When you have to be right

Federal National Commercial Credit (FNCC) (formerly known as Federal National Payables) has financed government contractors and other small businesses for more than 20 years. FNCC provides funding during even the harshest economic periods, when conventional banks are loath to lend. Factoring companies such as FNCC secure loans by using the value of accounts receivables (A/R) as collateral. Because they extend revolving lines of credit—at times to high-risk borrowers—they must routinely monitor and respond in a timely manner to events during the lives of their loans to protect the health of their portfolios. At FNCC, this due diligence is performed and managed by Underwriting Manager Talmage Petty.

At the time of this case study, there are more than 150 clients in FNCC’s portfolio.

Situation

FNCC has always understood the importance of staying alerted to federal tax liens (FTL) filed on its clients. These ‘silent liens’ assume priority position over prior-secured liens 45 days after the FTL filing (or upon the date the secured party learns of the FTL, if earlier). This means that in the event of a collections dispute, the IRS would be entitled to claim its payment first and the prior secured party could be left unable to recoup its investment.

When a FTL is filed on one of its clients and there is no subordination in place, FNCC, like most other factoring companies, halts further extensions of credit, because such loans could no longer achieve priority position. The onus is on the lender to be aware of FTL filings, and clients do not always give notice. Initially, Talmage relied on notice from the IRS, as an appointee of the client’s 8821 form.

Talmage noted that the IRS does not always give notice. FNCC realized this method was lacking a critical sense of surety. “Thinking to the best of your knowledge is not as good as knowing,” Talmage stated. FNCC decided it needed greater security to protect its investments. The company instituted a new policy for post-closing due diligence: periodic, recurring manual searches.

Lien Solutions

Case Study: Federal National Commercial Credit Tightens Security, Saves Time with Recurring Search for Federal Tax Liens

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Solution
FNCC asked Lien Solutions to perform recurring FTL searches every 30 days for a select group of clients, those considered to be high risk. That way, whether or not the IRS provided notice, FNCC would always know if an FTL was filed on a client, and would have sufficient time to cure. Lien Solutions performed these searches manually at the state and county levels as necessary for full disclosure, since most counties aren’t online and in many jurisdictions, the county is the only location the FTL is required to be filed.

Scheduling and managing so many searches, potentially at varying time frames, then combing through findings each month to determine whether liens were uncovered, can be quite time-consuming. FNCC needed a quicker, more manageable process. Lien Solutions’ Recurring Search delivered to FNCC nearly everything they asked for to automate this process and organize the results.

Results
Lien Solutions developed Recurring Search based on a wish list of needs stated by FNCC and other factoring companies, to automate the process of scheduling and managing recurring searches and results. A key feature of Recurring Search is the alert tracker, a Microsoft Excel® spreadsheet providing a snapshot view of searches and results. With the alert tracker “data is presented in a way that I don’t have to waste my time,” Talmage said. “If there’s a hit [an FTL filing] in the last 30 days, it pops right out at me.” And unlike other vendors that might provide a spreadsheet view, the alert tracker gives a snapshot history of findings going back 12 months, with searches that resulted in hits distinguished from areas of nonconcern.

Because Lien Solutions provides 12 months of search findings in each report with hyperlinks directly to the images of each finding (a unique feature), the results of any search performed within the past year are immediately available with the click of a button, no login required.

With Recurring Search, Talmage saves a significant amount of time each month reviewing the findings of the FTL searches Lien Solutions performs, which is important to him because he’s “a big believer that convenience is king.” But it’s more than just time savings, Talmage adds. He explains that Recurring Search could reduce manual review error. “If you’re flipping through 100 pages of UCC filings, [you could] miss things.”

With Lien Solutions’ alert tracker specifically calling out those searches that resulted in findings and those that did not, the lender doesn’t need to review a stack of paper, but rather can go straight to what is important: the liens found.

About Lien Solutions
Lien Solutions is the most comprehensive provider of lien management, debtor due diligence and life-of-loan risk management solutions to asset-based and other lending professionals.