

INTERVIEW: Christina Grenga

*Vice President,
Business Development
National Sales Manager
NCO Financial Investigative Services*



IN THIS INTERVIEW, CHRISTINA GRENGA DETAILS HOW BACKGROUND INVESTIGATIONS CAN BE A VITAL PART OF A DUE DILIGENCE PROCESS

THE COMPANY SHE WORKS FOR

was formed in 1987 during the savings and loan crises. They were originally contacted by the FDIC to do asset and liability investigations. Today, they provide in-depth background investigations, public record research and detailed analysis to clients worldwide.

PRIVATE LENDER: Tell me a little bit about NCO Financial Investigative Services and what services you provide.

GRENGA: We're a commercial investigative firm. We provide background investigations on individuals and/or corporations. Actually having the background and knowing information about a person can protect the investment, the reputation, or possibly the significant amount of money in a lending or investing situation.

PRIVATE LENDER: How would private lenders use this tool? Where can they bring it into play?

GRENGA: It comes into play prior to closing a deal. If you're going to be lending a large sum of money to either a company or an individual, it makes sense to confirm that they check out.

We search corporate records, affiliation research, bankruptcy findings, civil litigations, judgments, state and federal lien filings, criminal records, media research, and regulatory sanctions. We verify employment and education, professional licensing, the Office of Foreign Access Control (OFAC) database, and Uniform Commercial Code (UCC) filings.

Generally, a company will come to us because they're getting ready to lend on a deal. They might have already done some of their underwriting. So many times, we will get the background request from an underwriting department – somebody that is associated with the lending and approving the ultimate lending.

PRIVATE LENDER: So the goal is to get better information about the individuals or company with whom you are dealing.

GRENGA: Absolutely. I've heard many people say, "Well, we know who's sending us the business. Therefore, we feel as though we know who we're lending to." Often it couldn't be any further from the truth.

Once someone has the trust of a company, that's the opportune time for them to commit fraud or steal money. Most criminals don't do it right off the bat. They wait until after they are trusted.

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People said that they knew Bernie Madoff. People trusted him. Nobody bothered to do any sort of background investigation. Nobody looked into his past or his history to see if

there was any misrepresentation or to see if there was anything that could be a red flag. The ultimate red flag was the auditor that he used. He didn't use a proper auditing firm.

We have saved companies from hiring the wrong executives. We had a private equity firm that was getting ready to hire a CEO to run one of their companies. It turned out that the prospect had been convicted of 11 counts of wire fraud in the late 80's.

If we hadn't done that background investigation, they might not have known that.

We have discovered different types of drug

charges in people's past. If somebody says they graduated from school at a specific time, we're going to check that. The dates all have to match because if they don't

it's a huge red flag. People misrepresenting their education is also a big red flag.

We have saved companies from doing business with people that are less than honest.

I consistently hear, "Well, I trust these people. I know them." But you don't. The bottom line is you really don't.

There could be hidden criminal activity, falsified information, falsified resumes, or falsified education.

Personal financial difficulties lead people to do things that they wouldn't normally do. There may be repeated failed business ventures that you might not

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know about, past instances of fraud, ties to organized crime, or any government contract exclusions.

Those are just some of the areas and things that come up and should be looked for.

PRIVATE LENDER: I would like to explore a comment that you made — that when a person has a drug or financial problem, it can lead to them being in a compromised situation. And, that they might now do something they wouldn't ordinarily do.

GRENGA: Right. Good investigation always looks into a person's past. The goal is to provide a deeper insight into their character, their reputation, and their integrity.

PRIVATE LENDER: An argument that a private lender might make is, "This doesn't matter because I've got a security position in the property, so I'm safe."

GRENGA: It is easy to say, "It's such a low loan-to-value. What's the risk? There's no risk."

The bottom line is you're not in the business to own real estate. That's the bottom line. You have to assess the risk from all aspects.

People think that it's extremely costly to do a background check and it's not. It's a form of insurance. It's doing your homework.

Not doing a background check is like playing roulette with every deal that you're doing. Eventually if you make a poor decision on a \$20 million deal, the couple of thousand dollars that you saved by not doing a background search can be pretty costly.

PRIVATE LENDER: How much time does it add to the

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process? Private lending deals need to finalize quickly. What is a typical time frame for a background check?

GRENGA: Domestically, it's a week to 10 days. It's part of

the cost of doing the business properly. And it's also a cost that could be passed along in the closing costs, so there's really no reason not to do it. We deal with some of the largest lenders in the country. And if they're doing it, why wouldn't others want to do it?

PRIVATE LENDER: Is there a dollar trigger that companies use?

GRENGA: There are certain companies that we do business with that use \$1 million to \$1.2 million as a trigger. Any deal that's over the million dollar mark, they do a background search.

PRIVATE LENDER: Can you give me an example of an experience that you've had that illustrates how a background check helped your client?

GRENGA: We did a background investigation on an investor. They had money to put down. The question was, "Where did this money come from?"

It turned out that the investor was the wife of a man that was convicted of a Ponzi scheme. When we tied her to him and him to the Ponzi scheme, it really led the client to question her integrity.

Did it come from this Ponzi scheme? What were her true intentions? So was she a criminal? No. But would you want the headline risk from lending or doing business with somebody like that?

PRIVATE LENDER: So another factor is protecting your company's reputation.

“...they had a business relationship with the wrong person.”

GRENGA: Absolutely. We call it headline risk. When a Ponzi scheme or insider trading, or drug charges come out, everybody who is associated in any way gets dragged through the mud.

Think about that. Do you want your reputation being trashed?

How many times has it happened where somebody who was in the alternative investing community has been dragged through the mud?

Maybe they didn't do anything wrong, but they had a business relationship with the wrong person.

When you're doing business with someone, you really need to know them. And that reputation risk—the headline risk—is significant.

You need to protect your company, protect your employees, and protect your investment.

That's extremely important. When one deal goes

bad, depending on the situation, there could be a lot of heartache.

PRIVATE LENDER: And the other thing is that in the press, you are guilty until proven innocent. Even then, you may still be guilty.

GRENGA: Absolutely. That part of it is unfortunate, but it's a reality. It's just part of our world that as soon as somebody reads something negative about you, they're like, "Oh, that's terrible. I don't want to do business with that company."

PRIVATE LENDER: What are you seeing in the industry? Have all of the economic ups and downs that have been happening over the past couple of years affected things?

GRENGA: Absolutely. There's definitely more of a need. Our company has been in business since

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1987, so obviously there has always been a need. But at the same time, I think people are just more aware today.

You can't hide your head in the sand. You really need to do your proper due diligence.

It's like crossing the street without looking. You just don't do that.

Just like you run a credit report, you should be doing a background check. It should be part of your entire compliance and due diligence. Everybody does some sort of due diligence.

I think the increased need is also partly due to the media and people seeing that there's a lot of criminal activity going on. It's prevalent in the media right now and it's all over the Internet. It's really easy to lose your reputation.

PRIVATE LENDER: You used the term alternative lending arena. It seems that the media gives even more scrutiny to those arenas.

GRENGA: And that is partly because of lower regulation. The commercial mortgage industry is certainly less regulated than something like the insurance industry or hedge funds. I don't necessarily think that it is a good thing to get government involved. But if we did our proper due diligence, maybe government wouldn't get involved.

PRIVATE LENDER: How many clients do you deal with?

GRENGA: We probably do 7,000 searches a year on a minimum. Obviously, we don't just deal with private lenders. We also deal with institutions. In the alternative investment community, we work with funds, private equity, mergers, and acquisitions.

We look at it as pre-investing, pre-lending, and reputation risk. Those are the three areas. We also deal with law firms, accounting firms, and hedge fund administrators.

PRIVATE LENDER: So the message for private lenders is that you have a tool to use. If you've doing a deal around a \$1 million and up, it's just being responsible to do the background check. It makes sense to make sure that what you're being told as the basis for making that loan is indeed correct. And that the people with whom you're dealing are who and what they represent themselves to be.

While that doesn't guarantee that everything is going to be perfect, it will let you go in with your eyes wide open so that you can make better decisions.

If that only keeps you from making one bad decision over the course of five years, it's still well worth doing because the goal here is not to become a real estate owner.

GRENGA: I think you summarized it quite well.

PRIVATE LENDER: So, it comes down to knowing who you're doing business with. There is a famous quote from Ronald Reagan, "Trust, but verify."

GRENGA: Absolutely. That should be our motto. ■



Christina Grenga is the Vice President, Business Development-National Sales Manager for NCO Financial Investigative Services. She can be reached at (914) 213-1698.

You can e-mail her at

Christina.Grenga@ncogroup.com