SFNet has also allowed me to give back by teaching. For going on nine years, Alister Bazaz of Bank of America and I have led the New York-based SFNet Cross Border Lending Summit.

How did you get your start in the industry?

I began my legal career as a securities lawyer where my first deal was the IPO for Lands' End. Shortly after this deal, Drexel imploded and there were lots of fallen angel opportunities. I began doing ABL transactions and thoroughly enjoyed all aspects of the work. My first ABL deal was for Zenith Electronics when they were transitioning from manufacturing televisions to a HD technology company. Since then, I have been blessed for more than 30 years to do ABL deals of every size and type.



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on being named as a recipient of SFNet Hall of Fame and Lifetime Achievement Award.

We would also like to congratulate the other recipients on their significant and lasting contributions in the secured finance industry.

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JACK BUTLER
Birch Lake Holdings, L.P.

Jack Butler is the founder and chief executive officer of Birch Lake Holdings, LP, where recent transactions include leadership of merchant banking relationships in the consumer electronics, food, legal tech, logistics and transportation industries. Jack co-founded Skadden's corporate restructuring practice and helped create more than $100 billion in accretive value for clients and stakeholders during his 23 years as a practice leader. He previously served on the executive leadership team at Hilco Global. In addition to the Secured Finance Network Hall of Fame, Jack is a member of the M&A Advisor Hall of Fame and the Turnaround, Restructuring and Distressed Investing Industry Hall of Fame. He is a recipient of the Ellis Island Medal of Honor, which is awarded to Americans who exemplify outstanding qualities in both their personal and professional lives. In 2016, Jack received the Harvey R. Miller Outstanding Achievement Award for Service to the Restructuring Industry and he and his family were honored with the Anti-Defamation League's Jerold S. Solovy Freedom Award. He has served in leadership positions for many other industry organizations including as a founder and past chair of the Turnaround Management Association. In addition to his committed involvement to numerous civic and charitable organizations, Jack officiated high school and college football for many years and is a lifetime member of the American Football Coaches Association.

How did you get your start in the industry and what are some of the most memorable moments of your career?

Three of the influencers on my career: I grew up in an entrepreneurial family. I am an outlier. And I started out at the same time that the U.S. Bankruptcy Code was enacted, which changed the capital markets landscape and created the turnaround industry by favoring corporate reorganizations and keeping state law directors and officers running their businesses and hiring advisors.

I worked weekends and summers as a teenager in our family's retail businesses before completing high school early to head to college and then, at my father's urging, law school to combine an appreciation and understanding of business entrepreneurship with legal skills and knowledge. That led to a permanent offer from one of the premiere midwestern law firms – followed by an involuntary exit 18 months later for not conforming to their expectations of a young associate. I preferred client rainmaking to the law library and focused a lot of energy on imagining how the new Bankruptcy Code would fundamentally change how companies navigated business challenges, debt would be invested and from whom, and business, financial and legal leadership roles would evolve in the new statutory regime. I bet my career on the proposition that everything would change – and it did.

Soon after arriving at another highly regarded Michigan-based law firm, I approached the managing partner with an unsolicited business assessment of the firm's prospects and client concentration. Rather than getting fired (again), I was given the proverbial rope to hang myself as my proposal for an aggressive regional business development plan was put to the test. Fortunately, with the support of a mentor from my alma mater, what would become a decade-long client relationship was secured with a Chicago-based financial services company that led to more than 100 deals and created a national platform for a regional Detroit-based law firm.

Over the Thanksgiving weekend 1989, a global law firm reached out without any advance notice to recruit me to join as a partner. Five weeks later, on New Years' Day, I was in my new office in a new city and mission-focused on what would become Skadden global corporate restructuring and distressed M&A practice. Soon thereafter, I met the man with whom I have raised our four awesome children (still in college) and recently celebrated our 31st anniversary. Along the way, working on a team of remarkable lawyers and support staff with whom I had the privilege of serving as a practice leader for 23 years, we led transformational restructurings of dozens of companies across a diverse range of industries.

Always an entrepreneur at heart, I stepped away from the active practice of law following US Airways' historic merger with American Airlines to become a full-time investment principal. Following several years on the executive leadership team at Hilco Global, in 2016, I founded Birch Lake, a Chicago-based merchant bank that blends decades of structuring and advisory experience with principal investing. The insights gained from advisory relationships create an advantage for our investment business by providing early access to proprietary investment opportunities complemented with deep connections to and understanding of the operating businesses and their leadership teams.

My advice to someone just starting out in the industry? Be passionate, reliable and dedicated. Learn and grow from setbacks and failures. Be authentic, genuine, empowered and your best self. Seek out mentors. Pay it back from the earliest days of your career. Live your core values. Have fun!

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Birch Lake congratulates the honorees on their induction into the SFNet Hall of Fame and specifically, our founder and CEO, Jack Butler. You embody the virtues of a trusted partner, inspiring successful outcomes and we are fortunate to have you as our leader.

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Secured Finance Network

Hall of Fame 2022

MICHAEL COILEY
CIT Healthcare Finance

Mike Coiley is a managing director in CIT's Healthcare Finance business, responsible for providing financing and strategic solutions to clients across the diverse and dynamic healthcare sector. Coiley has been in the finance industry for more than 30 years. Before joining CIT, he was with a debt fund and prior to that was with Siemens Financial Services, where he was responsible for developing their de-novo asset-based lending business. While there, he ultimately became a member of the business' senior management team and was responsible at different times for their large-ticket leasing business, their traditional and healthcare ABL units and their commercial equipment finance business. Prior to Siemens Financial, Coiley held several different roles with First Union's ABL business (now part of Wells Fargo). Coiley is a past president and former chairman of the Secured Finance Network when it was known as the Commercial Finance Association. He has served on its Management Committee and has either chaired or served on several other SFNet committees. He is also a former chairman of the SFNet Education Foundation. He is a founding member of the Association for Corporate Growth's New Jersey chapter. Coiley holds a bachelor's degree in financial management from Clemson University and an MBA with a concentration in accounting from Seton Hall University.

What advice would you offer to someone just starting out in the industry?

I recommend they be a voracious learner. Learn about the various functions and disciplines within an ABL group and volunteer for projects that offer an opportunity to expand beyond their comfort zone. They should develop great listening skills and an openness to learning from others. Seeking help from others more knowledgeable is not a sign of weakness, but rather a unique strength that will propel people further in their career. Lastly, they should get involved in SFNet and work at developing relationships (client, peer, partner, co-worker).

What are some of the most memorable moments of your career?

Developing a de novo ABL business for Siemens Financial was a memorable highlight. That multi-office group grew to a $1 billion-plus asset business comprised of 20 colleagues. Collaboration with the CEO, CRO, and colleagues in Accounting, Treasury & in Munich, combined with the hard work and dedication of a great ABL team was a rewarding experience. Other memorable moments include playing a role in the development of the industry textbook that was published by Gregory Udell, becoming the president of SFNet, and launching the start of the process to re-engineer the association's governance to where it stands today, which I believe is more inclusive, responsive and more effective in supporting its membership.

What professional achievement are you most proud of?

Giving back to the industry through the creation of a forum for the syndicated ABL community. I presented the concept of developing an Asset-Based Capital Conference to Mike Sharkey and the Executive Committee. As chair of the Education Committee, I assembled a small team to refine and develop the plan that received approval. Now approaching 15 years in existence, the conference has focused on the expanding syndication market for asset-based loans. It was an instant success and remains the go-to industry event for members who syndicate and participate in large ABL loans. The ABCC also had the dual benefit of becoming SFNet's second-largest income-producing event, which has enabled the association to invest in additional educational programs and advocacy efforts.

What role did SFNet, its events and connections play in your career development?

SFNet has served as a solid foundation for my career. I was fortunate that Ted Kompa encouraged his team to engage at the chapter level. Those early experiences in the chapter and then at the national level provided outstanding networking opportunities, enabling me to build relationships with other professionals (lenders, attorneys, accountants, investment bankers, appraisers, etc.). Additionally, that network led to new business opportunities, provided structuring guidance and education to avoid pitfalls which ultimately made me a better lender.

The part that no one really notices is that SFNet is truly a volunteer-driven organization. Engaging with it at the national level allowed me to give back to a group that has done so much for me.

How did you get your start in the industry?

I was hired from college and went through a traditional management training program. Upon its conclusion, I ended up in the ABL group where I started as a field examiner. Visiting companies and performing my A/R & Inventory collateral work on site allowed me to see how a business truly operated. Understanding the components of their balance sheet and true cashflows from the inside enhanced my credit skills and collateral knowledge, which has served me well throughout my career.

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Marc Heller
President,
Commercial Services

Michael Coiley
Managing Director,
Healthcare Finance

Congratulations to Marc Heller and Michael Coiley on being inducted into the SFNET Hall of Fame. We celebrate your inspirational leadership and distinguished careers.

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Hall of Fame 2022

MARK FAGNANI
PKF Clear Thinking

Mark Fagnani began his career with Congress Financial in 1976 and worked there until 2010. Over the years, Congress changed its name several times and was ultimately known as Wachovia Capital Finance (WCF) until it was acquired by Wells Fargo in 2009 when it became Wells Fargo Capital Finance. Fagnani has practiced in almost every aspect of ABL, but spent most of his career as a special situations officer overseeing workouts and problem loans and ultimately served as chief credit officer of WCF and chairperson of their credit committee. In that capacity, Fagnani helped oversee a portfolio of over 650 loans with over $24B in commitments. After leaving Wells in 2010, he formed his own consulting practice, MSF Associates. In 2013 he helped form an ABL firm for a small regional bank, executed a sale of that business in 2015 to another bank and in 2018 helped form an ABL shop for another bank. In 2019 Fagnani gave up lending and joined PKF Clear Thinking as a business development officer for a premier consulting and turnaround firm where he is employed today.

What are some of the most memorable moments of your career?

There were times when we, as a firm, had to step out, take a chance and help a borrower really succeed or execute a turnaround. We may have broken some rules along the way and made what others thought were controversial decisions, but which we thought were well founded. Very often this worked out quite well. These were some of my most memorable and happiest moments. Times when I could go home believing we really had made a difference. I also enjoyed the maverick role and appreciate that we were empowered in that way. I credit my bosses, several of whom are already in the HOF for making that possible.

What professional achievement are you most proud of?

As chief credit officer of WCF we had four years with zero losses on a portfolio in excess of $20B. We had a fantastic group of people at WCF managing accounts all over the country. We had a fairly rigid system for monitoring and evaluating credits on an ongoing basis that we used to great advantage. We had a common culture that saw every team member focused on the same issues and we had really smart people. I had a team that I worked with every day that oversaw all of this. Together, we created this result and it is probably the single achievement I am most proud of. I would add that my boss, after commending me for no losses immediately followed that with the comment that I was not taking enough risk and that we undoubtedly left something on the table. You can't win.

What role did SFNet, its events and connections play in your career development?

I have been involved with SFNet for more than 30 years. I attended classes that helped me learn and advance, then I taught classes which was super rewarding, and I have encouraged many of the people that I worked with to also attend classes. The learning opportunities are boundless. I have met hundreds of people at Conferences and other events over the years. That ever-expanding network has served me very well over the years including getting assignments as MSF Associates, as well as getting the opportunity to start that first ABL shop in 2013. That all came about as a result of conversations with people I knew through SFNet. Those connections continue to serve me well in my present capacity with PKF Clear Thinking as my job is to get out and get in front of people. I have had many occasions to call one friend from the industry to ask if he/she would introduce me to someone else that I didn't know. I have never had anyone say no to a request for help. I consider that the ultimate benefit of a large network of colleagues. I would also add that when establishing those small ABL shops we often had to convince people with limited knowledge of ABL that it was a great space to lend into. The data from SFNet regarding size, defaults, charge-offs and reserves was invaluable. They were and are a great resource. Finally, I have had the privilege of serving on several committees for SFNet including the Advocacy Committee and the Membership Committee. This has provided an opportunity to get to know and work along side of some really great folks and do some really good work. I would encourage anyone who is interested to volunteer.

What advice would you offer to someone just starting out in the industry?

I'll make this quick – work hard. Really hard. All of your peers and colleagues are smart, find a way to stand out. Ask questions of everyone including senior officers. Volunteer for stretch assignments to broaden your scope. Listen carefully. Take courses when offered.

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STEWART HAYES
Wells Fargo Capital Finance

Stewart Hayes is managing director for Wells Fargo Capital Finance's (WFCF) Lender Finance group. He joined Wells Fargo in 2000 as one of the original team members of Lender Finance and serves as a senior team member. Lender Finance is a leading provider of credit facilities to commercial specialty finance companies. Prior to joining Wells Fargo, he worked at Bank of America Commercial Finance for 16 years, holding executive management positions at both its Business Credit and Factoring divisions.

Stewart has been active in the SFNET for 35-plus years. Highlights include:

• Serving on the Executive Committee and Board of Directors for over 15 years.
• Membership chair for five years.
• Annual Convention chair - 2017 (one of the highest attended Annual Convention events ever).
• 40 Under 40 chair for three years - 2020, 2021, 2022
• Current chair of the SFNET Foundation Board.

Additionally, he is a member of both the International Factoring Association and the Equipment Leasing and Finance Association.

How did you get your start in the industry?

Upon completion of a bank credit training program, I was encouraged by Stephen Fisher to accept a placement in the asset-based lending (ABL) group. At that time, not many people were picking the ABL group. This turned out to be one of the best moves in my career. I spent 15 years with industry icon Jim Casper as my mentor. He not only taught me the business, but, more importantly, demonstrated how to conduct business the right way with hard work, honesty, and integrity. I subsequently had the pleasure to work with SFNet Hall of Famers Michael Haddad, Scott Diehl, and of course Andrea Petro (for 17 years).

What role did SFNet, its events and connections play in your career development?

The SFNet provides endless opportunities to connect with and learn from others in the industry. I have had the pleasure of serving in multiple SFNet roles over the years, providing connectivity to multiple individuals and organizations in our industry including many senior executives. While this time was voluntary on my part, this in fact provided significant positive exposure for Wells Fargo, has been instrumental in the success of our business, and greatly enhanced my career. Definitely time well spent.

What are some of your most memorable moments?

A few that jump out: 1) As a senior member of the WFCF Lender Finance team for 22 years, we provide financing for numerous independent finance companies that are members of the SFNet. This has included providing financing for multiple start-up and restart finance companies. It is really gratifying to work closely with someone for many years, watch them successfully grow and, in many cases, successfully sell their business, and have them truly appreciate your contributions. This has led to many long-term personal relationships and great memories; 2) Being involved with the SFNet 40U40 program from the outset has been quite enjoyable and rewarding. It is wonderful to see the extensive talent in our industry and be a part of honoring deserving individuals; 3) - Serving as SFNet Annual Convention chair in 2017. This was one of the highest attended Annual Convention events ever and was at a time when the SFNet really needed it.

What advice would you give?

Be nice to everyone. Our industry is small and you will come across the same people over and over.

What professional achievement are you most proud of?

Maintaining a good reputation. I have always strived to treat people the right way, and help them even when we could not provide financing to them. It is nice to know that people will respond when I reach out.

WELLS FARGO

Great leaders inspire us

Stewart Hayes

Managing Director
Lender Finance
Wells Fargo Capital Finance

Leaders engage us, allow us to take chances, unite our voices, and focus our ideas into action.

Wells Fargo congratulates our own **Stewart Hayes, Managing Director, Lender Finance** for being inducted into the **2022 SFNet Hall of Fame**.

For over 35 years, Stewart Hayes has focused his career on asset-based lending, including 22 years with Wells Fargo. He credits SFNet for providing opportunities to connect with and learn from others in the industry.

"I am extremely honored, humbled, and excited to have been selected by my peers to receive this award" said Stewart. "It has been a pleasure to establish deep professional and personal relationships with so many great people in this industry, and an honor to have been representing Wells Fargo. It is truly gratifying to know that my industry peers recognize and appreciate my contributions."

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Secured Finance Network

Hall of Fame 2022

MARC HELLER
CIT Commercial Services

Marc Heller is president of CIT Commercial Services, a wholly-owned subsidiary of First Citizens Bank. Commercial Services is one of the nation's leading providers of factoring and lending services to the apparel, textiles, furniture, home furnishings, housewares, consumer electronics and consumer products industries.

Heller joined CIT in January 2004 when CIT acquired the factoring portfolio of HSBC. He was previously the Executive Vice President and New York Regional Manager of HSBC Business Credit (USA) Inc. Heller had been with HSBC and its predecessor, Republic Business Credit Corporation, since 1991 and has served in the financial services industry since 1970.

Heller is a recipient of numerous industry awards, including the Financial Services Industries Award from the American Jewish Congress; the Leadership in Education Award from the New York Institute of Credit; the Community Achievement Award from ORT; and the Top Hat Award and Partner in Kindness Award from Sephardic Bikur Holim.

Heller is a founding member and former Executive Board member of "Fashion Delivers," now Delivering Good, a charitable foundation mobilizing leading retailers and manufacturers to help youth and their families in need. He is a board member for the Father's Day/ Mother's Day Committee, which addresses issues affecting mothers, fathers and children. He graduated from Queens College with a bachelor's degree in economics.

What advice would you offer to someone just starting out in the industry?

The world has changed significantly in many ways since the global pandemic hit. But what hasn't changed in this business, and many others, is the need to build strong relationships within the industry and with the clients. That's how you really get to know a business and how it works. And most especially, you really have to know your clients. There's just no substitute for that, in good times or bad.

What are some of the most memorable moments of your career?

The recent merger of CIT with First Citizens Bank is certainly up there on the list of most memorable moments, even in my very long career. And of course, the ongoing global pandemic is clearly unforgettable for many reasons. Imagine locking down New York City and dozens of other metropolises across the world! But that's exactly what happened and we're still seeing the repercussions more than 2 1/2 year later. And then we can't forget the financial crisis. It may seem far away now, but it's fair to say that the nation's entire financial system was hanging in the balance there for a while.

What professional achievement are you most proud of?

The relationships that I've made and maintained through the years with clients and industry associates are some of the biggest achievements I've had. And it's something I never take for granted. I've had clients that stayed with me and CIT through the bankruptcy during the financial crisis. That we survived is truly a miracle and a testament to the relationships we'd established across the company. Through my long career, the industry has gone through massive consolidations. Having been on the selling side most of the times, I was blessed by being a key player to the acquirer, enabling me to protect my team and the clients. As for my associates, I've been privileged in my career to learn from some of the best in the industry and that has made me a better leader. I'm also proud to say that many of the people who worked beside me and for me have enjoyed very long successful careers.

How did you get your start in the industry?

In June 1970, I was wearing my only suit – Navy blue wool – and walking around Manhattan in search of a job. It was really hot and I was scheduled to meet my father at the end of the day, so we could go home together. Shortly before that, I stepped into an office building in the fashion district to wash up. When I came out, someone asked me if I was here for a job, either in sales or credit. I was looking for a job, so, I said, "Sure!" but felt credit was a better fit. I didn't even know what the company did, but I've always been a hard worker and felt comfortable tying fashion, relationships with credit analysis and 52 years later, I know I made the right decision.

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DOUG JUNG
Hilco Diligence Services

Doug Jung has over 35 years of experience with diverse diligence, field exam, audit, credit, management, advisory, finance and forensic investigations experience. During his lending career, Doug has performed or managed hundreds of specialized diligence assignments or ABL field exams annually. He has hired, trained or worked with well over a hundred field exam professionals and staff. He started Hilco Diligence Services in the fall of 2013. He performs ABL field exams and transactions advisory services for its clients, which include all the major banks, non-bank lenders, PE firms or directly with companies.

Doug began his career in public accounting, is a non-active CPA and entered the asset-based lending industry as the field examination Manager for Fidelcor Business Credit. He was responsible for managing his team in conducting new business surveys, recurring exams, hiring and training staff, as well as training outside resources.

Doug was recruited from Fidelcor to join a JPMorgan predecessor bank to build an ABL team, which ultimately became the ABL product group for the investment bank and the work out group.

He then joined AlixPartners and also started his own firm Jupiter Advisory Group before joining Hilco.

What advice would you offer to someone just starting out in the industry?

The ABL (asset-based lending) industry is a good place. There are many honest people within the industry, and that's not true of all related industries. While opportunities adjacent to the ABL industry may seem worth pursuing, our community is a productive place to develop your career and grow. The community and the experience will serve you well!

What are some of the most memorable moments of your career?

Working at Fidelcor Business Credit with Dave Grende and the entire Fidelcor team was a memorable and defining period for me. It was my introduction to ABL – the experience and people I worked with were and are still simply the best. While I've hired, met and worked with many great people since then, that experience gave me the technical foundation that guided me throughout my career in ABL.

What professional achievement are you most proud of?

I enjoy fixing or building things.

I was hired at Fidelcor to improve the quality of the field exam team and its work product—we needed to perform new business surveys and recurring exams that fit the needs of underwriting and portfolio management. This was very fulfilling, and I accomplished that in very short order. At JPM and Hilco I built the businesses from scratch. But most of all, bringing people into the industry and watching them grow was and is the most rewarding aspect and my proudest achievement.

What role did SFNet, its events and connections play in your career development?

When I was starting out, SFNet events (or CFA, as the SFNet was called then), were daunting. I didn't know a lot of people, but I knew my business. Very quickly, SFNet events were places where I could see and connect with the people in the industry. Before the internet, the events were also a great forum to get up-to-date with the current ABL markets. The SFNet has grown over the years, today, outreach is much more helpful to industry participants through educational and special events.

How did you get your start in the industry?

I began my career in ABL at Fidelcor Business Credit. I'll never forget my interview there with Dave Grende and Drew Neidorf. We were behind closed doors going through the usual interview process. Outside the office there was someone screaming – someone was clearly upset at a situation. Drew said to me, "Don't worry, that's just a tape recording, we do that to make candidates nervous." It didn't bother me; I came from public accounting where people screamed all the time. I continued the interview without pause.

Then they asked me – what does someone from public accounting know about receivables and inventory? What would you do if a client presented a receivable invoice for $100,000 and said, "Give me an advance on it now"?

I replied: I'd ask for a customer purchase order, so I knew the customer ordered it; I'd ask for a freight bill of lading so I knew the goods were shipped and where they were shipped from and to; and I'd call the customer to confirm the invoice was valid and due in full.

Drew and Dave said: "Oh…good answer." The rest is history…

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DENNIS LEVINE
Bantry Bay

Dennis is a founding partner and managing director of Bantry Bay, a UK-based specialist lender providing commercially driven and creative debt capital solutions to corporates undergoing change. The firm is a joint venture partnership with the fund manager, Elliott Advisors.

Prior to Bantry Bay, Dennis founded Burdale in 1992 and served as chairman and CEO until 2012. During this time, he pioneered the asset-based lending market in the UK and built a substantial presence in the US, ultimately selling the business to Wells Fargo.

Prior to founding Burdale, he established and later listed a trade finance business on the London Stock Exchange. Dennis was also instrumental in the development of a UK- based property bridging finance company and financial advisory firm.

Dennis began his career at Arthur Andersen in South Africa and qualified as a chartered accountant CA(SA). He holds a Bachelor of Commerce degree from the University of Witwatersrand in Johannesburg.

Amongst his involvement with other charities, Dennis also founded and was chairman of a UK charity, dedicated to the rehabilitation and wellbeing of injured Israeli soldiers.

What are some of the most memorable moments of your career?

After 35+ years in corporate lending it would be very hard to have to single out specific moments! For me, the most memorable and treasured times are all connected to the people I have met and have had the pleasure of working with. In particular, I am pleased how many have over time become good personal friends. They include people from many different backgrounds, full of stimulating ideas with vast knowledge that we all mutually benefit from.

What professional achievement are you most proud of?

I am particularly proud of the good reputation that Burdale and my current business Bantry Bay have achieved in the UK and US, and the numerous noteworthy and complex transactions that we have completed. Everything I have achieved professionally I couldn't have done alone. In addition to support from my colleagues in the UK I would like to specifically mention Dave Grende, who was instrumental to Burdale's success in the US. There are of course many others, all integral to the success we have enjoyed over a few decades.

What role did SFNet, its events and connections play in your career development?

SFNet and the connections I've made have been instrumental in developing my career, both in Europe and the US. The SFNet events, in particular the conferences, have created excellent opportunities for networking. The publications and the news that SFNet distributes have always kept me abreast of the developments in the industry. The knowledge gained and exposure gained by meeting peers, colleagues and other industry professionals have been vital in enabling me to develop our asset-based lending business in the UK.

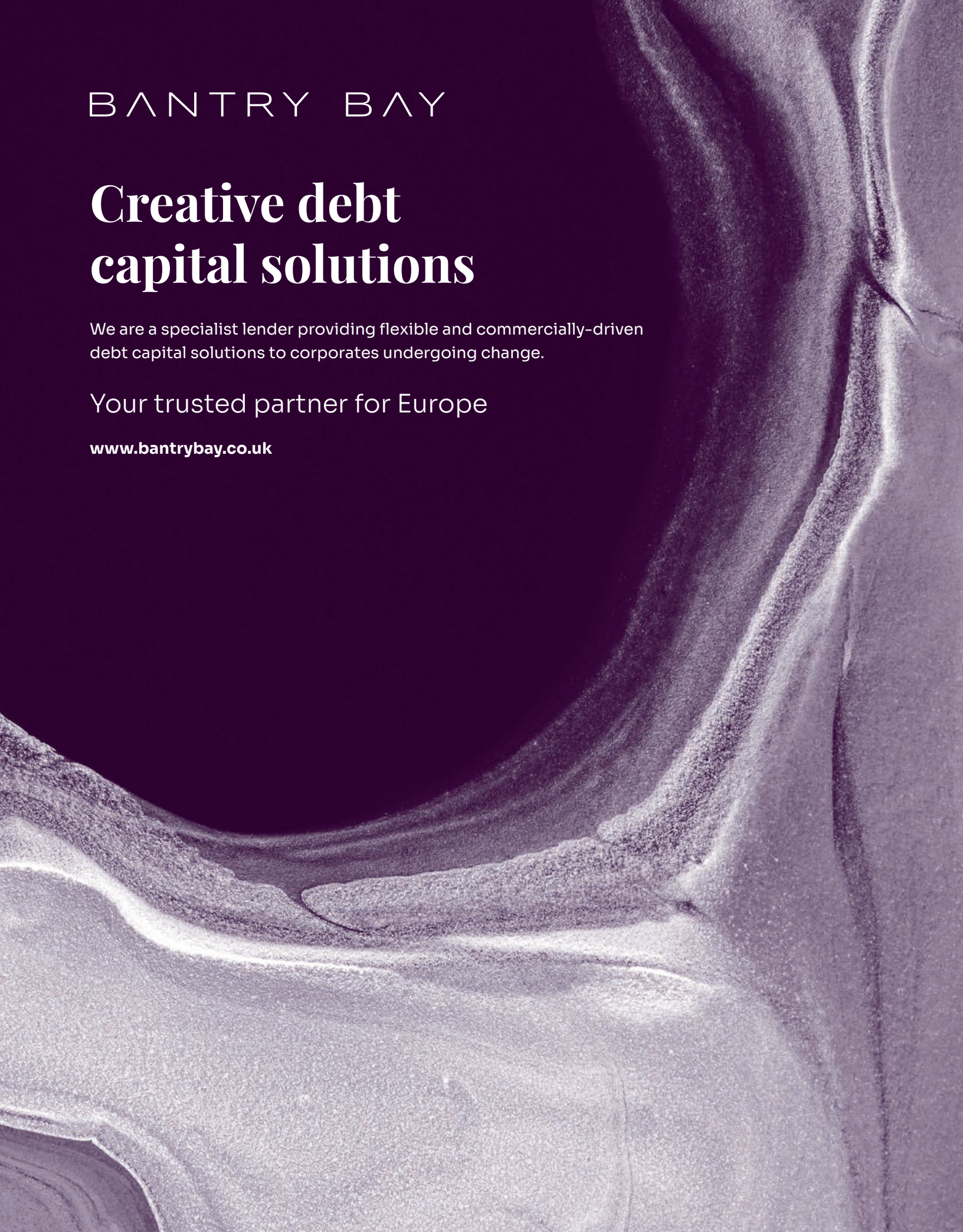
How did you get your start in the industry?

That was a long time ago! In the early to mid-nineties, I was managing a trade finance business in the UK. At the time I became aware of the existence of 'comprehensive' asset-based lending, which was much broader than receivables lending practised in the UK at that time. I took considerable interest in the methodology and how the market had developed in the US and began to think of how to do the same in the UK.

While on holiday in New York, I asked a friend and client of Congress Financial to introduce me to the company. A meeting was soon arranged with Bob Goldman, then chief executive of Congress Financial.

By coincidence Congress were actively looking at expanding to the UK. Bob was due to travel to London the following week to meet a potential receivable financing acquisition target. Due to my knowledge of trade finance, I was able to convince Bob that it was possible to fund inventory in the UK notwithstanding the common belief that retention of title legislation made funding inventory impossible. Congress subsequently acquired 80% of Burdale.

Interestingly enough, a fellow inductee to the SFNet Hall of Fame this year, Mark Fagnani, led the due diligence process on behalf of Congress.



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JOYCE WHITE
Bank of America
Business Capital

Joyce White is the former president of Bank of America Business Capital with overall responsibility for the asset-based lending business. She previously served as president of the Pacific/Southwest Division. Joyce started her career with Commercial Credit Business Loans in 1979 after college. She then joined Security Pacific Business Credit in 1980 as a senior account executive.

She was promoted to vice president/managing account executive in 1988 and to Business Analysis Department manager later that year. She was named senior vice president/director of business development in 1990 and group executive officer in 1992. In 1992, Security Pacific Bank merged with San Francisco-based BankAmerica (now called Bank of America). Joyce stayed at Bank of America until she left in January 2009. Joyce served as CEO of Prospect Mortgage and was a Board member from 2009 – 2019.

Joyce holds a B.S. in business administration, finance and management from St. John's University in New York. She was a member of the Turnaround Management Association, Association for Corporate Growth and the Secured Finance Network. Joyce also served on the board of three other companies until her retirement.

What advice would you offer to someone just starting out in the industry?

Network in and outside the company and attend industry functions. It is important to network to expand not only your connections, but also your knowledge of industry trends and what is happening in the industry you work in.

What role did SFNet, its events and connections play in your career development?

I attended SFNet's events and served on various committees, including the Executive Committee. It's a great way to build your network and your own brand. Don't overlook getting involved with groups outside of the industry as well.

Be flexible and willing to take lateral job moves to create a span of knowledge in the industry. Make sure you understand and buy in to your company's credit risk appetite. The best thing you can do for your customer is to be honest about their credit request and your ability to approve them. Last, but certainly not least, be a mentor and find a mentor.

How did you get your start in the industry?

After I graduated St. John's University, I followed a friend who had moved to Los Angeles. While she was on an interview, I went through an old rolodex in the building's lobby and saw a position for a loan processor for commercial credit and thought that sounded like a good fit. I gained a lot of experience, being a commercial processor to a loan officer to even working as a marketing manager. Eventually I was president of Bank of America Business Capital from 2005-2009.

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RICHARD JAY "DICK" GOLDSTEIN
Buchalter

Richard Jay "Dick" Goldstein graduated from Stanford University with a B.A. in political science and from UCLA with a Juris Doctorate. He practiced commercial finance law for over 40 years at Buchalter P.C. where served many roles including managing partner, chairman, chairman Emeritus, and chair of the Bank and Finance Group. He served as President of Financial Lawyers Conference, a member of the American College of Commercial Finance Lawyers, and a member of the board of the Commercial Finance Association (now SFNet).

He was devoted to his wife Rona, his children Marcia and Howard, and his grandchildren Harrison, Hayden, Joshua and Nina. He had a big heart, an infectious laugh, and everyone was important to him, and they all felt it. Dick was known as a person of integrity, loyalty, honesty, compassion and kindness. He was an avid sports fan, rooting for the Stanford sports teams, the Los Angeles Kings, the Los Angeles Dodgers and Dartmouth baseball.

FRANK MEDEIROS
Sunrock Capital

Born on August 28, 1937, in Fallriver MA, Frank Medeiros was a first-generation only child of parents from Italy and Portugal. He graduated from UMASS Dartmouth obtaining his business degree and obtained special certification from the University of Michigan. Medeiros began his career with Commercial Credit in Atlanta then Commercial Credit in Dallas then settled in the Commercial Credit Baltimore Office. He would go on to work for additional companies including Marine Midland, SANWA , and lastly, Sunrock Capital. Medeiros served as SFNet chairman in 1993.

Medeiros passed away on December 19, 2000. His children (Ashli Medeiros, special educator, Lutherville, MD and Jeremy Medeiros, attorney, Dallas, Texas) both remember that many of their father's dearest friends were members of SFNet, some previously inducted into the SFNet Hall of Fame and others speaking at his memorial service. His children have taken special care to attempt to instill his ethics and hardworking nature into his grandchildren (Aaron, Samuel and Francis) along with the good- natured and giving spirit that their father shared with his industry.

Medeiros' son Jeremy shared that "as my own career has developed and I look back at the relationships that I have cultivated at my own industry conferences and events, I spend a lot of time thinking about my dad, learning more about the professional life that he lived and the importance of those of you that lived within it." His daughter remembers his wicked sense of humor and commitment to work while being a constant support in their lives.

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TURNAROUND INSIGHTS

Workout Workshop: A Guide to Navigating Problem Loans

BY MARK FAGNANI AND DANIEL FIORILLO

Many ABL professionals little to no workout or bankruptcy experience thanks to the past ten years of relative calm. This article details the anatomy of an ABL workout and serves as a primer for many readers and a refresher course for more experienced lenders.

If you are in the asset-based lending ("ABL") space, either as a lender or an advisor, you may well look back on the last ten years (and very possibly beyond) as the halcyon days of loan portfolio management. Problem loans have been few and far between, and borrower bankruptcy filings were a rare occurrence. Workout departments were downsized or eliminated. Even during the early, dark days of the COVID pandemic, an abundance of stimulus money and a lack of pressure from regulators, combined with a fairly robust economy, kept most loan portfolios in good shape. Yes, there were a spate of retail- and hospitality-related bankruptcies, but many of these were resolved quickly and, in some cases, successfully.

That's the good news. The downside of all of this is that many ABL professionals have acquired little to no workout or bankruptcy experience, and those professionals who are more "seasoned" have had little practice in recent years. This article will describe the usual anatomy of an ABL workout in some detail, and hopefully will serve as a primer for some, and a refresher course for others. The authors recognize the diversity of the ABL market (e.g., small- market deals, middle-market deals, large sponsor-driven deals and leveraged loans), as well as the many industries that utilize ABL facilities for liquidity. As such, considerations for how to deal with any workout situation may be driven by many factors. This article does not attempt to address every contingency. That said, there are some issues and considerations that are common to most ABL workouts, for which the authors hope this article will provide some guidance.

The Scenario

So, let's start with a typical scenario. Your borrower has defaulted on a financial covenant for the last three reporting periods. You have granted waivers and charged a fee each time. That's fine, but the underlying issues causing the events of default have not been addressed or resolved. Liquidity starts to erode, or perhaps is entirely gone. When this occurs, there will be a request for an overadvance. Quite often in these situations, a review of the borrower's accounts payable aging will reveal deterioration, i.e., payables are stretched to key vendors and suppliers. This will have an impact on inventory mix, quantity and pricing. You may not see it without a field exam and/or an appraisal, but once the payables become stretched, your borrower's inventory will eventually deteriorate. Cherry picking, or selling off the best, most desired inventory, is common in these situations to generate short-term liquidity, but without adequate vendor support, replenishment becomes difficult or impossible. This causes your overall inventory mix to erode and vitiates whatever appraisal on which you were relying. (Note: At this point, if you have not previously done so, familiarize yourself with all of the underlying assumptions of the appraisal, as you may well discover that the facts have already changed and the appraisal will not hold.) The decline in the accounts receivable performance may follow as short shipping or discounting becomes more prevalent as a result of inventory issues. Turnover (or DSO) slows and dilution increases. Fraud risk also increases at this point, as some borrowers may be tempted to misrepresent or obscure adverse financial or collateral activity in desperation to save the business, but this article is not about fraud, so assume that fraud does not occur. For those of you who have not yet witnessed this scenario, it is coming. The writers cannot say precisely when, but you can be reasonably assured that this scenario or a similar one will begin to appear in portfolios as supply chain issues, inflation, labor shortages and a weakening economy take hold. So, what do you do?

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Initial Steps

First, meet with your borrower again (presumably you have been meeting routinely) and be prepared to have a pointed and candid discussion. Can your borrower identify the root causes of the problems and offer plausible, remedial steps? Can your borrower produce a business plan that details a viable turnaround strategy which adequately addresses the company's liquidity needs (without relying on overadvances) and contains reasonable assumptions relative to the condition of the business? Is your borrower prepared to pursue alternative paths that

result in a material liquidity event or refinancing of your loan? If the borrower cannot satisfactorily answer or address these questions, it may be time to give the borrower a list of turnaround consultants acceptable to your organization and suggest they hire one of them as a condition for continued cooperation.

Simultaneously, ask your counsel to perform a legal file review. Do you have all your ducks in a row? For example, do you have landlord and other third-party waiver agreements or appropriate reserves for all third-party controlled collateral locations; deposit account control agreements on all bank accounts; intercreditor or subordination agreements, if appropriate ; and licensor consents to dispose of licensed inventory? Have you documented and noticed the borrower of the events of defaults with letters prepared by counsel? Have you recently conducted a UCC search to verify your filings are in place and confirm there are no other surprise UCC filings?

Depending on the circumstances, counsel may suggest entering into a forbearance agreement. This is a very powerful tool. It requires the borrower to acknowledge the events of default that have occurred, as well as the validity, amount, priority and enforceability of your debt and liens. As the name suggests, the secured lender agrees to forbear from exercising its rights and remedies in respect of the acknowledged defaults for a stated period of time, in exchange for various terms and conditions, which may include: requiring the borrower to retain a financial advisor or chief restructuring officer on acceptable terms (note: it is good practice for the lender to suggest several preferred financial advisor/chief restructuring officer candidates from which the borrower should choose); increased loan pricing; raising additional funds or providing additional collateral or credit support for the loan; hiring an investment banker to run a sale or refinancing process in accordance with certain milestone dates; maintaining a stated level of availability (or not exceeding a stated over advance limit); and amending the loan agreement to eliminate those borrower-friendly negative covenant baskets. Also requiring an immediate field exam and an appraisal update as part of any forbearance would be prudent at this point, as you may be asked to make daily funding decisions and you will want to be certain that you understand exactly where you stand in terms of updated collateral values and advance rates.

If you don't already have cash dominion, and there is a "springing" feature for cash dominion in your loan documents and the trigger for doing so has been met (and presumably, events of default would trigger cash dominion), you may consider activating the lock box or collection accounts and sweeping the cash. As discussed below, a distressed borrower with access to its cash collections can pose problems for you in the event the borrower decides to file for bankruptcy without your cooperation, so springing cash dominion in these situations (while likely unpopular with your borrower) may prove critical in protecting your recovery prospects.

This might also be a good time to require more frequent borrowing base reporting and/or reducing advance rates, particularly on the inventory (for the reasons noted above). To ease the impact on liquidity, you could propose a gradual and steady reduction in inventory advance rates, such as a half of a percent reduction per week, until the desired, lower advance rate is met. The key here is to be proactive and to consider what may be happening to the company, your loan and your ability to recover full principal and interest, and to plan accordingly.

As noted above, many of these measures will be wildly unpopular with the borrower and should be explained in clear terms and, if possible, in a spirit of cooperation. The borrower is not your enemy, but your priority is to protect your organization while trying to work with the borrower to maximize your recovery prospects. Why work with your borrower, who violated your deal? Well, a non-cooperative borrower can lead to a costly fight to wrest control over your collateral, and then, when you win that "fight", your reward is realizing on your collateral at forced liquidation values—not exactly consistent with your appraised values as discussed above. So, it's a delicate balance, but this is where creativity, instincts and experience all come into play. As we will discuss later in this article, how this is handled may have important consequences if there is a bankruptcy filing.

If/when a consulting firm is retained by the borrower, you will want the consultant to oversee the preparation of a 13-week budget. This will help you identify the borrower's funding needs, as well as projecting your collateral levels and loan balance over the ensuing weeks. A 13-week budget, once developed and approved by all parties, can provide a funding framework for the near term, and optimally, a road map for the execution of the borrower's workout or turnaround plan that will either de-risk your loan or, hopefully, repay it in full. It customarily measures cash receipts and disbursements, as well as other categories that the deal may require (e.g., sales, loan balance, availability, etc.), and is typically incorporated into the forbearance agreement with agreed-upon variances to be measured for some specified period (e.g., on a weekly, cumulative basis up to four weeks, and then on a rolling four-week basis going forward), and tested on a weekly basis for the applicable measurement period with some agreed-upon degree or percentage variance.

While your forbearance agreement will typically contain a covenant requiring the borrower to comply with the budget, the development of a budget is an imperfect science, and it is possible to miss top line (revenue), collections or borrowing needs in any one week. That is the purpose of the permitted variance for either a periodic and/or cumulative basis. It is expected that over time, weekly misses will be made up, and the borrower will stay within the acceptable variance over time. If budget compliance, with permitted variance, cannot be achieved, a revised budget (and perhaps new game plan) is likely needed, with an understanding of why the original budget failed. Readers should note: asking for a 13-week budget assumes you and the borrower are cooperating on some level and that you perceive there is still time to develop the information necessary for both a budget and an action plan. If that is the case, a turnaround, or a sale or a refinancing may be achievable strategies to de-risk your position. On the other hand, if you have waited until the borrower has no liquidity and you are not willing to extend additional funding, you now have a crisis on your hands. All of the action steps described above are still relevant, although the timing will certainly be accelerated and the ability to pursue alternative paths will be limited. Be aware that if you are declining to fund a budget or buy the borrower some time that (a) the relationship with your borrower may become adversarial and (b) your borrower may be contemplating a Chapter 11 filing.

During a workout situation, you as a lender need to think strategically, quickly and under duress. You need to weigh all options in real time, and think about all possible outcomes. And you need to do this all the time, even every day, if necessary, as the situation evolves or devolves. What seemed like a good strategy on Monday may be out the window by Thursday. What's next? Have you considered any other options and their likely outcomes? Has the borrower been cooperating? Is this a sponsor deal where relationship considerations may impact your decisions? It's a lot to consider, and these decisions are made under pressure, usually with imperfect information. As such, workouts are not for the timid or faint of heart. That is precisely why many lenders have dedicated workout groups to ensure the right people are assigned to the problem loan when relationship management turns into crisis management. With the right workout specialists in place, a workout also presents a unique opportunity to train less-experienced portfolio managers and as such, they should always be included in this process. There is no training like hands-on training.

Communication is Key

As with any workout, there is a distinct possibility that things may get "ugly" with your distressed borrower. To be clear, it's not a crime, or cause for civil liability, for a lender to have made a bad loan. However, your borrower may take an adversarial approach to your attempts at working out the loan, and while the scope of this article is not to address how to identify and avoid lender liability claims, it is good practice in a workout to consult periodically with your counsel before communicating or memorializing anything with, or about, your borrower. Many times, it may even be appropriate or necessary to have your counsel engage the financial or crisis consultants on your behalf. While not totally insulating, having your counsel engage your turnaround or crisis consultant may shield certain communications and work product of the consultant from being discoverable in a litigation. Bottom line here is that you should be in constant contact with counsel, and your counsel should really have workout and insolvency expertise. If they do not, no matter how much you like your existing counsel, consider moving the file to counsel with loan workout experience.

Speaking of communications, you should also be in constant contact with the borrower. Going radio silent on your borrower during a workout will likely result in your borrower taking precipitous actions, such as filing for bankruptcy without providing you with advance notice. Depending on the circumstances, an unexpected or non-consensual bankruptcy filing by your borrower can have materially adverse consequences for your loan recovery prospects and will deprive you of the many rights afforded under your loan agreements. As stated above, the key to a successful workout is balancing the need to work cooperatively with the borrower while taking the steps necessary to de-risk your position. In many cases, a bankruptcy filing is not the best way to maximize your recovery (i.e., out-of-court restructuring transactions and "friendly foreclosure" sales are usually cheaper alternative workout strategies), but if your borrower is left to their own devices, they will usually choose a path that does not maximize your recovery. So, no matter how frustrated you may be with your borrower's poor performance, you must keep those communication channels open to best position yourself for a full loan recovery.

Let's be clear here. Very often the optimal solution for you and the borrower is the borrower's return to financial health and retention of the relationship. Company management by themselves, or more likely with the help of a consulting firm, may formulate a plan that includes expense reductions, gross margin improvement, SKU rationalization yielding better inventory turns, etc. Often, it may be possible to work out payment arrangements with vendors that provide for receipt of fresh materials while making a slow steady stream of payments designed to reduce the vendor payables exposure. This takes time and requires patience. Your senior management, regulators, investors and/or warehouse line providers may insist on a quick exit, in which case, a refinance may be possible if a quick turnaround plan that bridges you to close the refinancing is feasible. However, as noted above, if you have waited until the borrower is in crisis mode, none of this may be possible without funding overadvances or bringing in a more aggressive lender willing to make additional advances behind you or on different collateral classes. That is why it is so critical to be proactive in monitoring your portfolio. A plan as described above, with oversight of a consulting firm and an agreement between the parties that establishes both time frames and measurable metrics may effectuate the desired turnaround and a return to a more fruitful relationship.

However, if the borrower is resistant to change or uncooperative, or if the patient is too far gone to be saved by a turnaround plan, the borrower may have no choice but to pursue a sale of the business or liquidate in a bankruptcy proceeding. So, let's talk about what that bankruptcy might look like and how that transpires for all parties.

Bankruptcy

The first, most important step you can take when your borrower advises you that it intends to file for bankruptcy is engaging with the borrower in an attempt to negotiate a consensual path in bankruptcy that will result in maximizing your loan recovery prospects. Many of the same steps discussed above regarding the approach toward working out your loan outside of bankruptcy apply here as well. For example: Has the borrower engaged bankruptcy counsel and restructuring advisors to assist in structuring the business plan for which the bankruptcy is intended to effect, e.g., business reorganization and emergence from bankruptcy, sale of the business as a going concern, or orderly liquidation? Has the borrower prepared, and have you vetted with your counsel and financial advisor, the 13-week budget covering the bankruptcy? Have you updated your field exams and appraisals, done a loan documentation file review through counsel, and to the extent permitted or applicable under the loan documents, triggered cash dominion? The success or failure of any workout in bankruptcy is mainly determined by your pre-bankruptcy preparation. This also stresses the importance of staying in front of your borrower at all times once the loan is in default.

Quick primer on bankruptcy basics for secured lending: bankruptcy is governed by a set of federal laws called the Bankruptcy Code. For our purposes, there are two types of bankruptcy proceedings your borrower could commence (or in some cases, have involuntarily commenced against it): a Chapter 7 case (which effects a total shutdown of the business and appoints a Chapter 7 trustee to liquidate the bankrupt company's assets, administer claims of the company's creditors and

pursue actions to recover money for distribution to the company's unsecured creditors), and a Chapter 11 case (which permits the bankrupt company to continue operating in the ordinary course to pursue a reorganization or restructuring transaction, as well as selling its assets in a going concern sale transaction or in an orderly liquidation). If your borrower files for Chapter 7, your borrower's management team decided it was unable or unwilling to continue operating the business in bankruptcy to pursue an orderly process to maximize value for its creditors, and your recovery prospects will likely look dim, as Chapter 7 translates into a forced liquidation scenario. In all cases, the commencement of a bankruptcy case will impose an "automatic stay" on all creditors of the bankrupt company, which enjoins all of the company's creditors from taking any actions to collect or enforce its claim against the company (so, for example, those swept collections from your triggered cash-dominion rights cannot be applied to your loan balance post-bankruptcy without authorization from the bankruptcy court).

Assuming you are working cooperatively with your borrower, and your borrower is seeking to file for Chapter 11, you might want to consider offering to provide debtor-in-possession ("DIP") financing to your borrower. A DIP financing facility can be an amended and restated version of your existing credit facility, or you may opt to replace your existing facility with a new credit facility, which may or may not contain materially different terms and conditions. Of course, this assumes that your borrower is unable to secure replacement financing as part of its bankruptcy filing preparation. Otherwise, a new DIP financing facility could be used to refinance your loan.

As detailed here, the authors believe the recipe for successful loan workouts and bankruptcy proceedings requires proactive monitoring of each loan in your portfolio so that you identify problems early on when there is still an opportunity to fix persistent problems. Successful turnarounds or restructurings require time, patience and judicious funding.

There are numerous benefits in providing DIP financing. The bankrupt borrower obtains an order from the bankruptcy court (the DIP financing order) that acknowledges the validity, priority and amount of your secured debt (subject to a limited investigation period); grants waivers and releases in favor of the DIP lender; permits the lender to charge additional fees and interest; grants the lender senior liens and super-priority administrative claim status to secure all DIP loan obligations; modifies the automatic stay to permit the lender to apply collections, administer the loan and enforce rights; converts or "rolls up" your pre-bankruptcy debt into post-bankruptcy debt (note: this "roll up" is very helpful in the context of a Chapter 11 case in which a consummated plan of reorganization is the goal of your borrower); and perhaps most importantly, it allows the lender to structure the DIP credit facility to guide the borrower toward a liquidity event or restructuring milestones that will provide the lender with assurances that the bankruptcy will yield a positive recovery. The DIP financing facility also helps the borrower, as it signals to trade vendors and material contract parties that it has the financial support to navigate through Chapter 11 towards its restructuring goal. As stated above, while the DIP credit facility is approved during the bankruptcy (usually, at the "first day" hearing of the bankruptcy case), all of the structuring and negotiating of the DIP financing terms occurs pre-bankruptcy, once again underscoring the importance of having open and ongoing communications with your distressed borrower.

An alternative means for your borrower to fund its Chapter 11 process is through the use of cash collateral—i.e., usually the use of collections from your accounts receivable and inventory collateral. Unlike DIP financing, use of cash collateral is not "lending" (note: you always need an order from the bankruptcy court to approve your lending during a bankruptcy). Instead, cash collateral use is provided for under the Bankruptcy Code as a means for a bankrupt company to use a secured lender's collateral to fund operations, so long as the secured lender "consents" to the use of its cash collateral, or the borrower is able to convince the bankruptcy court that it can provide "adequate protection" to the secured creditor for the use of its collateral (more on this topic below). This option is usually not ideal for the secured lender, as it means that the borrower believes it will have sufficient cash flow from the use of its cash collections to fund operations during the Chapter 11 (instead of using your cash collateral to pay down your loan), and because the borrower doesn't necessarily need your consent to use your cash collections, it gives the borrower more leverage in negotiating the terms of "consensual" use of cash collateral. Accordingly, cash collateral use does not necessarily provide the secured lender with the same benefits as DIP financing (e.g., less opportunity for increased

pricing, no "roll up" of pre-bankruptcy loans into post-bankruptcy loans, less control over the borrowing base, etc.).

Why would you consent to cash collateral use instead of providing DIP financing? First, you cannot force the borrower to accept a DIP financing proposal, so if the borrower believes cash collateral use is a feasible, preferred approach to fund operations in bankruptcy, you cannot force a different narrative (at least at the outset of the case). Second, in some cases, such as when your borrower is filing for Chapter 11 to conduct an orderly liquidation of your collateral, the end result of the bankruptcy is to generate enough collateral proceeds to repay your debt in full. So, rather than fight over the cash collateral use, you negotiate terms and conditions on your consent that may improve your position, such as scheduled paydowns of your outstanding principal, interest and fees, a cash collateral use consent fee, continued borrowing base reporting, compliance with the 13-week cash collateral use budget, and borrower achieving various milestone events that will assure progress towards your full loan repayment.

The What Ifs

What if you are not holding hands with your borrower when it files for Chapter 11? Maybe you overplayed your hand in the pre-bankruptcy negotiations (e.g., cut off all funding, went radio silent and/or made impractical demands on the defaulting borrower it could not satisfy), or maybe you did everything the authors have suggested here, but your borrower, through the aggressive guidance of its restructuring professionals, have determined to run a Chapter 11 designed to increase your risk profile and erode your collateral position without your consent to achieve its restructuring goals. How did this happen? What can happen? What can you do?

The two scenarios in which this "stuff hitting the fan" can occur are when your borrower seeks to use your cash collateral without your consent, and when the borrower seeks to obtain DIP financing from another lender on a priming lien basis (i.e., subordinating your liens on the collateral in favor of the DIP priming lien lender). Usually, the precursor to either of these bad scenarios is when your borrower goes radio silent on you in the lead up to its filing for bankruptcy. This assumes, of course, that you had an idea that a Chapter 11 filing by your borrower was imminent, but either way, it usually represents a communication breakdown between you and your borrower during the workout.

Regarding non-consensual use of cash collateral, as discussed above, the borrower needs to demonstrate to the bankruptcy court that you will be "adequately protected" against the diminution in the collateral value occasioned by the non-consensual use of cash collateral. As many who have tested this concept on a contested basis before a bankruptcy court can attest, adequate protection the court is required to give is usually inadequate and offers little protection—at least from the standpoint of an ABL lender.

Adequate protection can come in many forms and, usually, a combination of various measures, such as granting replacement liens on assets created during the bankruptcy to cover the diminution of your existing collateral (note: your floating liens are cut off once the bankruptcy is filed, so liens on assets created after the bankruptcy must be authorized by the bankruptcy court); super-priority administrative expense claims in the amount of your collateral diminution; payment of interest, fees and expenses; paydowns of principal loan obligations; financial and collateral reporting (note: in a non-consensual context, the borrower is not required to continue providing any of the reporting or access to information contemplated under your loan documents); and granting liens on unencumbered assets, or encumbered assets with equity in the collateral, such as real estate with a relatively small mortgage. Adequate protection can also be in the form of the Court recognizing the secured lender's "equity cushion" in the collateral, which the borrower's expert witnesses will usually attest is a lot higher than the secured lender's view.

What is important to note about adequate protection is that the bankruptcy court is not required to protect against borrowing base deterioration. You are only entitled to have the extent of your secured claim status protected or, as a bankruptcy judge once advised one of the authors, "keeping you from going one penny undersecured" (or being one penny further undersecured, if you are coming into the Chapter 11 with an undersecured loan). The borrower will try to convince the court, by putting on expert testimony and submitting financial evidence on collateral valuation, that the expected use of cash collateral will not cause the secured lender's secured claim to incur irrevocable deterioration—even if your collateral coverage will inevitably erode during the Chapter 11, it won't erode enough to cause the lender not to be "adequately protected." As an example, if you have $10MM of accounts receivable against which you lend $8.5MM, and 10MM of inventory against which you lend $6MM, you regard the collateral as being worth or covering $14.5MM of your loan. The borrower will try to convince the judge that you have $20MM of collateral coverage for your loan. Every lender knows we never collect 100% of the collateral value and, depending on the final scenario, it is considerably less than 100%. Nevertheless, the court may deem you "adequately protected" based upon the gross numbers, leaving you as the lender vulnerable to loss.

While not black letter law, bankruptcy courts are generally more inclined to accept the bankrupt company's narrative on collateral valuation and adequate protection measures at the outset of the case, which means that you are likely going to lose the first cash-collateral "fight." However, your goal is to shorten the initial cash collateral-use period as much as possible, carefully monitor your collateral deterioration, and get back in front of the court as soon as facts show your collateral deterioration is outpacing the borrower's projections on collateral replenishment, in hopes that you can obtain better controls over the cash use and have a better ability to manage your collateral "burn", whether through negotiation with the borrower and/or by obtaining a favorable ruling from the bankruptcy court. Of course, the best way to address a cash-collateral fight is to avoid the situation entirely, as bankruptcy judges sometimes allow the borrower to sacrifice the secured lender's loan-recovery prospects for a "chance" to pursue a successful restructuring that saves jobs and provides other "feel good" results from the Chapter 11 (and your cash collateral is, quite literally, the money used to gamble for that chance). This is why springing cash dominion when the opportunity presents itself is an important tool to mitigate the risk of non-consensual use of cash collateral, as the borrower will not have a war chest of your cash collections to pursue this strategy.

Regarding DIP priming financing, Section 364(d) of the Bankruptcy

Code permits a company in Chapter 11 to obtain financing on a senior-secured basis, thereby subordinating the liens of all existing secured creditors on the collateral securing the DIP priming financing. As with non-consensual use of cash collateral, the bankrupt borrower has the burden to demonstrate to the court that the secured lenders being primed are "adequately protected" from the effects of the priming lien financing. However, establishing adequate protection for a primed secured lender is made more difficult because the primed lender's collateral diminution is at least equal to the outstanding amount of the DIP priming financing, which must be paid before the primed lender's loan balance is entitled to repayment. As such, while the threat to prime an incumbent ABL lender is sometimes used by the borrower to create leverage in the pre-bankruptcy negotiations, it is not easily accomplished. That said, being primed can and has happened (albeit rarely). Usually, it occurs when you have a combination of an ABL lender with a material amount of cushion in the borrowing-base collateral, and/or additional collateral coverage in the ineligible collateral pool, and a complete breakdown of pre-bankruptcy negotiations or communications between the borrower and the lender occurs, leaving the borrower to come up with its own liquidity solution to operate in bankruptcy, which, as discussed above, is usually going to be adverse to your loan recovery prospects.

So, why don't more borrowers filing for Chapter 11 seek non-consensual cash collateral use or priming lien financing (assuming the facts permit)? Well, for one, bankruptcy is expensive. Fighting with your secured lender, on top of the professional fees of the borrower and the official committee of unsecured creditors (who get their own set of attorneys and advisors for which the borrower is responsible to pay) makes an already expensive process prohibitively expensive. Plus, professional fee "carve outs", i.e., agreements by existing secured lenders to subordinate their secured claims to the payment of a certain amount of professional fees of the borrower and creditors committee, are not extended in cash collateral or DIP priming fights, so the borrower's restructuring advisors are incentivized to cut a deal with the existing secured lender to ensure these carve outs are included in the financing arrangements. If the borrower is pursuing a restructuring transaction, fighting with the existing secured lender will not instill confidence among the vendor community and other business relationship parties that the borrower will survive the Chapter 11, so again, making peace, not war, with the incumbent secured lender is in the best interest of the borrower.

Key Takeaways

As detailed here, the authors believe the recipe for successful loan workouts and bankruptcy proceedings requires proactive monitoring of each loan in your portfolio so that you identify problems early on when there is still an opportunity to fix persistent problems. Successful turnarounds or restructurings require time, patience and judicious funding. By reacting early and decisively, you leave yourself and the borrower the best chance for a positive outcome. Communications with the borrower may become difficult and strained but are essential to the process. The borrower needs to understand clearly what you are willing to do, but also what you are unwilling to do, in connection with the workout. Strategies need to remain flexible, as the situation is dynamic and changes rapidly. Being locked into one paradigm or course of action will most likely not be helpful. The use of expert professionals – lawyers, financial advisors, appraisers – is costly, but essential. Finally, entering into a consensual DIP financing facility is better than every other alternative even if it means making some additional concessions to get the borrower and their team of professionals to go along. Instincts, experience, creativity (and a fair amount of luck) all come into play in workouts which, for many of us practitioners, makes them challenging, but extremely gratifying when orchestrated correctly.

Mark Fagnani is senior managing director, PFK Clear Thinking, a boutique advisory firm focused on turnarounds and restructurings, process and performance improvement and creditors rights. He has more than 30 years of hands-on experience working with large bank groups, private equity sponsors, turnarounds, workouts and insolvencies. Over the course of his lending career, Fagnani has worked with companies in a multitude of industries including steel and aluminum, coal mining, transportation, plastic injection and blow molding, beverage distribution, retail, lighting, and generic pharmaceuticals.

Fagnani was formerly a managing director and the chief credit officer of Wachovia Capital Finance, a unit of Wachovia Bank. After leaving Wachovia he helped form HVB Capital, a subsidiary of Hudson Valley Bank, and subsequently spearheaded their sale to EverBank resulting in EverBank Business Credit. More recently, Fagnani was recruited to help establish an asset-based lending business for Bank Leumi USA; serving as first senior vice president and group head of Leumi Business Credit.

Fagnani is a frequent lecturer and panelist. Most notably, he spoke on behalf of the World Bank and the Secured Finance Network in China, instructing over 250 bankers on asset-based lending.

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For 20 years, he has specialized in the representation of banks, hedge funds, commercial finance and factoring companies, specialty lenders, real estate lenders, private equity groups, corporations, fiduciaries and other institutional clients in all aspects of restructuring transactions, workouts, bankruptcy and other insolvency proceedings, including debtor-in-possession financing, cash collateral use arrangements, exit financing, distressed acquisitions of assets, assignments for the benefit of creditors, state and federal receivership proceedings, foreclosures and secured party sales. He has represented lender and borrower clients in various financing transactions, including asset-based revolving credit facilities, senior and junior secured term loans, mezzanine debt facilities, unitranche facilities, construction loans and cash flow loans. He has appeared before numerous federal and state courts across the country representing bank, commercial finance, hedge fund and private equity clients.

CROSS-BORDER RECEIVABLES TRENDS

The Single Group Facility: Simplifying Cross-Border Receivables Finance

BY RONALD BIEMANS AND TOM GEVERS

In November of 2021, SFNet announced its first Cross-Border Finance Essay Contest, sponsored by Goldberg Kohn Ltd. Members of SFNet's International Finance and Development Committee judged the essay submissions on content, originality, clarity, structure and overall contribution to furthering and expanding understanding and discourse within the field of cross-border finance. This essay is the first-place essay

The authors of the winning essays have been invited to participate on a panel at SFNet's 78th Annual Convention in Austin, TX, Nov. 9-11. The third place essays were published in the September issue of *TSL* and the second place winner was published in the October issue.

To unlock the receivables cross-border financing potential in Europe, which was historically frustrated by the commercially unsuccessful multi-local market practice of providing scattered bilateral receivables facilities on a country-by-country basis, we designed the Single Group Facility solution ("SGF") establishing a single receivables pool. The main advantages are a) its scalability and flexibility through consolidated asset pooling on a "plug-and-play" basis that smoothly (de-) connects relevant geographies (on and off balance sheet), b) relief for the clients in operating their working capital management and c) a single source of funding.

The SGF solution was implemented as a pilot in 2015. Currently it covers more than 21 European jurisdictions, USA, Canada, Australia and is accepted by the European ABF market as a valid and tested solution for cross-border receivable finance. Multiple European and US banks, aided by their legal professionals, participated in this (syndicated) solution over the past seven years.

Description of the Solution

The solution is based on a customary receivable finance program as offered by ABLs in their core markets. Europe was the real challenge, as these markets cover more than 27 jurisdictions with their own legal system. Local operational entities of the client each have their own country receivables ledgers. What the solution does is to elevate this receivables financing to a pan-European level. It centrally pools the receivables ledgers in scope under uniform conditions. Country ledgers are intra-group transferred to a special financing company of the client (the "SFC"). This operating company enters into a financing or purchase agreement with the asset-based lender. The receivables are legally and economically owned by the SFC. The advantage is that increased working capital is unlocked for the client, enabled by a pooled receivables ledger with uniform conditions irrespective of geography.

RONALD BIEMANS
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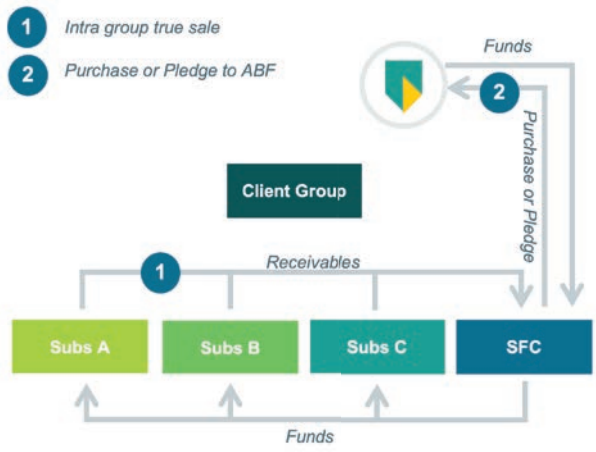
TOM GEVERS
ABN AMRO Asset Based Finance

Single Group Facility: One Asset Pool on Group Level



All involved group companies of the client are part of the credit base in their capacity as borrower, guarantor or obligor.

To match bank lending, leverage and syndications documentation, a single set of LMA-based English documentation is available that can be directly linked to LMA lending and/or syndication documentation.

The client is typically a large corporate, with operational entities ("Opcos") in multiple geographies. The client consolidates all receivables of the Opcos by pooling them into the SFC through a true sale assignment. The true sale of the receivables to the SFC provides the same collateral value as if the receivables would have been directly originated by the SFC. Because of the pan-European context, the law governing the receivables may differ as this is subject to the law governing the supply contracts.

The true sale assignment from the Opcos to the SFC is, when applicable,[1] governed by the regulation regarding choice of law in the European Union. This regulation, often referred to as "Rome I," is implemented in the laws of the EU member states and applied by the courts of these member states. The cornerstone of Rome I for any receivable finance program is that it gives a rule for which law(s) govern(s) the assignment between the assignor, assignee and the debtor in a European context[2]. As a result, a true sale assignment of receivables can be governed by the chosen (lender-friendly) law of the Netherlands, in combination with local perfection requirements if and when applicable for debtor collection in a specific member state. Despite the choice of law for the true sale assignment, the law governing the receivable continues to apply between assignee and debtor. As a result, specific requirements for collection, such as notification of the debtor, must be observed. Also a few European member states have their own specific member state interpretation of Rome I. For those countries, a true sale assignment under local law is (also) chosen to eliminate any uncertainty about the enforceability of the sale.

As mentioned above, the main advantage is the fact that the client has a single source of funding, available at central level for the company treasurer and under a single finance contract. The whole international receivable portfolio can be monitored from a central borrowing base portal ("Client Portal") providing insight at aggregate, Opco, receivable debtor or invoice level. This enables the client to benchmark credit management activities of Opcos throughout the group.

Furthermore, specific ABF covenants, like dilution, can be applied over the aggregate portfolio. As a result, the outperforming Opcos can compensate for lower performing Opcos that would otherwise default under their local arrangement. As such, the facility can be optimized for maximum utilization.

New Opcos can easily join the facility and start assigning their receivables to the SFC. This is considered by the market as a huge advantage to clients that have a "buy and build" strategy, as they basically have their finance already in place prior to the acquisition. For each Opco, a capacity opinion is delivered, stating that it is allowed to enter the facility. Next to the eligibility criteria for the receivables of the new Opco, generic conditions like (country-) concentration over the total portfolio apply.

Commercial Proposition

Prospects look for a solution that enables them to optimize their receivables financing across multiple jurisdictions in an international context, whereby a smooth operation is key. The SGF solution is considered to be a substantial low risk working capital building block in debt structures for large corporates, mitigating the overall risk profile of the exposures.

For prospects that have delegated their Opco working capital management to strong local board of directors with local decision authority, a central solution like the SGF is not the most appropriate one. These prospects aim for a basic country by country approach. For prospects that aim to be (or are) more strongly centrally organized, a central source of funding to the CFO is desirable to manage group cash flows. These prospects are interested in the SGF as it enables them to establish such central funding with a single set of contracts and smooth operations. In particular, private equity owned corporates apply the solution as it is scalable and supports central cash flow management and financial integration of acquired companies.

To have the SGF solution set up in such way that the asset-based lender can enforce its security to recover all outstanding amounts in an insolvency of the client, the solution is implemented according to specific (legal) requirements as confirmed by legal capacity and enforceability opinions for the entities and jurisdictions involved, provided by external legal advisors of selected law firms.

If the requested amount of funding requires multiple financial institutions to participate, the SGF solution has the flexibility to be established as a club deal or syndication. As such we have already successfully deployed the solution in partnership with e.g. (leading) Dutch, US, UK, German, French, Italian and Belgian banks and financial institutions. These banks and financial institutions have performed their own credit risk and legal analysis on the structure over the years, seconded by their experienced legal advisers.

Operations

In case of a club deal or syndication, ABN AMRO acts as agent and runs the facility on behalf of the participants. This covers the facility, the security and the receivables base management.

Asset Management of the SGF solution is similar to any other receivables client contract with multiple entities. Each

1. Rome I applies to all EU member states except Denmark. As from December 31, 2020 the UK continues to apply the rules set out in Rome I (re-incorporated into UK law under the terms of the EUWA)

2. Rome I also gives rules on how to determine which law is applicable if parties fail to make a choice of law. In this context article 14 sub 1 and 2 Rome I give a rule for which law applies between the assignor and assignee to establish a true sale and which law governs the claim and its transferability.

involved entity that originates receivables has its own account number and incoming payment account in the asset based core system so that the borrowing base and debtor payments can be monitored and reconciled. Borrowing base information is digitally uploaded from the client's entities through API's.

Clients have direct insight in the borrowing base through a web-based Client Portal. This portal is also accessible to funding partners to have full insight in the facility on an continuing basis.

As part of the generic on-boarding process, audits are performed on the receivables portfolio and administration processes of the client. The result is part of the asset risk due diligence and also part of the periodic monitoring of the receivables base as agreed in the documentation.

During the regular annual client review process, periodic audits are performed and may, if required, validate the internal ABF operations of a client file. The audits are performed by reputable external asset auditors that are short listed by leading US and European banks and ABL lenders. The external auditors also have a global and European coverage thus executing audits locally in all geographies involved.

Risk

The solution is designed for large corporates, the majority of which have better ratings, though non-investment grade ratings are possible as part of specific credit approval. Counterparties are therefore considered skilled and experienced professionals supported by reputable external advisors on their various fields of expertise.

Because of the lender-friendly nature of Dutch law and the high quality of the Dutch legal system and its commercial courts, the SGF contracts are, post-Brexit, governed by Dutch law with the Dutch courts as chosen forum. Also, the SFC is a Dutch entity, bringing it under the protection of Dutch Insolvency law and subsequently the European Insolvency regulations.[3]

The solution is a receivable finance program like any other receivable program offered by ABN AMRO, where financing is provided against eligible and enforceable receivables. For this enforceability it makes no difference whether these receivables are directly originated or purchased (true sale) receivables, as long as the true sale is perfected and enforceable against the debtors. This enforceability is validated (legal enforceability opinion) by specialised law firms at the local level of the intra-group seller (Opco) and the purchaser (SFC). Receivable finance programs, including receivables governed by multiple local laws, are common practice for ABN AMRO.

An advantage of consolidated asset pooling is that a bankruptcy of an Opco is a rather remote event. This Opco is not a borrower under the receivables finance facility as the SFC is the Borrower/Seller, and the receivables are not legally/economically owned any more by the Opco. They are thus not part of its bankruptcy estate. The receivables are recovered by debtor payments on the designated bank accounts and the facility may continue if the other Opcos are still in going concern status.

Worldwide collection of receivables to recover any outstanding amounts are common practice. As a basic rule, a receivables financier must be able to disclose (notification) the program even within an insolvency situation of an Opco. If not, the program is disclosed from start for that Opco. These requirements are part of the legal enforceability opinions and covered in the documentation. In addition, all Opcos are also guarantor under the aggregate facility. Any shortfall (if any) due to a bankruptcy of an Opco can be recovered under such guarantee.

Three levels of security

The structure may have three levels of security depending on credit risk of the prospect

The first level establishes legally valid and enforceable rights on the receivables:

- Assignment (pledge or true sale) of all receivables of the SFC
- Security over incoming bank accounts by way of cash dominion at ABN AMRO and/or local security
- Security over credit insurance payments as loss payee

The second level in addition the first, mitigates structure and credit risk. It also adds to the performance of the individual Opcos and SFC regarding their obligations, as all are liable for the performance of the others.

- Guarantees from all Obligors, including all Opco's, to mitigate structure risk (internal assignment) and credit risk (remote credit base)
- Corporate guarantee from top holding to support structure

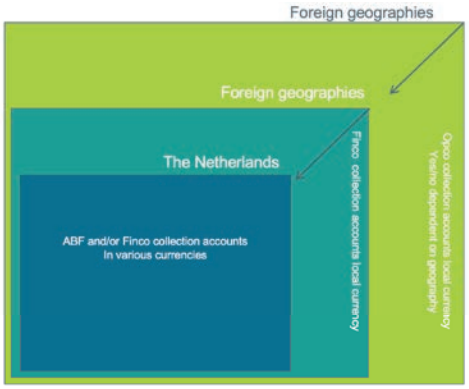
[3] The EU Insolvency Regulation (EU 2015/848) sets the rules for the opening of insolvency proceedings within the EU; it provides automatic recognition to insolvency proceedings across the EU, legitimizing their status in each of the member states that have adopted it; and subject to certain safeguards it ensures that the insolvency proceedings can be enforced, allowing insolvency officeholders to deal with assets wherever they may be. For the UK, it no longer applies to main insolvency proceedings opened after 31 December 2020. After 31 December, for the UK, the law of the UK and the relevant domestic laws of each of the individual member states instead apply.

risk (internal assignment) and credit risk (remote credit base)

The third level can be added to incorporate boot collateral at local level.

- Security pledge over local receivables if (i) not all eligible receivables are assigned and negative selection might occur and/or (ii) additional local collateral is required to support (local) credit risk. (Operational impact for Opco needs to be considered as well as local legal costs)

Single Group Facility: Setup and acceleration of cash dominion



Collection Accounts

The SGF solution applies different cash dominion options and may include acceleration triggers to change from one option to a more strict option if and when required.

The most secured (legal) control on the incoming debtor payments (cash) is cash dominion by applying controlled collection accounts of ABN AMRO, established in The Netherlands at ABN AMRO Bank at the SFC level and/or for each operational entity, covering the required (multi-) currencies.

Depending on the client's financial strength, cash dominion can be at the SFC. It holds accounts in its own name. These accounts are secured by security pledges and cash sweeps. The advantage is that the SFC may have less difficulties in opening foreign accounts as these are opened in the client's own name. These local accounts might be necessary to avoid costly international payments for local currency payments. As security (pledge) on local pledged accounts might not stick in an insolvency in some countries, debtors must be timely instructed to pay on controlled collection accounts. Documentation covers such notification and payment instruction at specified events, like an Event of Default. Typically, the borrowing base will be updated at ABN AMRO daily or once a week, by having the client digitally submitting a new debtor ledger through API. The debtor payments are also taken into account. From a risk perspective, cash dominion at the SFC is preferred over cash dominion at the Opco as the SFC is considered far more bankruptcy remote than an Opco.

Clients may prefer to keep their cash management structure in place, maintaining their own local accounts at the operational entities. The debtors of the operational entities will continue to pay into these local accounts, which are secured by security pledges and cash sweeps. As security (pledge) on local pledged accounts might not stick at insolvency in some countries, debtors might need to be timely instructed to pay on controlled collection accounts. Documentation covers such notification and payment instruction at specified events, like an Event of Default which is continuing.

Insolvency

The SFC's sole purpose is to consolidate receivables and pool them to ABN AMRO. Intercompany claims of group companies on the SFC (including those resulting from the internal transfer) are subordinated or pledged to ABF, and cannot be freely enforced (including any local Opco administrator). As such, the SFC is structured in a bankruptcy remote way as much as possible and is assumed to be the last entity within the group that may become insolvent. In case of the (theoretically) SFC's insolvency, the Dutch receiver has the same position vis-à-vis ABN AMRO as in any regular insolvency involving secured receivables in The Netherlands.

The receivables financed or purchased by ABN AMRO are not part of a local Opco's insolvency. These are sold to the SFC and the SFC is the legal owner. Secondary security comprised of local bank accounts, local (other) receivables and guarantees can also be enforced by ABN AMRO with the legal support of the local law firms involved in the design and implementation of the facility.

The key interest is access to the (operational) IT-systems of the client where the order and debtor data is stored. Under Dutch law, the Dutch receiver is obliged to collaborate and to submit this data to enable ABN AMRO to execute its rights. It is common practice that this is subject to a negotiated estate contribution with the receiver.

In the event of a local Opco's insolvency, the other (group) subsidiaries of the client are (also) guarantors and jointly liable vis-à-vis ABN AMRO in the event of a deficit. Due to the size and rating of the clients, it is unlikely that the entire company will collapse at once. Certain parts may be part of a restructuring and as such the joint guarantee in favour of ABN AMRO has value. Nevertheless, due to the international angle, an enforcement may appear more complex in execution even within the context of the EU Insolvency Directive 2015 covering a harmonized approach to cross-border EU insolvencies.

ABN AMRO has performed several large and complex full recoveries of international receivable portfolios, with debtors located around the globe in joint and close collaboration with the respective receivers.

Conclusion

Since its introduction in 2015, the Single Group Facility

solution provides for optimisation of funding by applying a simplified structure for cross-border asset pooling on client group level. It has been applied in multiple transactions in combination with lending and in syndications both on a single set of LMA based documentation. The solution is scalable and flexible as regards to connecting and disconnecting geographies and funding partners. In particular the solution is applied by PE-owned companies because of its scalability, facilitating central cash flow management and financial steering of acquired companies.

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Ronald Biemans joined ABNAMRO 12 years ago after a career as an attorney at law, insolvency practitioner and corporate finance. At ABNAMRO ABF he held various positions including CRO NL and head of Group Risk for NL, UK, GE and FR, prior to his current position as head of International Structuring & Origination. He was a strong promotor of setting up the International Clients ABL team covering structured working capital management solutions in 2016. With its award winning European cross border solutions, the team shows evidence of winning new business across Europe, delivering innovative ABL structures and creative documentation, growing market share while maintaining credit quality and developing teams.

He holds master degrees in Dutch Law and European & International Law. He also holds post-graduate degrees in Insolvency Law, Finance & Security Law and Finance.

Tom Gevers is responsible for International ABL Structuring at ABN AMRO Asset Based Finance. He has over 20 years of experience in asset-based lending in various senior positions including head of Financial Restructuring & Recovery and manager International Business Development. Prior to his career at ABN AMRO Asset Based Finance, Gevers has been senior consultant at McKinsey & Company, general manager Vendor Trade Finance at DLL and international product manager at Philips. Tom has a degree in Technology from Eindhoven University and a post doctorate degree in Insolvency Law at Radboud University Nijmegen.

CREDIT INSURANCE TRENDS

Trade Credit Insurance – More than Insurance

BY CASEY JOHNSON

Casey Johnson of Hylant provides the ins and outs of trade credit insurance.

The global trade credit market continues to grow with increased international business opportunities and carriers making trade credit more accessible to the market. You may be asking – what is trade credit insurance? Trade credit insurance (TCI) insures your accounts receivables against losses due to bankruptcy, unforeseen insolvency, or protracted default. But, trade credit insurance is more than just insurance. Once your A/R is insured, it is a secured asset, and can be used to leverage many ROIs.

Why do companies acquire a trade credit insurance policy? Trade credit can help build a healthy pipeline of new revenue, increase access to capital, prevent a catastrophic loss, and strengthen an organization's balance sheet. Here are the top four motivating factors for trade credit Insurance.

Lending/Finance Support: TCI is a tool that is used to support the financing activities of an insured. It is common to see exclusions in a borrowing base for foreign A/R, extended terms, high concentrations, and other common exclusions. TCI is a vehicle to include more of the total accounts receivables into the borrowing base. The lender is the first payee and would be endorsed on the policy through the lender beneficiary endorsement.

Balance Sheet Support: Most companies that do not formally purchase TCI self-insure the risk by utilizing a bad debt reserve. A bad debt reserve allocation is based commonly on past lost experience and forecasted lost expectancy. Trade credit can offer a predictable outcome and set a bad debt figure without the question of reserves or allocations being enough. Example: $1 of a bad debt reserve protects $1 of loss. $1 of a trade credit premium could protect upwards of $100+ of bad debt.

Increasing Top Line Sales: Trade credit is a tool to expand top-line growth safely and aggressively. Trade credit can help make a credit decision in as little as 90 seconds, making speed to market a reality. The TCI carriers have the largest library of privately held data in the world. The information is comprised of financial and real-time trade feedback. Use this security to offer higher credit limits or longer terms without taking any additional risk. Terms are key to a negotiation and could be seen as a competitive advantage to be more flexible.

Managing losses: It is common to have a certain level of losses in a fiscal year. Trade credit pays a claim when a commercial invoice turns into bad debt. The severity can range from smaller, normal losses to the potential for a catastrophic loss of a key customer. The policy can capture those losses and mitigate the time and resources normally associated with bad debt. TCI insures that one large key relationship does pose a catastrophic loss potential. This is often referred to as the "sleep insurance" portion of the policy.

CASEY JOHNSON
Hylant

As trade credit continues to grow globally, the carriers have responded well to the demand for innovation. Carriers have looked at the supply chain in more depth and looked at ways they can enhance the current offering. Here are some ways the policy has evolved to offer some extended coverages.

- Multi-Year Policy – Carriers are seeing long term relationships and are offering multi-year policies with a premium enhancement. Most commonly these are two-year policies periods.
- Supplier Protection – With the growth of overseas supply chain, some carriers are offering ways insure the payment for production overseas. Traditionally, trade credit Insurance protected just the exiting of the products. Example: You send a down payment (Cash) overseas for a product to be made and the supplier becomes insolvent. This is a new offering that has come to market with more reliance on overseas manufacturing.
- Pre-Shipment Coverage – This endorsement adds coverage for Work in Progress. If a company produces a customized end-product, pre-shipment covers the work not yet invoiced at the time of insolvency. Pre-shipment coverage is often favorable in lender financing when we look at inventory or WIP.
- Hybrid Policies - A combination of traditional cancelable coverage with non-cancelable coverage on top key buyers on the same policy. The hybrid trade credit offering has brought non-cancelable coverage to the small to middle market. This offering has made it easier for lenders to incorporate policies into the lending equation.
- Technology – Carriers are investing in the platforms that connect the insured to the carrier. The technology has also incorporated aspects of connectivity directly between the insureds and the carrier partner. This means 24/7 365 days a year, you can log in and request credit, place a claim, or request more information. Accessibility could be made from anywhere. Accessibility is given to both the insured and the

named beneficiary, both are treated equally.

- Collection Support – Many of the carriers have invested heavily over the past years in their collection teams. This has offered a service that many companies already had today at a reduced cost. It married the guarantee of credit insurance with the in-house power of a full collections team. Some saw this an opportunity to utilize a collections strategy on the portion of their A/R that is self-insured. Companies see this as an alternative to mitigate the risk of non-payment.
- Industry Specialty – Carriers are positioning key individuals with expertise in markets, industries, and understanding of specific trade risks to bring value to the insureds. These resources bring real time information to the insureds on a real time basis. This means accurate and real-time information to help make key decisions within an organization.

As you get to the point of getting a trade credit policy, there are often two questions that get asked. (1) How do you determine the premium and (2) How does the premium get impacted? As a general guideline, the premium rate is .10-.25% multiplied by the sales revenue. The premium is normally impacted by the amount of risk shared with the insured and the carrier. Below are some of the most common "levers" which can impact the policy premium and rate.

- Sales Revenue – The revenue and size of a company are the main drivers of how the premium is derived. There are strategies to carve out buyers or segments of a company that are preferred to be self-insured. In lowering the sales revenue, we are factoring the policy will drive the overall premium down.
- Deductible – As is common with insurance, the deductible can have an impact on premium. By increasing the risk share of the policy, you can impact the policy rate.
- Coinsurance – The standard in the industry is 90% of the invoice is insured with a policy. Carriers will look at reducing the percentage insured in favor of a lower premium rate.
- Policy Limit/Max Claim – If a lower policy limit or maximum claim amount fits with the risk strategy, the lower policy limit can impact the premium rate.
- Minimum Claim Amount: The minimum claim refers to the lowest amount that qualifies for a claim. A strategy to increase the minimum claim threshold can provide a lower premium rate.

The credit insurance market is not as mature as some of the other property & casualty lines of coverage, despite being around over 100 years. The pool of carriers most common in the U.S is less than 20. The top three carriers are Allianz Trade Credit (formally Euler Hermes), Atradius Trade Credit, and Coface North America.

"When" to buy credit insurance could make a big impact on the coverage available and pricing. With risk, the best time to buy it is when you are least likely to need to use it. During the peak of a pandemic or during global conflict is not the time to get the best terms or coverage. The price is inflated, and the coverage is only a fraction of what you would see in a more normalized market. The companies that had the best coverage and strongest terms during the last major events acquired policies years or decades in advance. Those who had relationships with the markets maintained a much more favorable trade environment. That was a competitive edge, and a tool organizations could lean on when looking how to outpace a competitor.

What we know is the future is unknown and that history often repeats itself. There will be a global event or supply chain disruption causing uncertainty constantly. Some of this can be looked to be funded by the allocations already made for bad debt. Tap into all the ways it can help grow sales, access capital, and insure cash flow. Let trade credit insurance be more than insurance.

Casey Johnson is a client executive with Hylant. His primary focus is working with commercial clients on property and casualty risk management. Johnson has a vast knowledge specializing in the trade credit market. This includes an expertise in trade credit insurance, EXIM insurance programs, political risk, and mitigating financial risk through the PUT market. He earned a BS in marketing from Ferris State University located in Big Rapids, Michigan. He can be reached at casey.johnson@hylant.com.

SFNET MEMBER PROFILE

Not Your Grandfather's Pitney Bowes

Pitney Bowes Bank invests in small to medium-sized businesses and high-volume shippers and offers equipment financing, working capital and postage payments.

BY EILEEN WUBBE

CHRISTOPHER JOHNSON
Pitney Bowes

Oftentimes, when someone hears of Pitney Bowes, the first thing that comes to mind may be postage meters or mailing equipment, but the company has expanded into much more. It still offers shipping and mailing services, as well as financing through Pitney Bowes Bank, mostly for small business lending. Pitney Bowes has a customer service base of more than 750,000 clients today, and an average customer relationship of more than eight years.

"Suffice it to say, we are not your grandfather's Pitney Bowes anymore," said Christopher Johnson, senior vice president and president, Global Financial Services (GFS). "The company has changed and evolved over the 100-plus years that it has been operating, but financial services has been an integral part of Pitney Bowes for quite some time. For better than 40-plus years, we have been operating a captive financing business, which has a particularly important role when you think about what Pitney Bowes does in terms of how we all came to recognize the brand as it relates to mail and postage."

Johnson has been with Pitney Bowes for about 6-1/2 years and oversees the go-to-market strategy, risk management and operations, which are all involved with Pitney Bowes' financing and banking operations around the world. He leads the financial services business globally for Pitney Bowes, incorporating an equipment financing component and a banking business that is based in Salt Lake City, UT.

In the United States, postage is a currency, Johnson explained, as currency has to be provided for purchasing a book of stamps.

"When you think about the regulations or the requirements and licensing to be in the business of supplying a currency to hundreds of thousands of clients that we service on a day-in and day-out basis, it is important because what we're really dealing with at its core are some of the key operating components of how customers manage or send their bills," Johnson said. "This is a day-to-day commerce that we are helping customers do, but it's in a highly regulated business model. We got into the banking business because our customers want to ensure they have the postage they need to conduct the commerce they are engaged with on a day-to-day basis."

Pitney Bowes' longstanding customers have evolved and so has the bank, in helping its clients go beyond traditional mail needs for the last 30 years into new avenues including logistics, shipping and payables financing.

Pitney Bowes helps customers with their everyday small business lending or business banking needs, offering term loans, working capital lines of credit, as well as CapEx or capital expenditure financing, whether it be lease or equipment loan type financing, as well as depository capability to support small business and savings needs.

CapEx funding is provided by one of Pitney Bowes' subsidiaries, Wheeler Financial, which offers various lease financing products, including fair market value or operating leases to clients in the U.S.

Serving Main Street USA

Pitney Bowes is diversified across a multitude of industries, including, but not limited to, manufacturing, industrial, IT services, construction, technology and healthcare.

"We really service Main Street America. Imagine a small business in your home community; that's what represents our portfolio." Johnson added

Johnson has seen an increased focus around efficiency in healthcare and IT, and advanced technology across technology, automation, wholesale and retail industries as well.

"I think that has to do with labor and where we see the market moving with a much more streamlined, efficient process," Johnson said. "We see a clearer picture with companies that are trying to better match their funding sources and products to their working capital needs.

"That's a balance sheet and a more cost-effectiveness trend that you see, and I think that that's a good thing overall as businesses have tried to, in many ways, clean up their balance sheet and be in a better position for growing uncertainty."

Growing Needs in the Small-Business Market

Johnson noted that while inflation is transitory, there may not be a soft landing in looking at where the macroeconomic indicators are pointing, which is towards an uncertain environment.

"It's impossible to tell for sure, but I would expect that we're coming out of a long period of quantitative easing, and we have not really had a true cost of debt arguably in 7-10 years. When you think through the underlying conditions and what they mean for your everyday small business, operating and inventory costs have been going up tremendously, and those have been more expensive as we've gone through this period of time. Labor and even transportation have spiked over the last 24-plus months. Add in energy costs and it's another dogged element."

Higher debt and operations costs will manifest in tighter economic conditions as the economy tries to stabilize.

"Those economic conditions will result in the tightening of the credit box," Johnson added. "We've seen a lot of consolidation in most of the banking market in the U.S. and that means there are less sources of money and funding available to Main Street America."

This is the opportunity Pitney Bowes sees in the market for many of its customers that will need access to affordable capital. Pitney Bowes has have positioned itself as a company dedicated to the small-business market, its customer base, and in helping them continue to evolve through up and down economic cycles.

Bringing Together Diversity of Thought, Perspective and Background: The Importance of DEI

Pitney Bowes prides itself on being an inclusive workplace.

"Diversity isn't just a hobby or an initiative, it is something that is good for business and for our communities and our societies overall," Johnson stressed.

In the financial services industry, Johnson said he hasn't seen the level of participation in the industry being equal to what the population represents, whether they are Black Americans, Hispanic Americans, or Latinx Americans, or other minority groups.

"Evidence proves time and time again that those companies that excel at diversity and inclusion perform better because they have better ideas and stronger connection to the markets and the communities and the customer bases they're going after, and they win more," Johnson explained. "I think we have to get more comfortable with being uncomfortable. What I mean by that is people are human beings and are going to feel more comfortable in a situation where everybody is like them. We have to become more comfortable opening ourselves up to a variety of differences of opinion and thought. If you have a job to fill, look at the job description and actively think through what you should incorporate into the description so it opens up and avails itself of people who don't look like you or me. These are commonplace things that everybody can do, it's not like you need a chief diversity officer to do it.

"Make somebody successful, help them, purposely mentor someone who is different than you, and you will learn and take away and they will be more successful and that success will beget more success."

Eileen Wubbe is senior editor of The Secured Lender.

Franklin Capital Customer: L3DFX

L3DFX is an award-winning creative studio that opened in 2013 in Illinois. They specialize in designing and building theming, props, structures, immersive environments, and interactive experiences. Their staff is immensely talented and produce creations that are truly amazing and unique. One of their creations is a nearly 10-foot Snake that is stationed outside of Six Flags Discovery Kingdom's Sidewinder Safari ride.

BY SUE DUCKETT

SUE DUCKETT
Franklin Capital Network

They also recently got to bring Snoopy to life at the immersive experience called "The Search for Snoopy: A Peanuts Adventure". The Search for Snoopy is a ground-breaking immersive attraction, that transports you into the world of Charles Schulz's beloved comic strip as you explore the Peanut's Neighborhood. Their team of project designers, engineers, carpenters, fabricators and others can truly create just about anything you can imagine.

The Problem

Five years ago, L3DFX had hit a crossroads with its business.

To realize their growth potential, they needed to improve their working capital. The company was looking to reorganize its management structure and attract higher-end team members. They turned to their local bank, which turned them down, deeming them non-bankable. The bank would not provide them with financing because their industry was unique, they lacked established business credit, and the way they invoice is slightly nontraditional. Their banking partner recommended they reach out to us at Franklin Capital because they recognized that Franklin would look at this client with a different view to lending.

Working with Franklin Capital and the Value of the Partnership

After just a few conversations with the Franklin Capital team, they knew this relationship would be different. The approach we take at Franklin is a more detailed dive into their business, much less superficial and one size fits all, which they had previously experienced. Franklin got into the details of the business, what they did and how long they had been around. Plus, who they are and who their clients are. Combining these details with Franklin's experience, we developed a financing solution that helped L3DFX's business significantly.

When I visited Paul Ciesiun, president/creator at L3DFX, I saw a man that had vision, was an expert in his craft and had a business to believe in. I went back to my team, discussed the situation and we came together to provide a facility that would work for Paul. We believe it is imperative that we fit in with our clients' needs and not the other way around.

Paul said, "Over the past five years, Franklin has been very in tune with us as a client. When I call Sue, I never feel like I am calling a bank and talking to a banker. It is always a personal conversation about my business, what I need, my goals, and how they could help.

Truly, they are more like a business consultant. I feel like I have a partner in my business that will help me figure out a financial solution for what we want to do. It has been amazing. Franklin is always responsive, which has been an enormous help. Because sometimes you need to know, can I do this and draw on this line? What if I get this project? How can you help me? Franklin has always been there with answers to my financial questions. Additionally, they have helped with potential solutions to problems that may be coming my way. Knowing they are in my corner has all been an enormous relief."

Initially, the financing allowed them to do a few things to aid their growth. It allowed them to take on the infusion of projects that were coming in. They were able to attract top talent by adding benefits they otherwise would not have been able to provide. Additionally, they could purchase much-needed equipment to expand their product offerings.

The Solution and Why it is Important

Franklin Capital has been providing L3DFX with accounts receivable factoring for five years. The financing has provided them with the working capital they have needed to grow the business.

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Over time, with the financing from Franklin, "we grew from 18 employees to 65, thanks to their help. Without Franklin, we would not have seen that type of growth. We would not be the company we are now without their financing bump and them believing in us and taking the risk," Ciesiun commented.

Furthermore, L3DFX has grown so significantly that they are moving towards being bankable.

Since that first visit in 2018, Paul has taken L3DFX from strength to strength, he now has more opportunities and we are so pleased that he is now in a position whereby we could help him transition to a traditional form of finance.

Sue Duckett is chief operating officer of Franklin Capital.

SFNet Education Committee

This column highlights the hard work and dedication of SFNet committee volunteers. Here we speak with Tina Capobianco, senior vice president of J D Factors and the chair of SFNet's Education Committee.

BY EILEEN WUBBE

TINA CAPOBIANCO
J D Factors

Please provide our readers with some background on your career.

This is my 30th year in the factoring business. I started at J D Factors in 1992 as an account executive and grew with the company. Every time the business grew, my position grew and I gained more responsibility. Then, in 2005, my manager left to go to GE Finance at the time so I took over his role managing all of Canada. I've done every position including answering the phones, when we were only six employees, and what I love so much about this job, and this industry, is that it's always changing. There's always something new happening and I found, personally, I was able to really grow in every step of my career.

When I was an account executive, I decided to take credit courses because we're a non-recourse factor, so I got my credit designation to help me with that. Then when I moved to more senior management positions, I took finance courses so when I was underwriting a file, I could understand the financial statements and covenants. I always found an opportunity to learn with every step that I took and I think that was a big part of my growth in my career at every step.

I'd like to say now I am done learning, but I hope not. I am always looking for something new to learn or do. Now I have this role as chair of SFNet's Education Committee, and I've been able to teach some classes, which kind of brings me full circle. I'm able to put all of my experience into those classes and put out everything

I've learned over the last 30 years.

I joined SFNet's Education Committee during COVID in 2020 when it was all being done online, and this year is my first time as chair.

Why did you decide to get involved in this particular SFNet committee?

I never pass up an opportunity to contribute, so when I was asked to chair I thought, what better way to contribute to this area? I'm a lifelong learner. I love learning in any way/form possible, and I always had a desire to be a teacher. Even after I became an account executive, I still tried to get into Teachers College of Ontario and that would have changed my career path significantly. I wasn't able to get in so I think I made the right choice in going this way, but I really love teaching or sharing my knowledge. If you are serious about the job you're doing, then you should always want to learn something that will enhance what you do every day.

What are your goals as chair of SFNet's Education Committee? What would you like to see happen in the next year?

One of my major goals would be to bring awareness that there are so many education opportunities with SFNet and how convenient and efficient they are. Gone are the days when you have to travel a day to go to a place, take a two-day course and come back. That's really cost prohibitive for a lot of companies and you're also having that employee out of the office for four days. You could sit at your computer for three hours over three days and have an entire course in financial statement analysis. I want people to know that it's affordable and very accessible.

One of my roles as Education Committee chair is to bring the importance of education to SFNet member companies. We get so wrapped up in the day to day and deadlines and getting our work done and weeks turn into months and then months turn into a year and you don't put a lot of time and energy into professional development for yourself or your employees.

One of the key things to retain employees is professional development. I think as an organization if you dedicate time, energy, effort and money into an employee and professional development, they're going to think twice if they're offered another job somewhere else.

We often hear many in this industry "stumbled" into a career in factoring or asset-based lending and didn't plan it. What classes would you recommend to someone who recently graduated college with a business or finance degree, but doesn't have much background in the ABL industry?

I think they should start with SFNet's introductory classes because that would give them the foundation they need. I taught SFNet's Account Management course, Level 1 and Level 2, and there were a number of really young and new people in the industry. You could tell they had no idea what most of this stuff was. They have a different perspective compared to someone like me who has been doing this for so long it's second nature. I think the intro classes are the best ones to take for someone who is just coming out of college or university and maybe a friend gets them a job at a bank or an ABL shop, and they are wanting to find out more. The intro classes can give them a glance at what they're in for.

I think if the material is interesting to you in those intro classes, then you're going to say, 'Okay, now I definitely want more.' That's where our second piece of those classes come in, SFNet's Master Courses, because then you can expand on what you've learned.

For someone who may be interested in joining the SFNet Education Committee, what's involved?

The Education Committee meets once a month and we have a set list of objectives that we want to achieve for the upcoming year. Last year one of the big ones was on-demand classes and they crossed over with the Factoring Committee, which I am also a member of, and I worked on both sides.

The other big initiative for the committee was to create a champion list. This list identifies the one person or multiple people in every SFNet member organization who would be responsible for approving education classes for their employees. We then make a list of these champions so that when a new course comes out or the calendar comes out, we can go to them and ask who from their organization they would send to these classes. We're also looking for the champions to give us guidance and tell us if we're lacking a course in a certain topic because we have our core 12 classes, but we want to expand on that if we can.

Another initiative is getting volunteers to teach the classes. We have a really good group of volunteers, but it seems to always be the same ones, and that's a lot of work to do so we're always expanding that.

We set out with those key objectives and we try and accomplish them. Another initiative this past year that the Education Committee, SFNet Education Committee staff liaison, Ryan Green, and SFNet, worked on was the NYU leadership course. NYU is under contract negotiations and will be a huge project to get done.

Our objectives this year also include developing four new on-demand webinars for on members, as well as auditing our education classes to ensure they're being offered as the most up-to-date version of themselves.

When you're not busy at J D Factors or on the SFNet Education Committee, what can you be found doing?

I'm a mom to two grown boys, 24 and 20, and a one-year-old puppy, so that's my new hobby. My life is very hectic, so for my downtime to relax I choose a good book, sit on my patio and then maybe watch a couple of episodes of a Netflix show, something really quiet.

I also love bike riding, and I enjoy hiking. My husband and I picked up pickle ball, and this year I've become a much better golfer. When I list it, it's like, wow, that's why I'm so tired on a Friday night!

Eileen Wubbe is senior editor of The Secured Lender.

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