

BANKING & FINANCE



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Arm yourself against impostor fraud



The best way to fight fraud is to build strong defenses within your company



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Unmasking Impostor Fraud

A longtime vendor sends your company an invoice over email requesting payment to be made to a new account as they recently experienced fraud and had to close their old account. If the employee managing the payment isn't careful about confirming that the request is legitimate, your company may end up sending funds to a scammer, and become victims of impostor fraud.

While there is a small technical element, this isn't a threat that can be tackled with increased cybersecurity software. Impostor fraud sees one human ready and willing to engage with another over the phone or email, and is duping thousands of American companies out of millions of dollars. This type of fraud cost U.S. companies \$179 million from October 2013 to November 2014, according to the Internet Crime Complaint Center.

There are two main types of impostor fraud tactics.

1. Fraudster impersonates a company executive. The scammer typically favors the CEO's identity because requests from the corporate CEO are less likely to be questioned than requests from lower-level managers, and some CEOs can be hard to get in touch with to verify such a request. The fraudster will do research in advance to identify the company's typical payees, along with common methods for payment requests and acceptable amounts for each method, so that the email appears legitimate, and then instruct an employee to make one or more payments, usually by wire transfer and often with a sense of urgency.

2. Fraudster impersonates a vendor. The other common form of impostor fraud involves impersonation of a familiar vendor. Similar to the first tactic, the fraudster will conduct his research, and send the business an invoice similar to the legitimate ones, but with subtle changes to the payment instructions. Fraudsters can accomplish this by either hacking into the email account of an employee of the targeted company or into the accounts receivable system of one of their vendors and generate a fraudulent invoice or payment request.

Anyone at a company is a potential target, including managers, technology specialists, and trading partners. According to research by Wells Fargo, and law enforcement reports, bogus emails tend to have one or more of these six common characteristics:

1. requests to send payments to new accounts or new destinations, in *and* outside the United States;
2. emails coming from a public email address, such as *@gmail.com*, rather than from the usual company domain (e.g., *@company.com*);
3. subtle spelling changes in an email address;
4. emails in which the writing tone, style, or word choice seems out of character for the individual who supposedly sent the message;
5. requests for secrecy around a payment; and
6. any request to remit payment to an individual.

Seven Tips to Avoid Being Victimized by Impostor Fraud

The best way to fight fraud is to build strong defenses within your company, and widespread education is the key.

► **Alert and educate your executives and staff.** Your staff is your first line of defense. Alert your management team and all supply chain personnel to the threat of impostor fraud and the need for vigilance in responding to any payment request. Company executives should communicate with and assure their staff that it's OK, and even expected, to question any payment requests.

► **Alert and educate your vendors and trading partners.** Tell vendors you'll no

longer accept changes to bank account information sent by email, and instruct your trading partners not to make changes to their remittance information without verifying the request with you. Warn them that they're targets too.

► **Authenticate all payment requests.** Always verify requests:

- Received by email.
- Made outside your company's normal channels.
- Made to accounts or countries to which you've never sent money before.
- That ask to change a vendor's payment remittance information.

Fraudsters anticipate you might have questions, and they're prepared to interact with you. Make sure you verify requests through a different channel than through which the request was received. If a request comes by email, fax, or mail, verify it with a phone call. If it comes by phone, verify it by email. Always use the contact information you have on file to verify the request. Never use the contact information that comes with the request — it's fraudulent, too.

► **Implement dual custody — and use it properly.** Dual custody requires two users to initiate and approve an online payment transaction. It gives you a second chance to spot a payment as fraudulent before it goes out the door. But for dual custody to work as intended, both the wire initiator and approver must:

- Pay close attention to the payment details — not just give them a rubber stamp.
- Authenticate a request before initiating the payment and before approving the payment. The best practice for initiators and approvers: Verify before you initiate. Verify before you approve.

► **Protect your email account.** Never give your company email address or log-on credentials to anyone you don't know who contacts you by telephone, email, or text message. Instruct employees to follow the same rule.

► **Look for red flags.** Pay close attention to all payment requests. There might be subtle clues in an email or on an invoice that can help you identify impostor fraud. If something doesn't seem right, it probably isn't.

► **Monitor account activity.** Impostor fraud is one more good reason to reconcile your accounts daily. The sooner you spot a fraudulent transaction, the sooner you can start your recovery efforts and take steps to help ensure you don't become a victim again

Secil Tabli Watson

Secil Tabli Watson is an executive vice president and head of Wholesale Internet Solutions at Wells Fargo. She leads digital channels for Wholesale Banking, responsible for supporting more than 80 business applications and guiding the strategic direction of Wells Fargo's award-winning Commercial Electronic Office (CEO) customer portal.



Ben Alvarado

Ben Alvarado is executive vice president and president of Wells Fargo's Southern California Community Bank. He oversees approximately 3,800 financial professionals at 234 banking stores and manages more than \$34.1 billion in deposits and \$11.3 billion in loans. A 25-year banking veteran, he assumed his current role in December of 2014.



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³To qualify for the opening fee waiver, you must have a Wells Fargo Business Choice Checking or Platinum Business Checking account at the time of application.

⁴Community Reinvestment Act government data, 2002-2014.

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FINANCIAL UPDATE

BY KATIE PLETT, Vice President, Commercial Real Estate katie.plett@homestreet.com 206.389.7746

Special Financing Available For Green Building

At a crossroads intersection in Northwest Portland stands a model of eco-friendly living. The Woodlawn, built by Northwest green-developer SolTerra, received green certification for its many earth-friendly features including a 9,000-gallon rainwater cistern, efficient water fixtures, solar panels, and an “eco roof” to better manage stormwater runoff and reduce overflow into the street.

When SolTerra was looking for financing, they turned to HomeStreet Bank Commercial Real Estate. The Woodlawn was the first project in the Northwest to be funded by Fannie Mae’s new Multifamily Green Financing program. HomeStreet Bank participated in the steering committee to develop this program, and Fannie Mae leads this market with competitive features, ranging from interest-rate reductions to additional loan proceeds.

Because Green Financing Loans are a recent breakthrough, many commercial real estate industry professionals are unfamiliar with the ease of obtaining the financial incentives. Through Fannie Mae, Green Financing Loans allow borrowers to fund smart, energy-efficient improvements or reward investments for refinance, acquisition, or supplemental financing. Green Financing Loans aren’t limited solely to ultra-green multifamily builders like SolTerra, and many builders don’t realize

how accessible green financing is, how it works, or how it can result in considerable cost savings. Also, municipalities throughout the country and in the Northwest are increasingly revising their building codes toward more green building. Multifamily builders are discovering the significant cost savings with green financing. They can see increased cash flow through reduced energy and water usage and even revenue



from energy-producing additions such as solar panels. Green-built buildings also distinguish themselves in their neighborhoods and become a distinguishing characteristic wherever they are built, protecting their long-term value. Fannie Mae’s DUS® Program’s green loans allow approved lenders like HomeStreet Bank Commercial Real Estate to quickly underwrite and close loans with competitive rates.

Fannie Mae launched Green Financing Loans in 2015 for multifamily owners—Green Building Certification and Green Rewards. These two loan programs encourage

efficient and eco-friendly building as well as incentivize owners of older buildings to make green improvements. Green Preservation Plus has been offered for several years.

Green Building Certification

Borrowers benefit with Green Building Certification through special pricing discounts on their loan through Fannie Mae with a loan-to-value (LTV) up to 80 percent. SolTerra qualified for this program for The Woodlawn and achieved LEED Platinum Certification prior to their \$3.8 million-loan’s closing. With the discount, they will save \$24,500 or more in interest over the term of the loan. To qualify for the Green Building Certification Pricing Break, the property must obtain a Multifamily Green Building Certification prior to locking the loan rate.

Green Rewards

To earn the Green Rewards Pricing Break, the property owner must commit to improvements that are projected to reduce the property’s annual energy or water usage by 20 percent (Green Rewards) or 15 percent (Green Preservation Plus). Examples of ways to reduce operating costs and earn pricing incentives include installing water-saving irrigation systems, replacing outdated appliances with ENERGY STAR® appliances, and replacing inefficient lighting.

Green Preservation Plus

Green Preservation Plus has been offered since 2011 and is available for Multifamily Affordable Housing projects. For these types of loans, borrowers can request up to 85 percent LTV and must commit to improvements projected to reduce the whole property’s annual energy use by 15 percent. At least 5 percent of the loan proceeds must be used for green improvements.

Green Financing Loans through HomeStreet Bank and Fannie Mae can be an efficient way for borrowers to increase their building’s long-term value and realize significant cost savings, whether they are building or renovating. For more information on these programs, contact me today to discuss your project and the financing options available to you.

About the author: Katie Plett is Vice President and Relationship Manager in Commercial Real Estate at HomeStreet Bank who specializes in green financing. HomeStreet is a full-service community bank offering consumer, commercial, and mortgage services to customers throughout the Western United States and Hawaii.

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Why Deal Structure Counts in M&A Transactions

by Curtis Campbell, CPA, MST, Partner, HMWC CPAs & Business Advisors

If you're planning to buy or sell corporate assets or stock in a merger or acquisition, you'll need to negotiate more than just the selling price. How you structure the deal can have a major impact on how much cash and potential liabilities you'll wind up with after the dust settles.

Asset vs. Stock Sales

A fundamental choice in a corporate deal is whether its stock or its assets will be sold. In a stock sale, all the outstanding shares of stock transfer to the buyer, and the business can continue to operate uninterrupted. Asset sales are more complex. The buyer purchases all (or most) of the corporation's assets and liabilities; renegotiates contracts; and applies for new licenses, titles and permits. From a tax and liability perspective, sellers generally prefer a stock sale, while buyers typically prefer an asset sale.



Curtis Campbell

A Seller's Point of View

With a stock sale, sellers pay tax on the difference between the selling price and their basis in the stock — and at the more favorable long-term capital gains rate as long as they've held the stock for more than 12 months. But asset sales trigger double taxation for C corporations. The shell corporation — which the seller retains and winds down in an asset sale — pays tax on the gains from selling assets. And the shareholders pay tax on cash distributions. Asset sales also can leave sellers vulnerable to future lawsuits, such as employee discrimination or intellectual property claims. Another consideration is depreciation recapture — it's often overlooked even though it has the potential to significantly reduce the amount of cash taken away from the sale.

View from the Buy-Side

When buyers purchase stock, assets stay at book value, and existing depreciation schedules apply. Although simpler to execute, stock sales typically result in higher

taxable income for the buyer than do asset sales. With a stock sale, the buyer may be vulnerable to future lawsuits and other legal claims.

Asset sales enable the buyer to report assets, such as equipment and furniture, at fair market value. The value allocated to each fixed asset provides a fresh basis for depreciation, thereby lowering taxable income in the future. Under this arrangement, the buyer can avoid certain legal claims associated with the seller's corporation.

S Corp Alternative

S corporations have a third option that may serve as a middle ground between asset and stock sales. By electing IRC Section 338 (h)(10), the parties may be eligible to treat a stock sale like an asset sale for federal tax purposes. Although the election won't save sellers any tax, buyers will reap the tax benefits of an asset sale.

To make a Sec. 338 (h)(10) election, the buyer and seller must sign and *jointly* file Form 8023. Then each must file Form 8883, which allocates the purchase price among seven categories of assets, including cash, inventory and goodwill. Some of these categories — for example, inventory — are taxed as ordinary income. Others are subject to a capital gains tax. So, this allocation has important tax consequences for the seller.

Outside Perspectives

It's critical to structure the deal in the most advantageous way possible from both legal and financial perspectives. Attorneys and CPAs for both the buyer and seller should be intimately involved throughout the process to help you make informed choices.

Curtis Campbell, CPA, MST, is a partner at HMWC CPAs & Business Advisors (www.hmwccpa.com), one of Orange County's largest local accounting firms. Contact him at 714.505.9000 to discuss how your company or client could benefit from HMWC's services.

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Obtaining Bank Financing in Difficult Situations

by Deborah Dickson, CPA, CFF, MAFF, President, Smith Dickson, An Accountancy Corporation

Obtaining or renewing bank lines of credit or loans isn't always a simple process. A business may be declined credit and not have a clear answer as to why it was refused the financing it needed. Banks consider the "Five C's of Credit" (capacity, capital, collateral, conditions and character) in extending financing, which can be difficult to evaluate from a typical commercial applicant's perspective. On top of those criteria, other factors can play a key role when credit is not approved, such as lack of preparation, poor records, and the bank's level of risk aversion for certain types of loans or industries. It is in these more challenging situations that a qualified CPA firm can prove to be particularly helpful.



Deborah Dickson

Expert Assistance

Smith Dickson offers specialized expertise in obtaining bank financing. Our work typically includes: determining financing requirements; preparing financial statements, projections and plans that lenders request; ascertaining banks' requirements; and negotiating loan fees and terms with bank representatives. For companies that have difficulty in obtaining traditional bank financing, we are often able to help turn their situation around. Here are a few examples:

► **Financial statement issues:** A new client came to us recently with severe issues affecting their ability to obtain outside financing. Their underlying records

were grossly inaccurate. Our accountants came in, cleaned up the records and prepared compiled financial statements. With our guidance and assistance, the company was then able to obtain a large working capital line of credit from a highly reputable bank.

► **Financial ratios compliance:** A company may have clean financial statements, but it is not able to meet lenders' financial ratio requirements. Our experts are able to work with the company and provide strategies to make adjustments that will keep the company operating effectively while achieving ratio standards.

► **Covenant violations:** If a covenant violation is imminent, we can work with the bank ahead of time to seek a covenant waiver letter. We have been able to negotiate with banks based on criteria besides ratios that help companies to achieve their financing needs.

Seek Guidance

Smith Dickson has decades of experience in helping companies of all sizes with their external financing needs. We have strong relationships with numerous banks and understand their specific lending criteria. If your company is experiencing difficulties with bank financing, contact us.

Deborah Dickson, CPA, CFF, MAFF is president of Smith Dickson, An Accountancy Corporation (www.smithdickson.com). Contact her at 949.553.1020 to learn more about how Smith Dickson can help your company with bank financing.

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Community Bank Opens New Branch in Laguna Niguel

by David R. Misch, CEO, Community Bank

Community Bank, a \$3.6 billion, family-owned bank, recently opened its 17th branch in Laguna Niguel. The new office represents the Bank's fourth office in Orange County. The others are Irvine, Anaheim and Huntington Beach.

The Bank's presence in Orange County is formidable. Community Bank's total footings include more than \$425 million in loans and \$250 million in deposits, equivalent to the 10th largest bank in the county. Further, the Bank employs more than 35 employees in the county and three of its board members call Orange County home.

Community Bank was founded more than 70 years ago by Charles and Howard Cook, and the institution is still predominantly owned by the family. Kristen Stovesand, director and family member, commented that "Being family-owned is a big advantage when dealing with small to mid-size businesses which are almost always family owned." The Bank takes its role as trusted advisor to family businesses seriously and many clients have been with the Bank for two or three generations. Community Bank's vision statement—partnering to be YOUR community bank—reflects its belief that good banking starts with a good partnership between the customer and Community Bank.



David R. Misch

That "partnership" approach to communities is further reflected in the Bank's support of Orange County charities such as the OC Museum of Art, the Segerstrom Center, the Pediatric Cancer Research Foundation and Catholic Charities.

Formed to finance the sale of equipment to small businesses, another business the entrepreneurial Cook Brothers founded, Community Bank has evolved to provide a full suite of products and services to Orange County and the rest of its footprint—which runs from Santa Clarita to Laguna Niguel, Century City to Redlands. In addition to deposit and loan products structured to meet the financial objectives and unique nature of its customers, the bank offers state-of-the-art cash management products, a robust offering of international services, including foreign exchange and trade letters of credit, merchant cards and other products.

This past year was a year of "firsts" for Community Bank. In 2015, the Bank set records for earnings of \$27.8 million; loans outstanding of \$2.4 billion; capital of \$311 million; and there were many others. For example, the Bank was ranked 7th in the Santa Ana region, which includes Orange County, in SBA 7(a) loans. Also in 2015, the Bank relocated its headquarters to an open, high-tech style layout to foster teamwork and collaboration, a key to customer focus.

Community Bank is managed by David R. Misch, a banking veteran with more than 30 years of experience. Its chairman is Marshall V. Laitsch, also a veteran banker and an OC resident. The day-to-day operations in Orange County are managed by Mike Helmuth, the Bank's regional president, who resides in Orange County and has been active in banking there for more than 10 years. As in all of Community Bank's "communities," Mike surrounds himself with a strong Orange County-based team, empowered to make decisions. "As an entrepreneurial community bank," Mike commented, "we believe in putting decision-making power as close to the client as possible."

For more information, contact David R. Misch, CEO, at 626.577.1700.