DEAL MAKER

A PUBLICATION FOR COMMERCIAL LOAN BROKERS AND LENDERS

| JAN/FEB 2020 VOL 2 NO 1 |

THE STATE OF TODAY'S LENDING LANDSCAPE

2020 LOOKS LUCRATIVE FOR COMMERCIAL REAL ESTATE

MCAs: A STAPLE OF SMALL BUSINESS LENDING

NACLB

BY NATIONAL ALLIANCE OF COMMERCIAL LOAN BROKERS

DEAL MAKER

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EDITOR'S LETTER

With the dawn of any new year, we often take stock of where we've been before mapping out the next phase of our journey. To kick off the new decade, we've created the first 2020 issue of *DealMaker* to help our readers form a clear vision of the state of today's lending landscape.

Andrew Mallinger from PIRS Capital provides an update on the **Merchant Cash Advance** industry, which has become a standard product for small business lending. He outlines the regulations that arose for MCAs in 2019 and forecasts what's ahead for the industry as it continues to mature.

Robinn Mikalic from Flexible Funding provides a flashback to the past as she discusses how the **Factoring** industry has evolved during her career. She encourages factors to take Amazon's lead and expand their businesses into new markets.

SLIM Capital's Jeff Brannon provides an update on the **Equipment Finance** industry. Citing several data sources, he says 2020 looks rosy for the industry, and the equipment finance product will continue to the be the best solution for companies in need of essential use equipment.

Presidential election years always have the potential to throw a curve ball at lenders thanks to the climate of uncertainty they cause for business owners. Keeping this and other factors in mind, Lukas Ball from Prime Commercial Lending says the **Commercial Real Estate** industry should still expect a lucrative year.

Despite the plethora of lending options available to small businesses today, Tom Zernick from CreditBench says **SBA Lending** is still the best option. He explores three common misconceptions about these products and outlines recent updates to the loan program that have streamlined the funding process.

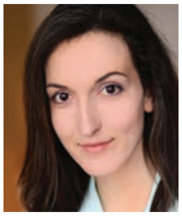
Moving to our departments, in ***The Softer Side of Sales***, Ray Drew from Ready Capital shares three creative tips for brokers to reach small business owners and become the experts they turn to during times of need. In ***Common Law***, Ken Greene outlines several common provisions lenders use in broker agreements that brokers should read carefully and seek to modify. And in ***Broker 101***, NACLB "Rookie of the Year" award-winner, Josh Flake, shares strategies to thrive during your first year as a broker.

Last, but certainly not least, registration is now open for the sixth annual National Alliance of Commercial Loan Brokers Conference, which will be held at Caesars Palace in Las Vegas from October 13 to 15, 2020. Visit naclb.org to reserve your spot! Sponsorship opportunities are also available, so act now to ensure your brand has the best visibility to convey your message at this year's event.

We're looking forward to our next issue, which will feature stories from successful brokers.

Sincerely,

Rita



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JAN/FEB 20

NEWSMAKERS

PEOPLE

Lima One Capital Appoints Craig as Chief Revenue Officer

Lima One Capital expanded its executive leadership team and appointed industry veteran Josh Craig as its chief revenue officer. In this newly created role, Craig will lead Lima One's corporate sales and marketing activities to continue the company's national expansion. Craig was previously part of the core leadership team for Finance of America Commercial, accountable for the company's exponential sales growth.

Bibby Financial Services Canada Hires Veteran Industry Experts

Himanshu Rateja, Angelo Ghaleb and Kyle Wilson have joined Bibby Financial Services' sales executive team as vice presidents of Business Development. Rateja and Wilson joined the BFS Canada Mississauga office, and Ghaleb joined the company's Montreal office.

Customers Bank Adds Alban to Commercial Lending Team

Customers Bank appointed Miguel Alban as senior vice president, Multicultural Banking Manager. Alban joins Customers Bank with 13 years of multicultural banking experience. In his new role, Alban will lead a team focused on commercial lending with an emphasis on increasing access to capital for small and minority-owned businesses.

Johnston Joins SLIM Capital Team as Operations Supervisor

SLIM Capital hired Andrew Johnston as operations supervisor. Johnston's focus will be to evaluate, recommend and execute on initiatives for SLIM Capital's current operation process. He will be located at SLIM Capital's headquarters in Beverly Hills, CA. Previously, Johnston was successful in handling cross-functional activities between sales, collections, accounting, loan closing, customer service and business development for Currency Capital.

North Mill Equipment Finance Promotes Four Employees

North Mill Equipment Finance promoted four key employees. Patty Matthews, a 17-year North Mill veteran, was promoted from AVP to VP, Portfolio Management. Jennifer Khan was promoted to VP. Kristin Solomon has been promoted to AVP, Operations. Carla Gokey was promoted to team lead, Account Management. The strategic appointments will play a central role in supporting the firm's rapidly expanding portfolio and growing base of referral agent relationships.

Fundbox Appoints Abrahamsen CFO

San Francisco-based fintech start-up Fundbox has hired Marten Abrahamsen as the company's chief financial officer, effective January 3. Since its first launch in 2013, Fundbox has originated $1.8 billion in loans and has hired a chief legal officer, chief compliance officer and chief marketing officer within the last year.

NEWSMAKERS

Encina Equipment Finance Adds Elsass as MD/BDO for Midwest

Encina Equipment Finance added Ryan Elsass as managing director of Business Development for the Midwest. Elsass will be based out of Chicago and report to EEF's President and Chief Commercial Officer Rick Matte. He will be responsible for helping to scale EEF's origination efforts. He joined the company from Monroe Credit Advisors, where he spent the past three years. Prior to Monroe, Elsass spent time at CapX Partners and Goldman Sachs in a variety of roles.

Nations Equipment Finance Appoints Passman, VP of Sales

Nations Equipment Finance has hired Shawn Passman as vice president of Sales. Passman will be responsible for growing Nations' lease and loan origination activities throughout the Mid-Atlantic portion of the U.S. Passman has 25 years of experience in the equipment finance industry as an originator.

Hollingsworth Joins Gerber West Coast Team

Andrew Hollingsworth has joined Gerber Finance's west coast team as senior vice president, west coast regional manager. Hollingsworth previously served as chief financial officer of Numi Organic Tea, a long-standing client of Gerber. Beforehand, his career evolved through multiple senior, corporate and divisional posts in financial services. From PwC to UBS in Switzerland, his CPA experience made him a natural fit for Gerber.

Greystone Adds Banking Veteran Blake to New York Loan Originations Team

Greystone added Christopher Blake as a director based in New York, reporting to Anthony Cristi, managing director. Joining from Cross River Bank, Blake has more than two decades of experience in commercial real estate loan origination and finance, with an emphasis on the multifamily, mixed-use, retail, industrial and warehouse sectors. Previously, he served for 20 years at Astoria Bank (now Sterling National Bank) in both commercial and residential loan production, and oversaw the bank's entire retail production departments, including retail, wholesale and correspondent lending.

First Internet Bank Adds to SBA Team; Welcomes New Senior BDO

Greg Gala has joined First Internet Bank's Small Business Administration (SBA) Lending team as vice president, senior business development officer. The move further demonstrates First Internet Bank's ongoing commitment to providing a complete range of financial solutions for emerging small businesses. Gala brings to First Internet Bank expertise in commercial real estate purchase and construction as well as debt restructuring, partner buyouts, change of ownership, equipment financing and franchise financing. His ability to manage and evaluate transactions while overseeing the loan process from start to finish will benefit referral clients, including commercial brokers, bankers and business owners.

Great Rock Capital Adds Kenny to Originations Team

Blake Kenny has joined Great Rock Capital as managing director of Originations. Kenny will be based in Detroit, responsible for leading origination efforts in Michigan and Western Pennsylvania. Kenny has more than 20 years of experience in banking and origination roles. He spent more than eight years as a senior vice president at PNC Bank within PNC Business Credit and the Corporate Bank. In addition, he spent eight years as a vice president at Comerica Bank in middle market banking where he sourced, funded and managed a diverse portfolio of asset-based and cash-flow loans, and previously held banking roles at Merrill Lynch and MB Financial.

First Foundation Bank Announces New Hire

Tyler Chu has joined the First Foundation Bank Equipment Finance Department as a Credit Analyst I. While servicing the equipment finance and leasing needs of the bank's customers and prospects, the primary growth engine for this department is through third-party originations. Chu has experience in the small business lending and finance industry. In his new position, He will help service the credit needs of the lease and loan originating partners of the First Foundation Bank Equipment Finance Department.

NEW VENTURES

Crestmark Launches Two Financing Groups Led by Tomasello and Holdbrooks

Crestmark has restructured internally and launched new groups that will increase efficiency and timeliness in

CONFERENCE NEWS

NACLB 2020 CONFERENCE AND EXHIBITION
BRINGING LENDERS & BROKERS TOGETHER
SINCE 2014

POWERED BY
LIMA ONE CAPITAL

WHAT HAPPENS AT THE NACLB DOESN'T STAY AT THE NACLB

The National Alliance of Commercial Loan Brokers is proud to announce that registration is open for its 6th annual conference.

More than 900 of the nation's top commercial loan, leasing and mortgage brokers and lenders will converge on Caesars Palace in Las Vegas from October 13 to 15, 2020 to meet the top lenders and service providers that cater to the brokerage community. These brokers are responsible for over $5 billion in small business and commercial financing each year.

The NACLB's annual conference will provide education and networking between brokers lenders and service providers. World champion quarterback, broadcaster and entrepreneur, Joe Theismann, will be this year's Keynote Speaker. As always, the primary benefit of the conference will be to provide enormous growth opportunities for both brokers and bankers to grow their loan portfolios and increase revenues and profits.

Sponsorship opportunities are available, which can provide the visibility and branding to effectively convey your company's message to our qualified audience of more than 900 of the nation's top commercial loan and mortgage brokers.

Caesars Palace is the ultimate choice in ridiculously campy Las Vegas kitsch – and travelers love it. The hotel's theme is ripped straight from the Julius Caesar's Rome, with columns, marble gods and goddesses, plus a toga-clad wait staff serving cocktails on the casino floor. Secure your room at our negotiated reduced room rate of $199 while they last.

providing financing to the marketplace. Crestmark's Business Credit group will focus on asset-based lines of credit and the Commercial Capital group will focus on capital needs, primarily secured by accounts receivable. The change affects the way internal operations underwrites and manages loans while sales outreach to the marketplace remains unchanged. Steven Tomasello leads the Business Credit group, and Heath Holdbrooks leads the Commercial Capital group.

FIS, Liberis Launch Working Capital to Provide Alternative Small Business Funding
FIS teamed with Liberis, a London-based fintech that provides alternative funding for small businesses, to address the small business funding gap in the U.S. Through its Working Capital solution, Worldpay from FIS merchants in the U.S. can apply online for the cash they need to grow their business and get approved in minutes. Since its launch in March 2019, the Working Capital solution has provided more than $20 million of funding through Liberis to small- and medium-sized businesses (SMBs) in the U.S.

Channel Partners to Launch Equipment Finance Group in Q2/20
Channel Partners Capital (CPC) has created Channel Partners Equipment Finance Group, strengthening its commitment to its equipment finance partners' success. CPC, in its 11th year, will leverage its strong balance sheet, core competencies and proven experience to build an equipment finance solution requested by its partners. It will utilize its existing LOS/LMS systems to accommodate equipment finance transactions and has invested over a quarter of a million dollars in a credit risk model that includes over 130,000 records and 250 million data points. Leveraging this new model with its data analytics capabilities and technology platform will allow CPC to deliver a robust, end to end system that gives control of the financing process to the partner; a flexible credit window and processes delivering a fast, easy and consistent customer experience.

Crestmark Launches Healthcare Financial Services Division
Crestmark launched a new division offering medical accounts receivable financing to businesses in the healthcare industry. The division will be led by Ray Zilke, first vice president, division manager. Zilke is based in Franklin, TN, and will report to Steven Tomasello, Crestmark executive vice president.

M&A

Primary Capital Acquires Longtime MCA Provider
Merchant cash advance provider and small business servicing company, Primary Capital Funding, has acquired a division of Infinity Capital Funding. The acquisition will enable Primary Capital Funding to expand its mission to help subprime small business owners get out of the vicious cycle that the alternative finance loan system poses and guide merchants to long-term financial well-being. Infinity Capital Funding is a 13-year-old merchant cash advance provider based out of Woodland Hills, CA.

DEALS

Allied Affiliated Funding Closes Two Transactions Totaling $1.8MM
Allied Affiliated Funding, a division of Axiom Bank, completed two transactions for a total of $1.8 million. The first was $1.5 million in receivables financing to a Texas-based trucking company that hauls frac sand, along with cement, fly ash and other non-hazardous dry bulk commodities for the oil and gas markets. The second was a $300,000 in receivables financing to a Texas-based boutique staffing company that provides temporary and permanent placement receivables, focusing on IT, finance and accounting, HR and office support roles.

SG Credit Provides $2MM to Enterprise SaaS Company
SG Credit Partners closed a $2 million credit facility for Enterprise SaaS. The

NEWSMAKERS

Enterprise SaaS platform enables companies to prepare and oversee RFPs and other business responses with speed, accuracy and compliance. The private equity backed company was emerging from an operational restructuring and planned to rebuild its tech platform to increase functionality, improve UX and drive sales. SG Credit provided the company with a bifurcated loan structure consisting of a $1 million interest-only loan to refinance the existing debt and a $1 million term loan to finance the company's growth initiatives.

Austin Financial Provides $6.3MM Facility to Meal Production Company
Austin Financial Services closed a $6.3 million AR and inventory revolver with M&E and capex term loans for a company that provides meal production & delivery service to hospitals, skilled nursing homes, long-term care facilities and catering companies throughout the country. The company, which is focused on accelerating its growth trajectory, was looking to tap its short and long-term assets to maximize and improve its liquidity position.

Ready Capital Closes $10.2MM Refinance Loan for Self-Storage Portfolio in Myrtle Beach
Ready Capital has closed a $10.2 million refinance loan for a three-property, 1,796-unit self-storage portfolio in Myrtle Beach. The undisclosed borrower will use the funds to pay off existing debt and lease-up the three undisclosed properties. The non-recourse loan comes with a three-year term and offers a floating interest rate with two extension options and flexible prepayment options. Further details of the portfolio were not disclosed.

Crestmark Provides $42.3MM+ in Commercial Financing to 112 Businesses
Crestmark secured a total of $12 million in ABL financial solutions for nine new clients, Crestmark Equipment Finance provided $12.16 million in 12 new lease transactions, Crestmark Vendor Finance provided $7.47 million in 87 new lease transactions, the Joint Ventures Division provided $994,451 in financing for one client and the Government Guaranteed Lending Division provided $9.75 million in financing for seven new clients in the second half of January.

North Mill Closes $1MM A/R for Master Packing & Rubber
North Mill Capital closed a $1 million accounts receivable facility for Master Packing & Rubber. North Mill provided additional working capital for the company in conjunction with the current lender. Master Packing & Rubber is a manufacturer and global supplier of sealing products serving the rail, marine and bio-fuel industries. Founded in 1982, the company is privately owned and operated with headquarters in Cedar Rapids, IA.

Kennedy Funding Closes $3 Million Loan for Residential Resort in Central America
Kennedy Funding closed a $3 million loan to Point Alegre Development in the Central American country of Belize. Loan proceeds will be used for refinancing, debt payoff, construction and working capital to fund the development of 19 acres zoned for residential tourism inside Orchid Bay, a 114-acre master-planned bayfront residential resort community located in the Corozal Bay inlet. A total of 30 parcels inside Orchid Bay are part of this development phase.

TAB Bank Provides $2.5MM Revolver to Technology Company
TAB Bank has provided a $2.5 million revolving credit facility for a technology company based in California. The new facility is extended through a multi-year agreement and will provide for the company's ongoing working capital needs. The company services the wireless technology needs of its clients through wireless engineers and industry experts. It provides recommendations for clients seeking embedded wireless modules to companies needing assistance with identifying and selecting the right wireless solutions.

AmeriSource Closes $2.5MM Facility for Kitchen Counter Manufacturer
Amerisource Business Capital closed a $2.5 million credit facility for a kitchen counter manufacturer based in New York. The proceeds were used for working capital. Following a change of ownership, the company's bank was unable to renew its revolver. Amerisource was able to approve and close a revolving facility in under two weeks.

CFP Funds $1.3MM in Manufacturing Equipment for Veteran-Owned Franchise
A growing, popular franchise in California needed funds to purchase inventory to fulfill new contracts. Commercial Funding Partners was able to complete a sale lease-back on industrial baking equipment to facilitate the company's needs. When CFP found out the owner was a disabled vet that employed other disabled vets, it couldn't wait to get involved.

Ready Capital Closes $14.5MM Refinancing Los Angeles Multifamily Asset Renovation
Ready Capital has closed a $14.5 million facility for the renovation and conversion of a 26-unit, Class B, three-property multifamily portfolio into a 69-unit co-living portfolio located in the Brentwood and Westwood submarkets of Los Angeles. Four of the existing units will remain traditional multifamily.

Versant Funds $3MM Factoring Facility to Uniform Manufacturer
Versant Funding provided a $3 million non-resource factoring facility to a uniform manufacturer based in the Northeast.

Capital Now Provides $50K Facility to Oilfield Hauling Company
Capital Now provided a $50,000 credit facility to an Alberta-based oilfield hauling company. that was grappling with cash flow concerns. The company's major client pays it in 90 to 120 days, which causes the cash problem. Capital Now's facility provided additional cash flow.

TradeCap Partners Closes $500K PO Facility for Footwear Apparel Importer
TradeCap Partners closed a $500,000 purchase order facility for a New York-based clothing and footwear apparel importer that sells through retail channels in the U.S. The impact of tariffs hindered the client's ability to meet price points and margin requirements retailers were demanding as a tradeoff for growth in purchasing volume. To improve margins, the client made the decision to move a large portion of its production to a new supplier outside of China. Given the net positive margin impact as a result of eliminating tariffs, the client was able to secure large orders from a big box retailer it had been working to grow its relationship with in prior years.

Alleon Provides $750K A/R Facility to Pharmacy
Alleon Healthcare Capital closed a $750,000 medical accounts receivable financing facility with a pharmacy in Pennsylvania. The company is a 20-year old multi-state licensed, independently owned pharmacy provider. In 2015, the company created the my-medPak Medication Management Program. This program provides a simple and safe solution to help manage a patient's medications at no additional cost. The company sorts and delivers patient medications in customized medPaks with a care team that provides the added support to ensure patients adherence to their medication protocol.

Ready Capital Closes $4.5M Refinancing for Multifamily Property in Cincinnati
Ready Capital has closed a $4.5 million bridge-to-agency refinancing for a 148-unit, Class B multifamily property in the Winton Hills submarket of Cincinnati. The sponsor will use funds to retire existing debt, continue marking rents to market and implement a utility billing system. The nonrecourse, floating-rate loan features a 24-month term, one extension option and flexible prepayment.

NEWSMAKERS

Liberty Commercial Funds $25MM Sale-Lease Back; Achieves Funding Goal
After being named the "Rookie of the Year" by the *Monitor* in 2018, Liberty Commercial Finance ended 2019 with a bang, funding a $25 million sale-lease-back for a private equity owned chemical company to finish at just over $300 million in funded volume in 2019. The record year for Liberty was an increase of almost 300% from 2018's funded volume of $107 million, which launched Liberty into the Top 25 Private Independents in its first full year in business.

Ready Capital Closes $24.6M Acquisition Loan for Multifamily Property in Brooklyn
Ready Capital has closed a $24.6 million loan for the acquisition, renovation and stabilization of a 52-unit, Class B multifamily property located in the Greenpoint neighborhood of Brooklyn. Upon acquisition, the sponsor will convert the existing multifamily building into a co-living property. Additionally, the sponsor will implement a capital expenditure to prepare the co-living units for occupancy, which includes fully furnishing each unit. Ready Capital closed the nonrecourse, floating-rate loan, which features a 48-month term, one extension option, flexible prepayment and a facility to provide future funding for capital expenditures.

CVC Credit Partners Supports Alline Salon Group Expansion
CVC Credit Partners has provided the first lien funding for Vision Growth Partners' expansion of Alline Salon Group and going forward will further support the growth strategy through the provision of a delayed draw term loan facility. Cowen's Debt Advisory Group acted as the debt advisor for the transaction. Founded in 2018, Alline now operates nearly 400 salons under the Supercuts, Cost Cutters and Holiday Hair brands, primarily located across Ohio, Pennsylvania and Michigan. The business was created by Vision Growth Partners, as a platform on which to execute a controlled roll up of Regis Corporation's previously corporate-owned hair salons.

North Mill Provides $7MM ABL to Phoenix Textile
North Mill Capital provided a $7 million asset-based revolving line of credit to Phoenix Textile. The funds were used to pay off its current lender and provide additional working capital. Based in Missouri, Phoenix Textile is a distributor of textiles, sheets, linens and interiors to residential, hospitality, government institutions and healthcare facilities across the country. The family-owned and operated company has been in business since 1983.

INDUSTRY NEWS

Fountainhead Commercial Capital Finances $253MM in 2019
Small business commercial lender Fountainhead Commercial Capital recently completed its best year ever, setting company records for U.S. Small Business Administration (SBA) loan volume and job creation. In just its fourth year in business, the company financed more than $253 million in small business loans across 18 states. The company is now Florida's largest non-bank lender, employing 31 professionals.

GCBC Celebrates 20-Year Anniversary in 2020
Gulf Coast Business Credit celebrated its 20th anniversary as a leader in accounts receivable finance and asset-based lending. Over the last 20 years, GCBC's commitment to thousands of valued client relationships, partners and employees has provided growth for businesses and prosperity for families across the U.S.

SLIM Capital Records Tremendous Growth in 2019
SLIM Capital, located in Beverly Hills, CA, reported 2019 as its busiest year to date. SLIM Capital continues to grow by adding instrumental Operations and Sales

personnel to its team. Shervin Rashti, CEO expressed optimism that SLIM will continue to see significant growth in 2020 while continuing to provide superior service to its brokers and customers.

Maxim Commercial Capital Funded 664 Transactions in 2019
Maxim Commercial Capital finished 2019 with the busiest December in the company's 11-year history and funded 664 loans to small and mid-sized businesses during the year. Maxim partners with finance brokers and used truck vendors across the U.S. to finance borrowers who need capital quickly or are not bankable due to credit challenges, incomplete financial data, past bankruptcies or lack of business history.

Crain's New York Names PIRS Capital Fastest Growing Company in Metro Area
Crain's New York has named PIRS Capital, a fintech alternative lender specializing in merchant cash advances, on its annual Fast 50 list. Founded in 2013, this marks PIRS Capital's first time on the list, thanks to the company's exponential growth of 230% over the last three years.

Quality Leasing Achieves Record Funding in 2019
Quality Leasing achieved record-breaking funded transactions in 2019. With increases in new business volume, repeat customer funding, number of assets funded and overall contracts booked, Quality Leasing expanded its portfolio to record size in 2019 — surpassing the previous 63 years in which the company has been operating.

Lima One Capital Expands Downtown Headquarters
Lima One Capital recently added 6,500 square feet of office space to its downtown Greenville headquarters to allow the specialty loan firm to continue growing. "In 2019, Lima One added almost 100 new associates to allow us to grow and expand our national footprint," Jeff Tennyson, Lima One's CEO, said. "It was important to build out more space to support this growth and continue to demonstrate our commitment to downtown Greenville. We always want our office environment to reflect the dynamic culture our teammates expect and enjoy every day."

Velocity Group USA Funds Over $75MM to Small Businesses in Year One
Velocity Group USA raised $100 million through an equity facility. The new facility has catapulted the organization to the front line of the merchant cash advance industry. Through various channels, Velocity has been able to originate deal flow that has performed substantially better than the market standard. This has allowed Velocity to maintain a sub 4% default rate while operating in the second through fifth position arena.

EVENTS CALENDAR

MARCH 10, 2020
NATIONAL ALLIANCE OF COMMERCIAL LOAN BROKERS
NACLB Weekly Webinar
Tuesdays, 3-4:45pm EST
scott@naclb.org

MARCH 12, 2020
INFORMATION MANAGEMENT NETWORK
Investors' Conference on CRE CLOs
New York, NY
212-901-0506
imn.org

MARCH 19, 2020
MARCUS AND MILLICHAP
IPA Multifamily Forum Southeast
Atlanta, GA
multifamilyforum.com

MARCH 24, 2020
ABFJ/IFA/NYIC/TMA/SFNET
13th Annual Philadelphia Credit & Restructuring Summit
Philadelphia, PA
abfjournal.com

MARCH 25, 2020
EQUIPMENT LEASING AND FINANCE ASSOCIATION
19th Annual IMN/ELFA Investors Conference
New York, NY
elfaonline.org

MARCH 25, 2020
NATIONAL EQUIPMENT FINANCE ASSOCIATION
2020 National Equipment Finance Summit
San Antonio, TX
nefassociation.org

MARCH 29 - APRIL 1, 2020
MORTGAGE BANKERS ASSOCIATION
Technology Solutions Conference & Expo
Los Angeles, CA
mba.org

MARCH 31, 2020
NATIONAL ALLIANCE OF COMMERCIAL LOAN BROKERS
NACLB Weekly Webinar
Tuesdays, 3-4:45pm EST
scott@naclb.org

APRIL 2-3, 2020
NATIONAL ASSOCIATION FOR INDUSTRIAL AND OFFICE PARKS
I.CON Spring
Huntington Beach, CA
naiop.org

APRIL 20-21, 2020
EQUIPMENT LEASING AND FINANCE ASSOCIATION
Women's Leadership Forum
Chicago, IL
elfaonline.org

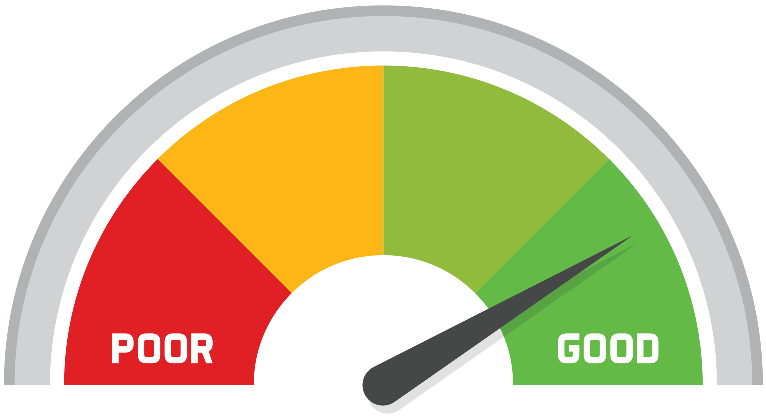
APRIL 22-25, 2020
INTERNATIONAL FACTORING ASSOCIATION
2020 Annual Factoring Conference
Nashville, TN
factoring.org

APRIL 29- MAY 2, 2020
SOCIETY OF INDUSTRIAL & OFFICE REALTORS
TransACT 360
Indian Wells, CA
sior.com

NXT Capital Celebrates 10th Anniversary
NXT Capital is celebrating a decade of providing structured financing solutions to the middle market and investment opportunities in this asset class to institutional investors. Since its 2010 founding by former leaders of Merrill Lynch Capital and Heller Financial, NXT has closed more than 740 transactions that represent over $25 billion of originations. The company has also created a robust asset management platform with more than $11 billion of capital under management. NXT was acquired by ORIX USA in 2018.

North Mill Equipment Finance Closes $164MM Securitization
North Mill Equipment Finance closed its third commercial equipment asset backed securitization (ABS), NMEF Funding 2019-A. The $164 million ABS issuance priced at a duration weighted average yield of 3.15%. The proceeds will be used to pay down the company's higher priced warehouse lines and further diversify its portfolio by increasing the percentage of better credit customers.

DEALMAKER FUN FACTS



675+

THE STANDARD CREDIT SCORE OF B CREDITS

13%

The percentage October 2019 equipment finance new business volume grew year over year

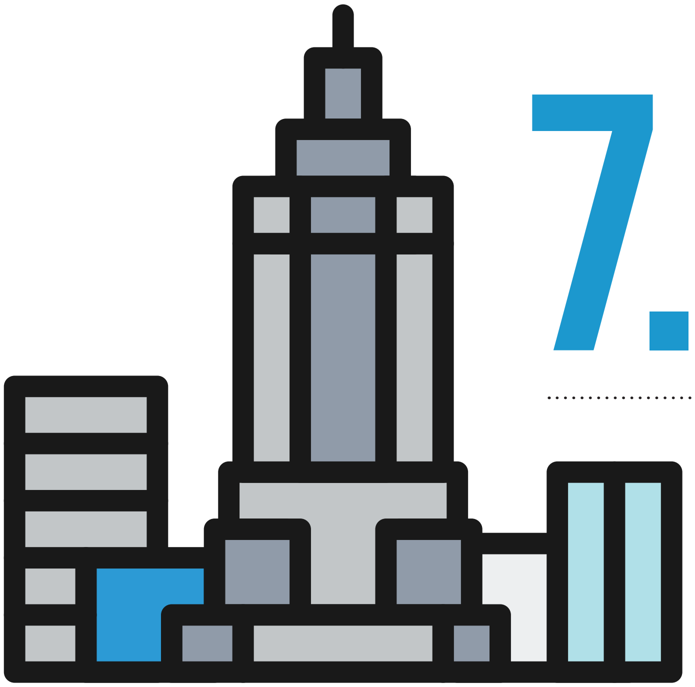
$13.5B

The amount lent by the top five digital platforms in 2019

900

The number of loan brokers and lenders expected to attend NACLB's 2020 conference

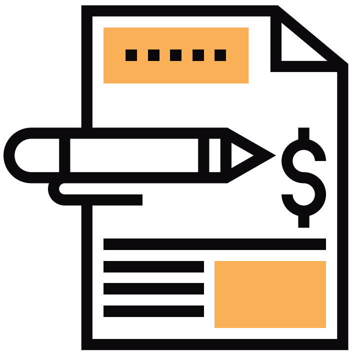
$20.8B — THE TOTAL SBA 7(A) LOAN APPROVAL VOLUME IN 2019



7.5%

NEW YORK **RENT INCREASES ARE LIMITED TO THIS PERCENTAGE ANNUALLY**

70% THE PERCENTAGE OF EUROPEAN COMMERCIAL FINANCE WORKING CAPITAL DEALS FALL INTO THE CATEGORY OF ASSET-BASED LENDING AND FACTORING



$600MM

Assets securitized by Fora Financial, National Funding, Rapid Finance, OnDeck Capital and Kapitus in 2019

MERCHANT CASH ADVANCE:

A STAPLE OF SMALL BUSINESS LENDING

By **Andrew Mallinger**

After landmark growth in 2019, the merchant cash advance industry continues to morph into a mainstay of small business lending. Andrew Mallinger discusses the securitizations and regulations that shaped the industry in 2019 and outlines trends that will play a role in the year ahead.

The economy has reached new highs, the stock market is booming, and it seems that everywhere you look businesses of all sizes and in all industries are growing.

Within the finance industry, merchant cash advances (MCAs) have been a contributor to overall growth, as consumer and business lending have increased significantly, helping to fuel the U.S. and global economy. In 2019, the merchant cash advance industry took a huge leap in funding significant volumes and continues to morph into a mainstay of small business lending.

As we look forward to what 2020 holds for the industry, there is also much to reflect on.

A LANDMARK YEAR FOR MERCHANT CASH ADVANCE

2019 was a landmark year for growth within the merchant cash advance industry, and some major names started to make headway. According to the *Wall Street Journal*, the top five digital platforms lent 39% more in 2019 than in 2018, totaling $13.5 billion.[1] Included in that list are household names like PayPal and Square, which bring even more "mainstream" clout to an industry already becoming a go-to for small businesses looking for financing.

A major bright light on the industry were increasing securitizations facilitated over the last year. In 2019, Fora Financial, National Funding, Rapid Finance, OnDeck Capital and Kapitus securitized more than $600 million in assets, showing a strong demand for small business debt in the secondary markets. This marked a major shift in how MCA companies were financed and affirmed that the assets underwritten and funded by these companies are strong, as many were deemed Class A rated investments by Kroll Bond Rating Agency.

> **"*The economy has reached new highs, the stock market is booming, and it seems that everywhere you look businesses of all sizes and in all industries are growing.*"**

The industry faced regulatory changes in 2019, which many would argue resulted from a series of 2018 *Bloomberg* articles. In August 2019, Gov. Andrew Cuomo of New York signed into law a ban on Confessions of Judgement (COJ),[2] which was a widely used tool for companies within the space. A COJ forces borrowers to give up their right to defend themselves if a lender takes them to court in a default scenario. The danger of these documents is that a default can be characterized in many ways according to a contract, and certain lenders abused this power. The ban changed the way many of these companies must conduct business and was one of the first major pieces of legislation directed specifically at the MCA industry.

In addition to the COJ ban in New York, more legislation is underway in California and New Jersey. While not yet finalized or close to being implemented into law, both states are examining disclosure laws which would force lenders and brokers to disclose certain information before funding. The information being discussed could include fees charged, annual percentage rate, commissions earned and other information currently being debated. Experts have yet to determine if these disclosures will impact borrowers in their decision making,[3] but legislators are continuing to push forward with the proposed regulation.

WHAT'S NEXT IN 2020

As the MCA industry continues to mature and becomes recognized as a staple of small business lending, what do the 2019 changes mean for the future of the industry? How can you expect to be impacted by everything going on, and is there still room for growth despite increasing regulation and competition from well capitalized Big Tech companies? Let's review how everything will ripple through the industry.

The entrance of Big Tech and vast sums of money into the space can seem daunting, especially for a small-to-medium size lender or brokerage. So far, this trend has delivered more legitimacy to the industry and has helped small business owners who need funding become more comfortable with the process and products offered. Companies that might have thought of a merchant cash advance as a shady way to get money, or a last resort for financing, are being educated on the product through companies they trust and use daily. This means speaking to these customers will focus less on their understanding of the product and more on their financing needs since they know the MCA is a safe and effective option for their business.

Another positive from the increased flow of capital into the alternative lending space is that rates and terms are improving dramatically for borrowers. Small business owners are able to apply for a merchant cash advance and qualify for borrowing costs unheard of five years ago. This casts a wider net for business owners who are willing to use this product to finance their business, and small business lending brokers are seeing a boon in opportunities to sell MCAs alongside other funding products.

In conjunction with the added awareness and demand for MCAs, lenders and brokers will need to uphold their ends of the bargain to ensure the product is as transparent and straight forward as possible. Legislation to rid the industry of COJs has only made the product safer, as lenders now must underwrite files based on actual credit quality rather than the odds of collecting through enforcing a signed COJ. The horror stories of merchants having everything withdrawn from their bank accounts a day after missing a payment will cease to exist, and removing that layer of fear and uncertainty will only bode well for lenders that have not counted on COJs to do business.

Along with the removal of COJs, disclosure laws seem to be a certainty soon. Improving transparency and having merchants know exactly what they're getting into is not a bad thing for any industry. Gone will be the days of misleading customers, and the onus of understanding what is on the contract will now be further on the owner of the business who is signing the contract.

This will bring a positive balance between lender and borrower and less misunderstandings on how the financing is broken down or to which terms the small business owner is agreeing. Keep in mind that a Federal Reserve study on small business borrowing, showed that "borrowing decisions are not always driven by costs."[4] Having the costs broken down plainly on a contract might not hinder a borrow, who according to the same study, values "quick and easy loan application process," "a lender I know and trust," and "likelihood application will be approved" above costs.

THE STATE OF THE INDUSTRY

The merchant cash advance industry's latest growth could be the result of a strong economy and cheap money driven by federal policies. While there is some truth to that opinion, the industry is starting to build itself to a point of no return. Self and government regulations, if sensible, are good for any rapidly growing industry, and ridding the space of bad players will help ensure that everyone involved is on an equal playing field.

While an economic downturn will impact lenders and small businesses that have enjoyed immense growth over the last 10 years, 2019 proved that the MCA industry is only building itself stronger to weather a downturn and continues to push further into the mainstream of business lending. ■

[1]Hayashi, Yuka. "Small Businesses Rush to Borrow Online, Sparking Fears of High Rates, Costly Terms." *The Wall Street Journal*. Dec. 30, 2019.

[2]Clark, Dan M. "NY Gov. Cuomo Signs Measure to Curb Creditors' Abuse of Confessions of Judgment." *New York Law Journal*. Aug. 30, 2019.

[3]"Uncertain Terms: What Small Business Borrowers Find When Browsing Online Lender Websites." *Board of Governors of the Federal Reserve System*. December 2019.

[4]Ibid

ABOUT THE AUTHOR

Andrew Mallinger has been a leader in the small business lending and financial services industry since 2010. He has successfully help build and grow two fintech companies. The first company he led had a successful private equity exit, and he is now COO of PIRS Capital, a merchant cash advance lending company that has seen 230% growth in revenues since he joined in 2015.

Andrew Mallinger
Chief Operating Officer
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FACTORING:

A DECADE OF EVOLUTION

By **Robinn Mikalic**

The factoring industry has changed drastically over the last decade, and Robinn Mikalic says factors should take a cue from Amazon. Instead of limiting themselves to relationships with traditional customers, factors must branch out and partner with innovative new companies.

It's a new decade, not just a new year. The state of factoring in 2020 shows how much the industry has evolved.

Reflecting on my personal experiences, I wrote two books in my field and published them on Amazon a decade ago. I was elated about this! I was a published author on Amazon, the premier place to publish anything that anyone wanted to read. Everyone shopped for books there, including me. I believed I was broadening my marketing reach, being entrepreneurial and stepping outside my comfort level. I was so proud!

Today, Amazon is the premier provider of everything you need for your home, not just books. It dominates the retail market. But when it began, skeptics and analysts made a few assumptions: 1) People didn't want to shop on the internet, 2) Shoppers want to inspect an item before they buy it and 3) Shoppers enjoy visiting retail stores because they are familiar. Well, those experts were wrong.

In the past few years, things continued to change. Online shopping has seriously jeopardized those wonderful retail stores, and it's not stopping. Great retail names like Sears, Kmart, Gymboree, Rockport, Brookstone, Nine West, Payless and Forever 21, to name a few, have filed for bankruptcy.

THE EVOLUTION OF FACTORING

The factoring industry has changed just as much as Amazon, but in different ways. And it must continue to change to earn market share, grow the portfolio and safely mitigate risk. Looking back on the good old days as a salesperson in the field, the most important part of the job was to visit the client and get to know them personally. Just like consumers flocked to the brick and mortar store to shop, being present to the sale was my number one sales technique. I was 80% more likely to close a deal if I went directly to the business.

I would stand tall and shake the business owner's hand. We would talk about his kids and how he got started. I built rapport. I remember being in a client's office, and she opened her filing cabinet (a shoe box) to hand me her invoices and accounts receivable aging report (a legal pad filled with notes). We worked her through it, and the business became a well-respected temporary staffing company with a niche market. Back then, my customers faxed their applications to us, and we physically mailed out closing documents. I truly love DocuSign today!

We have evolved as an industry. We use online applications, and our customers fill in their social security numbers without calling us to make sure we are real. We give usernames and passwords to clients so our customers can pull their own aging reports at will. We fund the same day without fees, or at least we can if we choose to.

With DocuSign, we can forgo notary services and sending paper closing documents via FedEx. Most of us use Tax Guard to mitigate the IRS trumping our UCC filing. Today, we can even dive into checking accounts and manage patterns for fraud mitigation. We have trade associations that communicate about fraud deals that may be shopping around. We have done well. But we need to do more and become faster and better to keep up with the swift pace of change.

MCA loans are all the buzzword at the conferences, since they have launched into our market. These companies are fast. They have telemarketing skills we factoring companies covet. They find clients who need money now and fund them in 48 hours in many cases.

How can we get faster? Will speed be the difference between surviving and thriving in the factoring business? I would say, "yes." I would like to see the time from application to closing speed up for all factors.

LESSONS LEARNED

Years ago, when I worked for factoring company that did small deals, we could approve a deal the same day and close in three days. After learning a few lessons in risk the hard way, the factor became seasoned and incorporated checks, balances and risk mitigation into the closing process.

Losing money on a fraud deal teaches factors to verify invoices better, double check phone numbers to websites and use services to fact check the length of time a website has existed.

Losing money because a UCC was not perfected or because it was filed in the wrong state because the company was incorporated in Delaware but doing business in Maryland, teaches a factor to file in both locations. Other important UCC-related lessons include the period at end of Inc. matters, and if the client spelled out Incorporation, your UCC lien should too.

Seasoned factors know that progress billing is risky because if the job does not finish, the debtor won't pay the progress portion you have already advanced — a great lesson in Corporate Resolutions perfecting the signing officers. And let's not forget that IRS liens can creep up in days, without warning, trumping your lien.

We really earn our money today, sweating it out. With all of these lessons, you'd think factors never lose money!

THE BENEFITS OF AI

Many great companies offer tools to help factors, and 2020 should show us the importance of utilizing these tools to make our lives safer and easier. We are in the age of technology and information gathering, and AI is the buzz word. Companies like Tax Guard, Finvoice, Hub Tran, Atlantic RMS, Hilco and many others include AI experts that offer us a cushion for risk mitigation. My employer, Flexible Funding, is all about technology. We developed internal workings that automate these new processes, which shortens the closing process dramatically. It's fun again!

One of the biggest changes happening today is the way we sell. I used to visit with my prospects personally, and I still do if they are local. However, savvy prospects are shopping the internet and looking for low fees. They think all factoring companies are the same. That's where AI programs can help. These companies are targeting specific businesses, finding niches for us, and enhancing the overall closing ratios. But our brokers are the biggest asset we have and account for the most significant sales overall.

We need to utilize the artificial intelligence and technology tools designed to enhance our sales, operations and relationships with our referral sources. Amazon is our example. They morphed into something other than book sales utilizing AI and the internet to provide all households with what they want, when they want it.

2020 is the year of reach for factors. Let's reach more market share, taking lessons from our friends at the MCAs and find new ways to sell to the customer who needs us but does not know we exist. Let's reach out to our broker referrals and remind them that we are faster than ever, stronger than we used to be and willing to listen, offer solutions and find ways to say "yes."

Maybe we are not selling books or retail items, but factors can find comfort in the new type of deals out there and expand our market offerings. I like looking at fresh companies with innovative ideas for the new decade such as digital marketing companies, IT service business and even sub-contractors in the telecom industry. These are not the garment industry or transportation sales factors are used to. We can expand our "stores" and offer trendy 21st century businesses a chance to enjoy the cash flow solutions not previously approved by traditional factors.

If we expand our box, we can earn more business than ever before. Who knows, maybe we will one day join the brave factors that are earning success in the global markets. Globally, factoring has always surpassed the U.S. in employed funds. In the European markets, more than 70% of commercial finance working capital deals fall into the category of asset-based lending and factoring. Now more than ever we need to think outside the U.S. options. Amazon, how about you? Oh yeah, you are already global!

ABOUT THE AUTHOR

Robinn Mikalic has more than 20 years of factoring experience. In 2018, she joined Flexible Funding, a San Francisco-based company that has provided temporary staffing businesses with payroll funding for more than 40 years.

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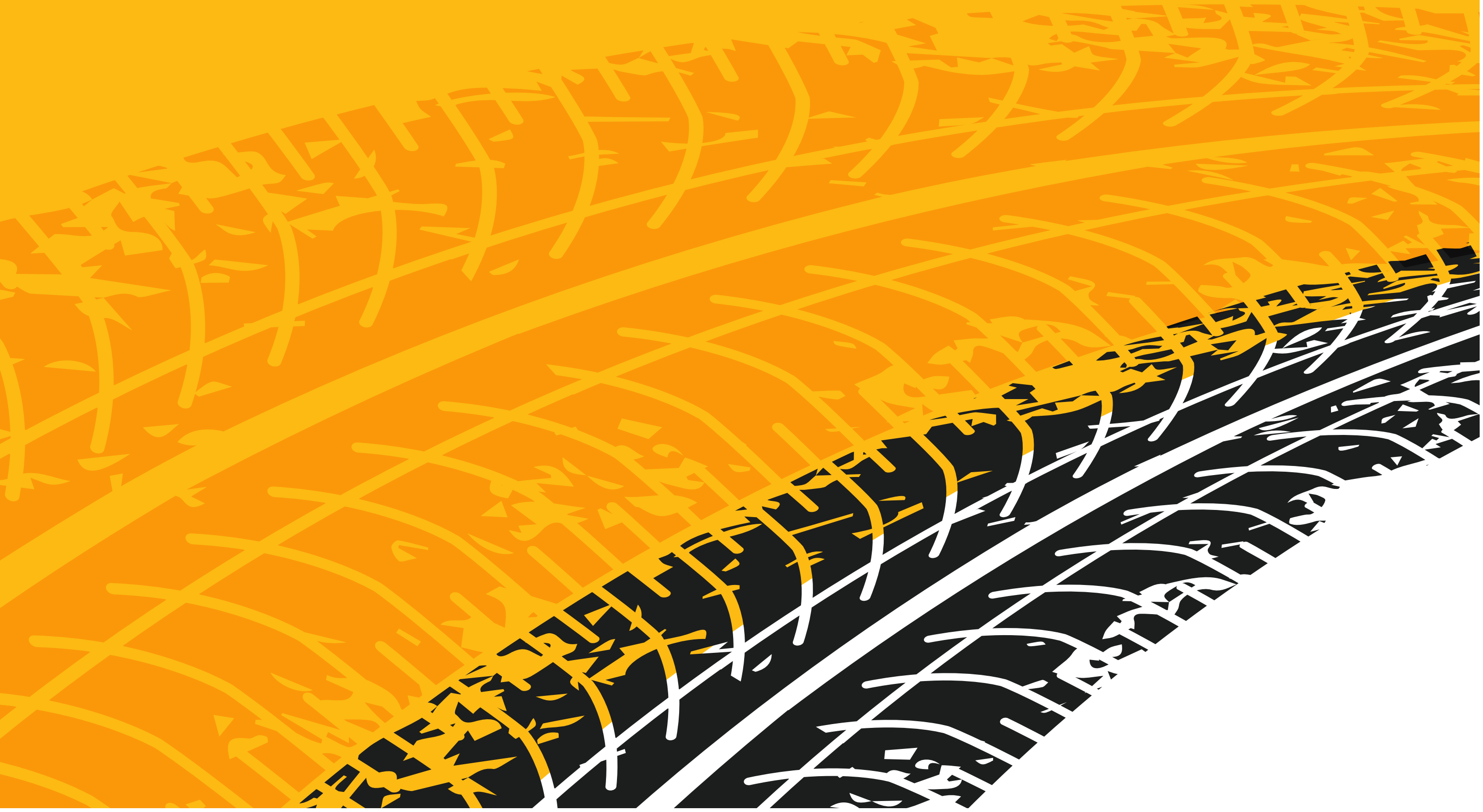

EQUIPMENT FINANCING:

COMMERCIAL FINANCE IS A MARATHON, NOT A SPRINT

By **Jeff Brannon**

All signs point to another good year for the equipment finance industry, and the leasing product is still the most viable financial solution for companies in the market for equipment. Jeff Brannon provides an industry outlook and discusses the importance of delivering the right product for each credit type.

As we embark on a new decade, most indicators point to strength in the economy. Coming up on a decade removed from the late 2000s mortgage crisis, the U.S. has completely rebounded in terms of confidence in the economy and growth. Although some economists think we have reached an apex, all signs point to another good year for the industry.

Equipment leasing has always been a sector that performs well in a robust economy regardless of its relationship to rates. In the mid-2000s, the prime rate was as high as 8.25%, and the leasing community flourished. Today, we have a robust economy and prime at 4.75%, and the industry has the best of both worlds.

KEY STATISTICS FOR EQUIPMENT FINANCE IN 2020

As we look forward, some key statistics, provided by the Equipment Leasing & Finance Foundation, will drive the state of the equipment finance product in 2020:

- The U.S. economy grew at a moderate 2.1% annualized growth in Q3/19, driven primarily by a healthy consumer spending at an annualized growth rate of 2.9%.
- Business investment contracted in Q3/19, dropping two consecutive quarters for the first time since Q1/16.
- In addition to declining business investment, other economic headwinds include a continued slowdown in global manufacturing and further deterioration in the global economy.
- A robust labor market and solid consumer base are top economic tailwinds.
- Additional economic factors to watch are unresolved tensions with China, political uncertainty and a sustained homebuilding rebound.
- New business volume growth reported in ELFA's Monthly Leasing and Finance Index is still on track to beat 2018 levels. In October, new business volume grew at a 13% pace year over year — the fifth month in 2019 with double-digit year-over-year growth

When the U.S. economy is growing, confidence in business investment typically follows suit. However, due to global trade concerns, business investment declined for two consecutive quarters. This could be considered an anomaly as the trade negotiations and proposed tariffs on Chinese goods was an outlier in the normal economic cycle. I am confident that business investment will have increased in Q4/19 when the numbers are published.

> ***"Equipment leasing has always been a sector that performs well in a robust economy regardless of its relationship to rates."***

Labor markets are always pegged as a leading indicator of the economy, and they remain very strong. Some economists believe we have reached an economic apex due to the prices of stocks and homes, so a pullback (or small recession) is in the cards for 2020, but the data doesn't support this theory.

The equipment leasing product is still the most viable financial solution for companies looking to procure equipment. The presence of merchant cash advance lenders has taken a small segment of the market as MCA brokers promise fast approvals and quick fundings. While the cash is quick, it is not the best financial solutions for these scenarios.

As we continue to grow as a community of solutions providers, the equipment leasing product needs to be at the forefront of our mind when we are working with borrowers looking to procure equipment. Asking "what is the money for?" will provide all the answers necessary for brokers to put their clients in the right financial product.

We see multiple transactions each month in which the borrower was steered in the direction of an MCA loan for purchasing equipment. It's important to keep in mind that a borrower is losing money every month if they purchased the equipment using an MCA. It is only when the MCA is paid off that the economics benefit of the equipment outweighs the cost.

LENDING PROGRAMS FOR ALL CREDITS, ALL EQUIPMENT

In today's economy there is a wide divide between A tier credits and start-ups/cautionary industries. Brokers should try to look for lenders that have the capacity to fund all credits, all equipment. Growing a relationship with a lender is about knowing their products and marketing to those products.

Here is a brief snapshot of the credit/asset types that are going to be relevant in 2020.

A Credit: These borrowers will always be attractive to lenders. They are typically bankable or just below bankable due to credit scores over 700, time in business and revenue/net income. These credits require low rates and, from time to time, flexible payment structures. Quite frankly, these companies have earned that. Good vendor relationships focus on high volume and low-to-moderate margin per deal centered on A credits.

B Credit: These companies have credit scores above 675, have been in business for three to five years and report revenues of $1 million to $5 million, breakeven or small loss. This category will probably request A-type rates but need to be educated on their credit profile standing.

C Credit: With credit scores above 620 and two years in operation, these business owners often do not own a home. Rates for this category start to tick up. The client must be educated about their credit profile and may get some sticker shock when they initially see the terms.

D Credit: This category is difficult to traverse. Typically, not rate sensitive, but also not adept at paying their bills on time, this category will often require "structure" to get deals done. In these cases, large down payments and/or additional collateral (in the form of free and clear equipment or real estate) are common. Just like A tier credits, D credits have also earned their standing. These transactions can be risky, but with risk comes opportunity. In these cases, asking for a PFS/Facilities is a good practice. Knowing what to look for to strengthen a "D" deal will set brokers apart.

Cautionary Assets: In certain cases, cautionary assets have more of an effect on the terms of a lease/loan than the credit. Over-the-road trucks and cannabis/hemp related equipment will continue to be viewed as cautionary in 2020. In these cases, the credit profiles must be strong, but the pricing may end up in the C range due to industry/asset.

As we move into a new decade on strong economic tailwinds, the equipment leasing industry is poised for another great year. As we consider our approach to business development in 2020, we have a bevy of products at our disposal. Whether in good times or bad, we must remember that fundamental business development principles apply. Understand your clients' businesses, understand their needs and the economic benefit of their capital use. Always consider the full array of financial products, not just the easiest or the most profitable. Commercial finance is a marathon, not a sprint. Do right by your clients.

ABOUT THE AUTHOR

Jeff Brannon is a partner at SLIM Capital, a private debt fund that lends to small businesses. Products include equipment financing, working capital (secured and unsecured), hard money first trust deeds and cash out seconds. SLIM is a direct lender that has internal programs for everything from A to D credits and start-ups.

Jeff Brannon
Partner
SLIM Capital, LLC

COMMERCIAL REAL ESTATE:

LUCRATIVE YEAR AHEAD DESPITE POLITICAL & ECONOMIC UNCERTAINTY

By **Lukas Bull**

What does the future hold for the commercial real estate marketplace in 2020? Will economic uncertainty, the looming 2020 election and increased global conflict tension negatively impact the commercial real estate industry going forward? Lukas Bull outlines what to expect in in 2020.

If you transacted commercial real estate deals in the past year, you've likely experienced plenty of positives and a few negatives. In 2019, we saw interest rates drop, refinances boom, and high-rent markets begin to implement new rent control regulation.

What does the future hold in 2020? Will the trends be similar to 2019, or will economic uncertainty, the looming 2020 election and increased global conflict tension negatively impact the commercial real estate industry going forward? Here's what to expect in the commercial real estate marketplace in 2020:

INTEREST RATES CONTINUE TO DROP

In 2019, we saw the Federal Reserve approve three interest rate cuts amid a maturing economic expansion characterized by slowing growth. These rate cuts were tied to the overnight lending rate that banks charge each other, but are strongly correlated to the rates charged on most forms of consumer debt.

The economic stimulus implemented by the Fed to avoid recession and keep the economy growing proved lucrative for the commercial real estate sector. We saw refinances boom as the alternative lending space adjusted rates to remain a competitive alternative to the traditional banking industry. Although Fed Chair Jerome Powell has stated that "...current monetary policy is likely appropriate," the recent developments with rising tensions in global conflict and looming yield curve inversion may result in cutting 2020 rates even further.

This is particularly beneficial to adjustable rate mortgage loans (ARMs) tied to a spread over the prevailing WSJ Prime rate, the LIBOR rate or the SBA optional peg rate. Long-term fixed debt rates may remain static as they are tied to long-term Treasury yields which are resilient to changes of the federal funds rate. With the potential of rates dropping even further, it is safe to presume we will see an influx of borrowers opting for hybrid mortgages with a short-term fixed rate that converts to a variable rate after the fixed period.

RENT CONTROL LEGISLATION WILL TIGHTEN ITS GRIP

At the beginning of 2019, Oregon passed a statewide rent control bill which capped rent hikes at 7% annually. As the year progressed, New York and California passed similar legislation at 7.5% and 5%, respectively. In 2020, this trend will continue within higher-cost real estate markets. Two states on Coldwell Banker Richard Ellis' watch list are Illinois and Washington.

What does this mean for brokers and investors? Rent control could pose a significant impact on transaction volume within these rent-controlled states and could tighten cash flows and debt service coverage ratios on these properties. On the bright side, tenants benefitting from these rent-controlled units should be motivated to stay put, which will drive up historical occupancy rates. Be prepared to show your lender additional documentation, including a Division of Housing & Community Renewal (DHCR) Form, Certified Rent Roll, and more than two years of operating statements for subject properties within these rent-controlled markets.

INCREASED FUNDING OPTIONS FOR SHORT-TERM RENTALS

Short-term rental units grew in 2019, catalyzed by the growth of online lodging marketplaces such as Airbnb. With more than 150 million users worldwide on Airbnb alone, this trend shows no signs of stopping. The marketplace will need to adapt to account for these short stay units, and opportunistic alternative lenders will home in on this target market soon. In 2020, specialized loan programs specifically catering to short-term rental properties may increase, allowing for a 12-month booking history to satisfy occupancy and cash flow requirements for funding.

Traditional bank financing on properties of this type may lag behind the speed and flexibility of the alternative lending marketplace, so be prepared to see more of these deals finding their way into your pipeline. When submitting this deal type, be sure to supply your lender with more than 12 months of historical rental performance and applicable market data to show why this property's demographic has flourished and will continue to generate reasonable income going forward.

TRADITIONAL BANKS PULL IN THE REINS

Due to growing economic concerns — uncertainty, yield curve inversion and interest rate cuts — traditional banks may be more selective in their funding options, creating opportunity for non-bank lenders within the commercial real estate sector. With uncertainty regarding economic outlook and the potential of a slowdown or recession, banks may become more selective and start "cherry-picking" deals, leaving additional opportunities for non-bank lenders, especially in special-use case properties, tertiary or emerging markets, and in less desirable asset classes.

In today's rate environment, it is less advantageous for a bank to issue more long-term debt as their return on investment and short-term profitability under these debt structures is lower. The looming economic downturn has banks recapitalizing their long-term loan obligations in lieu of more short-term instruments, which will afford them a more recession proof capital structure.

Nobody knows when or what will spark the next slowdown or recession, but many economists speculate that one is imminent, and the banking industry would be foolish to ignore this. In this environment, more opportunities will arise in the marketplace for alternative non-bank lenders to take on bank worthy clients that are hard pressed to obtain much needed funding from traditional financial institutions.

This year should prove lucrative for the commercial real estate industry amid political and economic uncertainty and global tension. Commercial real estate remains an attractive asset class among investors and given the current rate environment, now is the time to buy, refinance, or cash-out and expand portfolios. Additionally, non-bank lending should see an uptick in loan volume due to cuts in profitability associated with the lowering of the short-term fed funds rate and recapitalized debt structure in the traditional banking industry. For non-bank mortgage originators and brokers alike, this means increased loan volume and bolstered pipelines.

For my fellow mortgage originators, staying ahead of the curve in identifying market opportunities and providing specialized loan programs to fit borrower needs will help close more transactions amid an ever-changing marketplace. For my mortgage brokers, by building a diverse network of commercial real estate lenders, both agency and non-agency, will position you for whatever the market decides to throw at you in 2020. ■

ABOUT THE AUTHOR

Lukas Bull is a senior credit analyst with Prime Commercial Lending, located in Albany, NY. He works with an ever-growing network of brokers to advise and facilitate the transaction of commercial mortgages ranging from $100,000 to $5 million, with unique programs for both investors and business owners.

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SBA LENDING:

STILL THE BEST OPTION FOR SMALL BUSINESSES

By **Tom Zernick**

In recent years, the SBA loan program has been streamlined to make the borrowing process easier for small business owners, but the number of loan approvals has been declining. Tom Zernick explores this trend and outlines three common misconceptions about SBA lending.

On July 30, 1953, Congress signed the Small Business Act, which established the Small Business Administration (SBA) whose function is to assist and protect the interest of small businesses throughout the U.S. The SBA has evolved since its inception as most government agencies have. While the SBA offers technical assistance and counseling service to current and potential business owners, the agency is most widely known for the lending programs which support small businesses nationwide. There are myriad SBA loan programs including SBA 7(a), SBA 504, SBA Express, SBA International Trade and more.

By far the most frequently used SBA loan program is the SBA 7(a) loan program due to the flexible use of proceeds which meet the diverse borrowing needs of business owners. In 2019, the total SBA 7(a) loan approval volume was $20.8 billion compared to the SBA 504 loan program, in which loan approvals totaled $4.5 billion during the same year.

SBA LOAN APPROVALS DROP

These numbers may seem impressive, but taking a closer inspection of recent national SBA lending activity reveals that SBA lending is decreasing. Statistics published by the National Association of Government Guaranteed Lenders and the SBA Office of Capital Access indicate total SBA loan approvals between 2017 and 2019 decreased by 16% from 56,230 in 2017 to 47,104 in 2019.

This decrease of approximately 9,000 SBA loan approvals over a three-year period is alarming and signifies that a further analysis into additional SBA lending statistics to assess recent decline in borrower activity with a specific focus on the SBA 7(a) program due to its popularity when compared to other SBA lending programs. Interesting data points:

- Total SBA 7(a) loan approvals, by units, decreased 3% in 2017, 4% in 2018 and 13% in 2019.
- Total SBA 7(a) loan approvals by dollar amount decreased by approximately 9% between 2017 and 2019 from $22.8 billion to $20.8 billion.
- Total SBA 7(a) loan approvals for loans $150,000 or less has decreased by nearly 24% between 2017 and 2019.
- Total SBA 7(a) loan approvals for loans $2 million or greater has decreased by nearly 8.9% between 2017 and 2019.

In a rising economy supported by favorable interest rates for small business owners, why is SBA loan activity trending inversely to the economy? The culprit is most likely something we use daily — the internet. Conventional banks, SBA lenders and non-bank SBA lenders are facing increasing competition for small business loan borrowers, in part, due to the prevalence of online business lenders.

COMPETING WITH ONLINE LENDERS

Many of these lenders offer expedited financing, touting same day approvals and funding, which meets the needs of main street business owners who need capital fast to handle emergency business needs such as payroll, accounts payable or replacing essential use equipment that has unexpectedly ceased to operate during a critical season for the business. The relative ease of funding in an expedited manner has conditioned small business owners to seek online lending as the first option.

Many small business owners may overlook the excessive and often usurious interest rates which accompany this fast funding. Rates from online lenders can range between 15% to 20% with some loan repayments including a 50% interest rate for repayment. These loans are often repaid on an accelerated amortization of 12 to 18 months, drawing payments from the small business owner's business checking account weekly or even daily in some instances.

This fast funding source often places an excessive burden on the available cash flow of the business after repaying the high interest rate debt, leaving small business owners very few options but to borrow more money from these online lenders or seek SBA lending to refinance these high interest rate debts. Unfortunately, some borrowers have obtained so many online loans the excessive leverage that has accumulated impacts their available cash flow, even when refinanced to a much lower interest rate.

Despite the excessive interest rates, the convenience of online lending remains an enticement for small business owners. In addition to the convenience of same day approval and funding, many small business owners may be averse to pursuing an SBA loan due to misconceptions about the program.

The SBA loan program has been streamlined in recent years thanks to significant improvements such as the establishment of the Preferred Lender Program, which grants unilateral approval authority to experienced SBA lending institutions and expedites loan approval. The percentage of SBA loans approved through the expedited Preferred Lender Program (PLP) has increased from 39% in 2017 to 46% in 2019, which means more SBA lenders are expediting their approval process.

The SBA has also developed abbreviated underwriting for loan requests under $350,000 to further expedite the approval process for small business owners. The response time from SBA processing centers has improved tremendously, which is beneficial for small business owners seeking funding through non-PLP lenders. These improvements have allowed SBA lenders to become increasingly nimble in what use to a cumbersome SBA loan approval process.

Unfortunately, misconceptions about the current SBA loan approval process may continue to impede future growth of the program as small business owners become more inclined to seek alternative financing. Beyond SBA loan origination, the collective goal of all SBA lenders should be to inform as many small business owners and referral partners as possible about the current expedited SBA loan approval process. If the misconceptions about the SBA loan approval process are disproven then there is a strong likelihood small business owners and referral partners will begin to seek SBA loans as a primary borrowing option.

Misconception 1: The SBA determines loan approval.

In order to expedite the loan approval process, the SBA established the PLP, which grants unilateral approval authority to SBA lenders. Participation in the PLP is granted to lending institutions which have demonstrated a proficiency in originating and servicing SBA loans. Once granted PLP authority, the onus for loan approval is placed on the lending institution, which means the SBA is not involved in the approval process. Subsequently, the time it takes to approve an SBA loan decreases. Small business owners must seek PLP SBA lenders for their SBA loan needs to benefit from an expedited loan approval process.

Misconception 2: SBA lenders have the same approval criteria.

All SBA lenders must abide by the current SBA SOP to determine the eligibility of the loan request; however, an SBA loan can be declined by an SBA lender for reasons other than eligibility. SBA lenders have different internal approval criteria based on industry preferences, industry concentration concern, credit risk aversion and collateral requirements. Once a request is deemed SBA eligible, it must be deemed creditworthy. Always remember the SBA lender determines creditworthiness when working with a PLP SBA lender. If a loan request is declined by the SBA lender due to internal approval criteria, the small business owner or referral source should seek funding through a different SBA lender rather than secure alternative financing.

Misconception 3: The SBA loan process is prolonged.

If the lender is a PLP, the speed at which the SBA loan is underwritten, approved and closed is determined by the lender. SBA loans originated through PLP SBA lenders move through the process faster than non-PLP loan origination. In most industries, experience is a distinguishing characteristic that separates the top tier from the rest of the pack. The experience of the SBA lender is essential to an expedited loan approval and closing process.

Experienced SBA lenders can avoid certain pitfalls that can cause delays in loan closings, so business owners and referral partners must ask the SBA lender about their experience in originating SBA loans prior to application. The typical loan approval timeline for an SBA loan less than $350,000 is three business days with closing and funding occurring three weeks after approval. While this may be a bit longer than online alternative lenders, the favorable interest rate of the SBA loan is a considerable trade-off.

The SBA loan program remains the best funding source for the small business owner due to favorable interest rates, lower down payment options, flexible collateral requirements and expedited approval process. SBA lenders remain confident in the potential for future growth as small business owners and referral partners become aware of the benefits of the SBA loan program as well as the substantial improvements to processing times. ■

ABOUT THE AUTHOR

Thomas G. Zernick is president of the SBA Lending division at CreditBench, powered by St. Petersburg, FL-based First Home Bank. Zernick began his banking career more than 30 years ago in Michigan and has extensive experience in commercial and business lending as well as senior bank management. He has managed production of more than $2 billion in U.S. Small Business Administration Loans during his career.

Tom Zernick
President, SBA Lending
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THREE CREATIVE MARKETING OPTIONS FOR BROKERS

By **Ray Drew**

The internet has turned conventional lending wisdom upside down, so opportunities abound for national loan brokers. Ray Drew walks through three creative ways brokers can reach small business owners and become the finance expert they turn to when financing opportunities arise.

For years, conventional wisdom said if you needed a business loan, you went to the bank. That's not necessarily the case nowadays. Thanks to the internet, small business owners have access to unlimited information (good and bad) and more funding options than ever before. Any reluctance to getting a loan on the internet has vanished over the last five to 10 years.

Since these barriers have been removed, the opportunities for national loan brokers are endless, and the service they provide to small business owners is downright necessary. Experienced loan brokers are needed to cut through the noise, advise the client and present the financing opportunity to the right lender, at the right time and in the right light, so that the business has the greatest chance of achieving its goals.

SERVING A NICHE

To best accomplish this, loan brokers should become knowledgeable about two or three niche financing products and position themselves as an expert in those verticals. As it becomes easier and easier to find lenders, the opportunity for the individual loan broker to create value for the client is moving slowly away from matchmaking and more toward helping the deal actually get funded. Keep in mind, most loan decisions are ultimately made by someone with no connectivity to the client, so having an experienced loan broker involved in the transaction helps bridge the gap.

Ultimately, each broker must decide what to sell and do so in a clear and consistent manner. This doesn't mean choosing which financing product to offer, but establishing the value proposition offered. Why should prospects choose to work with you? The answer to that question may be different depending with whom you're communicating. The value a broker brings to a referral source is different than the value brought to a borrower, so the message must be tailored appropriately.

THREE CREATIVE MARKETING IDEAS

You've got your product and you've got your message. Now it's time to get the word out. Here are three creative ways to market your business.

1. LinkedIn

The majority of B2B leads on social media come from this platform. LinkedIn has come a long way from its roots as a job-hunting site and now serves as a community for businesspeople, similar to Facebook. It's the ideal place to build a personal brand and network. LinkedIn is ripe with potential customers and referral sources for brokers who wish to embrace it.

LinkedIn marketing begins with building a network, starting with your current database of connections. LinkedIn allows users to upload an excel file of their existing contacts, which is a good place to start. From there, LinkedIn's search feature makes it easy to seek out new contacts that fit your target audience. Don't be shy — the bigger the network, the more effective this strategy becomes.

Using hashtags is another way to get in front of the right people. For example, using #SBA in a post will help get it in front of anyone searching for or following "SBA."

LinkedIn Groups is another useful feature that allows users to join groups of people that have something in common. By consistently posting useful content within these groups, a broker can position himself as a thought leader within the community.

The last tip is the most important one: generate meaningful content. This is where most people struggle, but once you find your groove, it becomes second nature. Posts can include text, graphics and/or videos. Including an eye-catching graphic can increase engagement, but the text is just as important. The post must be interesting, creative and valuable to the audience. Examples of good posts include success stories, original thoughts relevant to one's industry and advice. Some self-advertisement can be thrown into the mix every once in a while.

Videos are a relatively new feature to LinkedIn. Since the algorithm often changes, what works best today may not work tomorrow. Currently, subtitles drastically improve the chance that someone will consume video content. (Rev.com will caption videos for $1 per minute.) Videos should be three minutes or less as we have short attention spans these days.

By connecting with your target audience and producing interesting content on a consistent basis, it is only a matter of time before leads start pouring in.

2. Postcard Mailings

This tried and true marketing method is alive and well. Since most companies have moved toward digital, postcards can be even more effective now if a return on investment can be achieved. The trick is to target one specific industry or referral source and to design the mailing around what resonates with them. Work with a specialist on this project instead of a general print shop because they will have significant insight into what works and what doesn't.

3. Automated CRM

Maintaining an organized, centralized database is perhaps the most important aspect of an ongoing marketing campaign. Complete contact information must be input accurately, email addresses must be kept current, and contacts should be kept in groups, such as bankers, restaurant industry and brokers who attended NACLB 2019. Once you have these basics down, powerful features go with this technology, including automated emails.

When a broker speaks to a new referral partner, the call or meeting typically ends with the promise of a checklist email. From there, the next step would typically be to wait for the prospect to send you their financials. Sometimes they send these right away, but other times it's like pulling teeth. An automated email campaign can help you increase your conversion rate by automatically taking each one of your new prospects through a sequence of emails that educate and motivate them to act.

The same strategy can be used for a new referral source, helping ensure that your new relationship doesn't regress after the initial meeting, and in fact, progresses. Brokers have a lot to say, and they're excited to say it. But the other person in the conversation can only absorb so much information in one sitting. By taking your new referral partner through a series of emails following the meeting, the broker's message is further solidified through small bursts of information about the value they can offer. Remember, each sequence of emails should be tailored to the specific referral source or industry of the business owner.

BONUS

Pay close attention to the subject line of your email. The email is useless if it's never opened. Most people tend to use the subject line to summarize the content of the email, but the goal should be to create a subject line that gets the recipient to open the email. The subject line should be five words or less and should look like a personalized email, not an email blast. The first letter of each word should not be capitalized — the tell-tale sign of an email blast — as this increases its chances of ending up in the trash bin. Explore the countless ways to experiment with subject lines, get creative and discover what works best for your business.

And there you have it — three creative ways to get your message across. Incorporating any of these strategies into a business development plan will help grow a brokerage. But it's important not to lose sight of the basics. No amount of marketing will save a broker who isn't following through and providing the level of products and services promised in their advertising and sales pitches. Delivering an exceptional customer experience is the centerpiece of a broker's business, which leads to valuable referrals and positive testimonials. Thanks to the internet, it's easier than ever to research a company, and if a prospect sees mostly negative reviews, that company has little chance of earning their business.

Exceptional companies are created by constantly exceeding your client's expectations. It's more than just matching a borrower to a lender. Brokers must have a great deal of knowledge to advise clients on financing and get them to the finish line. Some of these financing products are extremely complex — especially SBA — and shortcuts for absorbing the knowledge it takes to truly become an expert don't exist, but a fast-track does. By focusing on two or three products and working with specialists, a broker will undoubtedly gain expert-status quicker than trying to offer every product in the book right out of the gate. The specialists will act as the guiding voice in today's age of hyper-information and misinformation. ■

ABOUT THE AUTHOR

Ray Drew has dedicated his entire professional career to helping small business owners navigate through the intricacies of SBA lending. His job is to structure a customized loan solution that meets the unique needs of the business and to guide the entrepreneur through the borrowing process. He's been with Ready Capital since the launch of its SBA 7(a) product in 2015. He's helped them grow to the No. 15 most active SBA lender in the country. Ready Capital is a non-bank lender that provides small business owners with nationwide SBA 7(a) financing from $350,000 to $5 million.

Ray Drew
Vice President
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CAVEAT BROKER:

LET THE BROKER BEWARE

By **Kenneth C. Greene**

Since lenders shoulder much of the risk in commercial finance transactions, they often use broker agreements for protection. Kenneth Greene says brokers must read these agreements carefully and seek reasonable modifications to provisions that may cause more headaches than the transaction or relationship is worth.

Everyone is familiar with the Golden Rule . . . he who has the gold, makes the rules. This timeworn aphorism is as true today as it ever was, and its impact on the relative bargaining powers of brokers and funding sources unquestionable.

Of course, it makes perfect business sense for lenders to do everything within their power to protect their assets. Brokers, who generally have much less at risk in lease and loan transactions, can reasonably be expected to commit to certain standards to further that goal. Those standards can usually be found in the broker agreement. Most brokers are familiar with these agreements, as most funding sources will not do business without them.

HIGH-RISK BROKER AGREEMENTS

But there is no universal broker agreement. Every lender seems to have its own. Some are more "broker-friendly" than others. The purpose of this article is to identify some of the high-risk areas of these agreements as they pertain to broker liability and to provide some suggestions as how to minimize those risks.

I have reviewed eight different broker agreements utilized by some of the larger funders. The comments below are not meant to disparage any of those funders but are intended to alert brokers to some of the representations and warranties that would be best if modified or eliminated. Of course, this must be negotiated on a case-by-case basis but, in my experience, most funders are willing to negotiate reasonable modifications to their agreements.

REPS & WARRANTIES TO MODIFY

1. Each application . . .shall contain complete and accurate information as well as the genuine signature of the parties signing those documents...

Brokers do their due diligence, but whether they can stand behind and warrant every bit of information provided by their customers is questionable. They can verify signatures collected in person, but they really can't say with 100% certainty that the signatures provided remotely, or even digitally, are authentic.

For this type of warranty, brokers should request that it be prefaced with "to the best of broker's knowledge and belief." Most funders appear to be amenable to that modification.

2. Broker has . . . verified the true identity of all credit applicants and account guarantor.

Given the prevalence of identity theft these days, this is a tall order. Brokers should propose attaching a "reasonable diligence" standard to this rep to avoid strict liability on the part of the Broker in the event of identity theft.

3. The equipment is being used for business purposes.

This language is important and contained in most lease and loan agreements. But I don't know how many brokers, or funders, verify this during the term of the agreement. This is an appropriate rep to be prefaced by the "to best of broker's knowledge and belief" language.

4. Any guarantees (of the lease or loan) will be bona fide obligations of the guarantors and will be valid and enforceable according to their terms.

The term "enforceable" is the concern. On its face, the guaranty may be valid, but subsequent acts of the parties, particularly in the State of California, can render the guaranty unenforceable. For instance, absent appropriate waiver language, if a lender modifies the primary obligation without the consent of the guarantor, it might release the guarantor from its obligations. So, this rep might be modified to reflect that the agreement appears enforceable, provided the lender does not take action or inaction which renders it unenforceable.

This list of reps is by no means exhaustive, but should illustrate the peril of signing a broker agreement without carefully considering the reps and warranties and attempting to negotiate more reasonable terms with your lender. The consequences of breach of a broker agreement can be severe. Here are some examples:

1. Upon any default (including breach of a rep or warranty), broker will purchase such transaction(s) for an amount equal to the sum of (the aggregate amount of all accrued and unpaid transaction payments and charges then due by customer plus the accelerated balance of all future transaction payments (less a present discount value), plus the aggregate amount of the fee paid to the broker, plus all enforcement costs (attorneys fees, costs, repo fees, etc.)

2. In the event that any of the above representations or warranties are breached by broker, broker will, on demand, promptly repurchase the subject transaction for an amount equal to all remaining amounts due under the lease or loan, plus any assumed residual, plus any unamortized expenses, less any unearned income, plus any applicable taxes.

The formulae vary for the buybacks, but they all amount to the same thing — an agreement that is ostensibly non-recourse becomes recourse to the broker.

Apart from the reps and warranties/buyback provisions, carefully read each broker agreement for other potential sources of liability:

1. First payment default/full buy back demands
2. First to third month default/partial buy back demands
3. Indemnification provisions
4. Jury trial waivers (unenforceable in California)
5. Choice of law provisions
6. Venue provisions
7. Audi provisions

To recap, lenders are, of course, an essential part of the commercial finance industry, and they shoulder much of the risk. It is reasonable and appropriate for the lender to protect itself through broker agreements. That doesn't mean that brokers should bear risk disproportionate to their expected revenue. Read these agreements carefully, and, where necessary, seek reasonable modifications to those reps, warranties and other contractual provisions that may cause more headache than the transaction or relationship is worth. ■

All statements are the opinions of the author and should not be relied upon without consulting with your own attorney or other professional. No attorney client privilege is created by this article.

ABOUT THE AUTHOR

Ken Greene is an attorney with the Law Office of Kenneth Charles Greene in Southern California. He has been a partner in several law firms including Ross & Ivanjack, one of the first law firms in the country devoted exclusively to the equipment finance industry.

Greene is a frequent writer and lecturer on matters of leasing law and other related legal issues and is an acknowledged contributor on bankruptcy issues to *Miller & Starr, California Real Estate 2d* (Bancroft Whitney).

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ROOKIE'S CORNER:

SURVIVING YOUR FIRST YEAR AS A BROKER

By **Josh Flake**

NACLB "Rookie of the Year" award-winner, Josh Flake, shares pointers on how to make it through your first year as a broker. By continuously learning, networking, establishing yourself in three niches and committing 100%, he says new brokers will not only survive their first year but thrive for many years to come.

If life as a business owner is a roller coaster, then your first year as a broker is a roller coaster on steroids. You'll experience some of the highest highs and some serious lows. The key is to focus on the positives and the people you help along the way.

This amazing business can be extremely rewarding, so don't get discouraged when times get hard. If you keep your eye on the prize and dedicate yourself to this industry, you're bound to succeed. But be advised, this is not a get rich quick business. If you're going to succeed in this industry it's going to take a lot of hard work and determination.

Your first year will be filled with pitfalls and setbacks, but if you keep pushing forward, they will turn into great learning experiences. To get the most out of your first year in business you must focus on three things: learning, networking and surviving.

LEARNING: BECOME THE EXPERT

Your clients will trust you to be the expert, so your job is to become one. You don't have to know everything, but you do need to know where to find the answers. Become a constant learner by reading, listening to and watching everything you can find that pertains to this industry. Learn as much as you possibly can, but don't let the fear of not knowing hold you back. If you limit your focus to what you already know, you'll never progress. When we're faced with questions that we don't know how to answers, we can learn and grow the most.

My grandpa always used to say, "It's not just what you know, it's who you know." So, don't be afraid to lean on your support system of lenders and mentors on your journey to becoming an expert. Don't pretend to know everything while talking with lenders; they are more than willing to answer your questions and provide help. The more successful you are, the more deals you'll be able to send to them. Everyone wins when you take the time to ask questions and learn your craft.

One of the best things you can do in your first year is find a great mentor. I still speak regularly with both of my first-year mentors and owe much of my success to what I learned from them. Take the time to find someone who is already where you want to be in the future, then learn everything you can from them.

NETWORKING: ALL DAY EVERY DAY

To know who to network with, we first need to focus on your area of specialization. In my opinion, you should choose three main niches. To determine where they will be, you must ask yourself three questions:

1. What is your area of expertise? Focusing on what you already know — and where you already have many contacts — will help form a solid base for your brokerage.

2. What are you passionate about? You must find a niche that gets you out of bed in the morning. On the hard days, working on these deals will keep you going.

3. What pays the bills? You need a loan product that can close quickly with the potential for repeat customers or reoccurring revenues. While bigger loans can be very exciting, they can also take longer to close. You must have a smaller niche so you can put food on the table while you're working to close the bigger deals. Lines of credit, working capital term loans, hard money loans and A/R factoring are great options.

This doesn't mean you should turn down deals outside of your three niches, but by focusing mainly on these areas, you'll be able to establish yourself as the go-to person.

Now that you've identified your niches, it's time to start networking. I spent 75% of my time networking during my first year in business. I would spend every spare minute on LinkedIn, at events, doing drop-ins or making calls. I still network as much as possible, but now my network has taken on a life of its own. People in my network often introduce me to other people to network with. It's like compounding interest, but with networking partners. Roughly 90% of my business comes from referrals, and I can trace almost all of those back to my first-year networking.

Start with the people you already know. Every person you know must know what you do. One of the worst things to hear as a broker is when someone you know says, "Oh, I had no idea you were doing that. I wish I would have known sooner because I could have referred someone to you." Shout it from the roof tops if you must, until everyone on your contact list knows.

After that, it's time to focus on people who work in the three niches you selected above. CRE professionals, CPAs, bankers, and consultants are great people to network with. Start by showing how you can help them. Don't just expect referrals, it needs to be a two-way street. Send them referrals first, prove your worth and demonstrate how you can help their clients get the financing they need.

> ***"If life as a business owner is a roller coaster, then your first year as a broker is a roller coaster on steroids. The key is to focus on the positives and the people you help along the way."***

Forming relationships isn't just a one-time event. You must constantly stay in front of the people in your network. If you don't, they won't remember you when they run into a good referral and your networking efforts will be in vain. The hardest part of networking is getting someone's attention for the first time, so once you have it, do everything in your power to keep it.

SURVIVING: DO YOU HAVE WHAT IT TAKES?

This is the path you have chosen, so commit to it 100%. Don't let setbacks, failures and hard days deter you from accomplishing your goals. While it's completely normal to be upset when a deal falls apart, don't let your emotions take over and ruin everything you're working towards.

Two months after starting my brokerage, I was working on a factoring deal that I was extremely excited about. It would have been an extremely large reoccurring revenue source for me and would have helped my client as well. I devoted a lot of time to this deal and put almost all of my eggs in that one basket.

At the last minute the client got cold feet and backed out. I was devastated to say the least. But the worst part was that I allowed it to affect everything else I was working on; I even came dangerously close to throwing in the towel. Instead, I decided to press on and transform it into a learning experience. The truth was I hadn't done a good job filling my pipeline and forming a solid relationship with the client. I went back to the drawing board, solidified my three niches, doubled my networking efforts and started hustling more than ever.

During that time I received amazing advice: "Sell the problem you solve, not the product." Instead of focusing mainly on loan type, terms or even the rate, focus mainly on the client. Why did they come to you in the first place? What are their goals? How can you help them achieve those goals?

As you focus on the client, everything else just falls into place. You'll close more deals, help more people and enjoy the process much more. Of course, the specifics of the loan are important, but if that's all you pitch to the client without emphasizing how your solution will help them get where they want to be, a lot more of your deals are going to fall apart.

Steve Jobs said, "I'm convinced that about half of what separates the successful entrepreneurs from the non-successful ones is pure perseverance." Do you have what it takes? Are you willing to push through the hard times to get to the good times? Are you willing to do whatever it takes to succeed?

When I work on nearly impossible deals, I often tell the client that I might have to take them through a little bit of hell to get them to heaven. Well it's the same with new brokers (or any broker for that matter), you might have to go through a little bit of hell to get to heaven, but as long as you push forward and keep persevering, I can promise you it will be worth it. ■

ABOUT THE AUTHOR

Josh Flake started off in the accounting/bookkeeping world before working for a health care practice sales company. From there, he started getting more clients outside of the health care industry. In July 2018, he launched his commercial loan brokerage, and in October 2019, he was awarded the "Rookie of the Year" award at the NACLB conference in Las Vegas.

Josh Flake
President
Four Peaks Funding Solutions

DEALHIGHLIGHTS

LARGEST DEAL/ MOST CREATIVE DEAL

FRANK COE AND TREY SALATTO

GULF STATES CAPITAL FUNDING

THE DEAL The borrower company, a regional franchisee of a national family-style family restaurant chain, was founded more than 50 years ago with a single location in Tampa, FL and had grown to 11 locations in Florida. In 2019, the borrower was presented with an opportunity to purchase the locations of another franchisee that was operating four locations, three in Arkansas and one in Illinois.

In addition to providing an expanded geography, the acquisition would provide operating synergies. The purchase price, including real estate, was $7.2 million. The borrower received term sheets from two multinational banks, each offering an attractive financing package, but the approval process was proceeding at an extremely slow pace. The borrower was concerned that the purchase contract closing date would not be met and a substantial deposit might be forfeited.

Gulf States Capital Funding — a direct lender and commercial brokerage that maintains a network of lending partners with expertise across all industries and asset classes — devised a much more flexible and attractive financing solution than the banks, which included two tranches: a one-year bridge facility and a permanent mortgage. This allowed for both the financing of an unsecured portion, a cash out component and the funding of all closing costs, and long-term real estate financing. The $7 million bridge loan was structured as a one-year, interest only facility. The $1.4 million permanent loan was structured as a 30-year fixed rate loan at a competitive rate with no balloon and no fees to the lender. Both lenders promptly issued LOI's, conducted thorough due diligence in a timely manner and began the closing process.

Frank Coe, executive broker associate, and Trey Salatto, managing principal, worked very closely with the borrower and the lenders throughout the process, and the transaction closed successfully.

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