

Giving Your Customers Wings. It's What We Do.



INSIDE THIS ISSUE

Clay's Corner	p 1
Who We Are	p 1
Indicators a Banker Can Look For	p 1
Allied's Ideal Client Profile	p 2
Allied Clients May	p 2
Economic Developments	p 2
Hot Topics	p 3
Top Industries Served	p 4
Contact Us	p 4

Clay's Corner

I am pleased to introduce to you the premiere edition of Allied Affiliated Funding's newly enhanced newsletter. Earlier this year, we changed our name, logo and branding. Now, in addition to our new name and look, we've transformed our newsletter and its contents to better meet the needs of our audience – our trusted bankers and other referral sources.

Our newsletter will now be published six times per year. It will provide pertinent economic updates and bank legal, compliance, accounting and regulatory articles to enhance our readers' knowledge in these areas. We will also provide tips on how to assist businesses during these turbulent times. We want to provide you a resource you can count on for all the latest news on industry trends, the current economic situation and the specific issues facing small businesses today.

In today's unprecedented economic gridlock and credit crunch, our factoring and debt restructuring services have become a very necessary tool for businesses in need of working capital and bankers in need of an alternate funding solution for their clients or prospects.

Many small and mid-sized businesses are facing a cash flow issue as their customers postpone the payment of their bills, taking as long as 90-120 days to pay in some cases. The cost to

these businesses in both human and monetary capital is high and can lead to layoffs, financing limits and even bankruptcy.

Small business owners tell us they are spending more and more of their time and resources managing their cash flow. As credit remains tight and sales decline in this soft economy, they've had to cut costs and strengthen their collections. In many cases, cash flow has become almost as important as profitability as business owners juggle their resources to stay afloat. This is where Allied comes in.

Many of our Bank Partners are referring their small business clients to Allied as a temporary solution to facilitate their cash flow and provide the working capital they need to finance daily operations, fulfill payroll and tax obligations, purchase necessary equipment or inventory and take advantage of trade discounts.

At Allied, we partner with banks to create a WIN-WIN situation for the bank and its customers. We currently have alliances with more than 30 banks nationwide to provide highly tailored, "turn key" processes that allow these banks to provide an alternative lending solution to those clients who do not meet their bank's current credit criteria.

As a result, your bank can retain deposit, treasury management, lockbox and business

Who We Are

Allied Affiliated Funding is a nationwide, commercial finance company founded in 1992, specializing in factoring accounts receivable and debt restructuring solutions, generally for businesses that do not qualify for traditional bank financing. Allied is headquartered in Dallas, Texas, with additional sales offices located in Louisiana, Alabama, Pennsylvania and Maryland.

What Are Some Key Indicators a Banker Can Look For in Identifying a Potential Factoring Customer?

Bank Customers Who Are:

- Regularly on overdraft
- Having trouble making their payroll
- Having difficulty paying their vendors
- Violating one or more of their loan/cash flow covenants



**Allied Affiliated Funding
Corporate Headquarters**

5151 Beltline Road, Suite 500
Dallas, TX 75254

Toll-Free: 1-800-404-9904

Tel: 972-776-5300

Fax: 972-404-9955

Email: info@FundingByAllied.com

CONTINUE PAGE 2

FROM PAGE 1

principal personal accounts, as well as future lending opportunities when the referred client becomes bankable again. Allied's bridge-lender approach restores client financial health and provides a path for clients to re-establish traditional bank financing.

Selecting Allied as your referral partner allows your bank to:

- Turn a potential "NO" credit decision into a "YES" by referring existing clients to Allied who no longer meet your bank's credit standards.
- Earn fees from deals that are of zero value if you decline them today. You can now consider as prospective customers businesses that you would formerly decline because of lack of earnings, cash flow or equity.
- Focus on establishing cross-selling opportunities for other bank products.
- Move the client into a traditional bank facility at any time without the client incurring a termination fee.

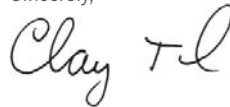
With this unprecedented economic downturn, we are now working as much with the Special Asset areas of banks as with the loan production side as the need to reduce non-performing assets and to mitigate risk has increased. For our Bank

Partners, we are able to provide an exit strategy for existing bank clients that are experiencing significant economic challenges. We have, in many situations, been successful in greatly reducing the bank's level of credit exposure.

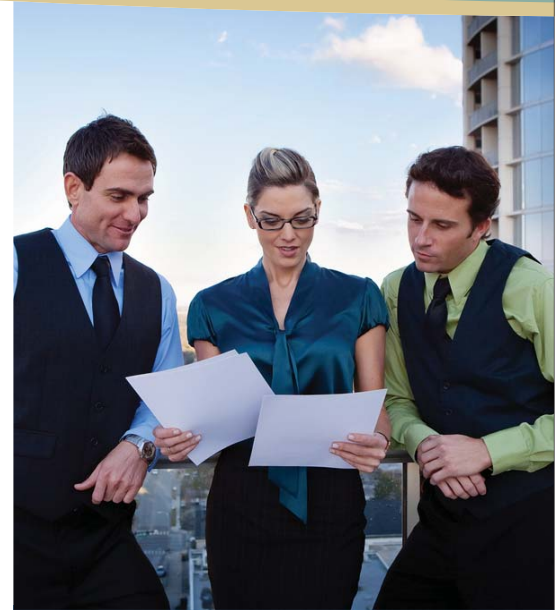
At Allied, we strive to consistently be the factoring company of choice in the market. We take pride in our quick turnaround times, our excellent customer service and, of course, our creative and flexible funding solutions. As an innovator and respected leader in the factoring industry, Allied wants to be your first and only "solution" partner.

If you see a business prospect positioned for growth, but one that lacks sufficient funding to realize their full potential, our services may be their funding solution. Let Allied Affiliated Funding transform your options and theirs by giving your customers the wings to fly.

Sincerely,



Clay Tramel, CEO
Allied Affiliated Funding



Allied's Ideal Client Profile

- Commercial Businesses with Commercial Accounts Receivable
- Annual Sales Ranging From \$1 Million to \$100 Million
- Businesses Generating \$100,000 to \$5,000,000 per Month in Invoices
- Gross Profit Margin of 20% or Greater
- Minimum Invoice Size of \$500
- Lack of Availability to Traditional Bank Financing Products
- Quality Products or Services and Well Rated Debtors
- Quality and Diversification in Accounts Receivable
- Growing, Transitional or Restructuring Companies

Economic and Financial Developments

Robert Genetski, Ph.D.

Robert Genetski & Associates, Inc. | 107 Park Street | Saugatuck, MI 49453

Over the course of the past year, the Federal Reserve has been extremely aggressive in placing bank reserves into the economy. Bank reserves represent the first step in the process by which the Fed increases the money supply. Under normal conditions, banks will loan or invest the increase in bank reserves. This process leads to a multiple increase in the nation's money supply.

When the money supply increases, it tends to produce an increase in the demand for goods and services within 6-9 months. Eventually, if the demand for goods and services exceeds the economy's ability to supply them, the increase in money will lead to inflation.

In its entire history up until August 2008, the Fed had created \$97 billion of bank reserves. Between August 2008 and January 2009 the Fed increased bank reserves by \$773 billion. This eightfold increase in bank reserves has created concern over the potential for future inflation.

One unique development since the Fed began its massive increase in bank reserves is the growth in excess reserves. Excess reserves are

bank reserves that commercial banks keep at the Federal Reserve as opposed to loaning or investing. Between August 2008 and January 2009, excess reserves increased by more than the increase in total reserves.

When banks keep reserves at the Fed instead of loaning or investing them, it limits the amount of money going into the economy. This, in turn, limits any increase in spending that the extra reserves might have produced.

The first chart on the following page shows the St. Louis Fed data for bank reserves after subtracting excess reserves. Beginning in February of this year, there was an increase in this monetary measure. This reflects an increase in liquidity in the banking system. Soon after the additional liquidity entered the banking system, there was a dramatic improvement in financial markets. By the second week in March, stock prices began to move higher. A week later, spreads between Treasury securities and corporate bonds began to decline. Narrower spreads reflect a decline in perceptions of risk.

Allied Clients May

- Have Negative Net Worth
- Have Operational Losses or Inconsistent Earnings
- Be Start-Ups or Early Stage/High Growth Businesses
- Have Seasonal Needs
- Be Highly Leveraged
- Maintain High Receivable Concentrations
- Experience Tax Problems or Liens
- Be in, or Going into Bankruptcy (DIP Financing)

Bank reserves less excess reserves have continued to increase through September. During this period, the stock market has moved higher and financial market indicators of risk have continued to decline. The improvement in financial markets has also spilled over into the economy. The first signs of growth appeared this summer, roughly 6-9 months after the increase in liquidity began.

The upward momentum in financial markets and the economy are welcome signs. Even so, serious problems remain. Capital constraints at banks have led to a sharp cutback in loans. For small and midsize businesses that depend on bank loans, the financial environment is likely to remain challenging even amid an economic recovery.

There is also a potential development that could constrain liquidity toward the end of this year. The Federal Deposit Insurance Corporation (FDIC) is proposing that banks prepay insurance premiums for the next three years by the end of this year. The prepaid premium is essentially a tax on bank deposits that the FDIC estimates would amount to \$45 billion.

If banks are forced to pay \$45 billion before the end of the year, it would have a potential negative impact on liquidity and further constrain an already weak banking system. Placing additional burdens on banks at this stage of the recovery is a mistake. It holds the potential to stall or even end the nascent recovery.

EDITOR'S NOTE

Robert Genetski noted in his economic report above that the FDIC's draconian proposal that banks prepay deposit insurance premiums for the next three years by year's end will reduce bank liquidity by \$45 billion during the upcoming months. Consequently, this will reduce the amount of bank capital available to support middle market and small business lending. It puts another government damper on banks' ability to lend.

This Fed move comes at a very inopportune time for small businesses since many of them have depleted their inventories over the summer, and they now need working capital to rebuild their inventory stock.

We remind readers that factoring is a WIN-WIN solution to this conundrum. **Allied Affiliated Funding** has referral partnerships with banks nationwide to provide funding to bank clients strapped for working capital while the bank continues to maintain its other relationships with the client.

HOT TOPICS

Small Businesses Face Dangerous Tax Hikes Ahead

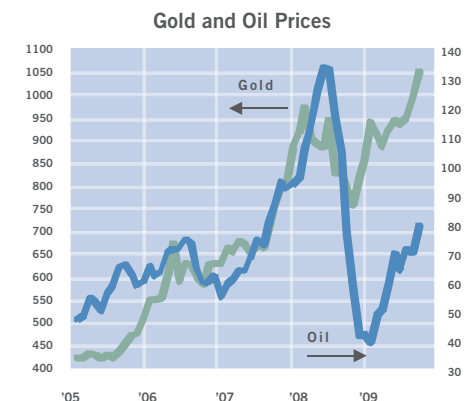
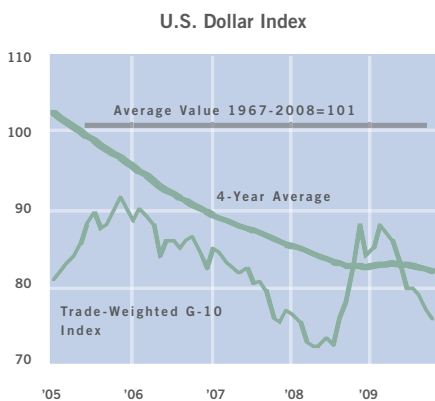
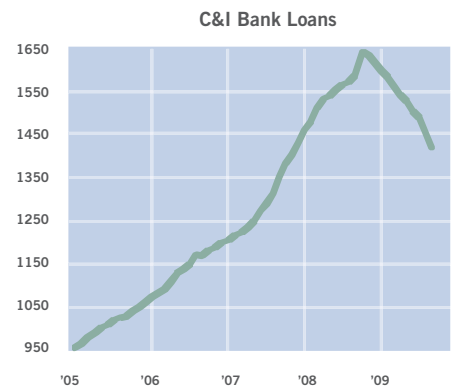
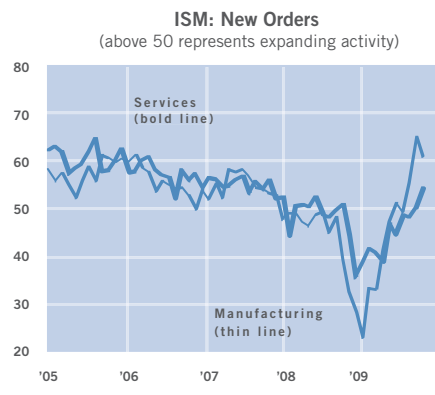
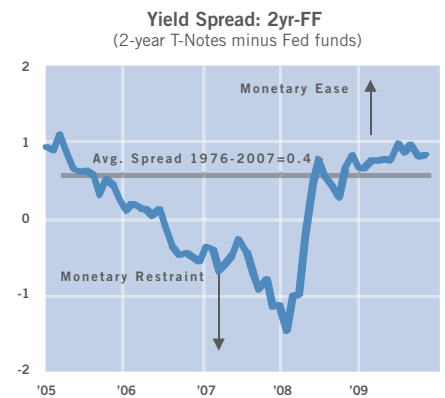
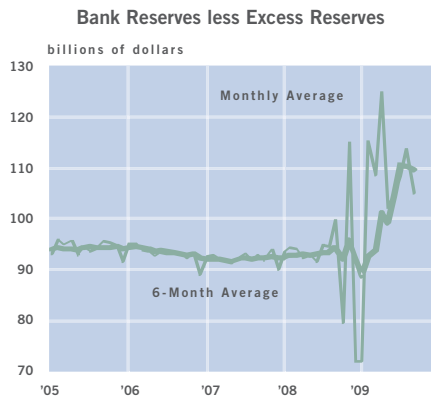
In the "brave new world" following the November 2008 elections, small businesses face a phalanx of challenges in the tax arena. First of all, the Obama Administration and Democrats in Congress plan to allow some of the Bush-era tax cuts to expire, thus raising taxes on top earners. Secondly, the health care overhaul being debated in Congress contains proposals that pose a huge financial threat to small businesses. Finally, the Cap and Trade legislation that awaits debate in Congress proposes an energy

tax in disguise that promises to artificially explode the cost of energy and, therefore, the cost of overhead in small businesses.

1. Proposed Federal Tax Hikes. "Small businesses are particularly vulnerable to the proposed tax hikes because they typically pay taxes via 'flow through' entities, such as sole proprietorships, partnerships, LLCs, PLLCs and S-Corporations. These entities are taxed through the individual income tax system, with

CONTINUE PAGE 4

Key Economic Indicators



their revenues 'flowing through' to their owner's individual tax returns. This allows small businesses to avoid the corporate income tax system, but can put self-employed small business owners in the top tax bracket. According to the U.S. Treasury, flow-through small businesses account for 93 percent of all businesses in the United States." (Jones & Villarreal, 1)

The 2003 Bush tax cuts expire in 2010, and Obama does not want to renew them. Thus, the two top rates will return to their pre 2001 levels:

- The top marginal personal income tax rate will increase from 35 percent to 39.6 percent.
- The second highest rate will increase from 33 percent to 36 percent.

2. Health Care Surtax. According to H.R. 3200:

- Individuals with an Adjusted Gross Income (AGI) above \$280,000 will pay a surtax of 1 percent.
- Those with incomes above \$400,000 will pay a surtax of 1.5 percent.
- Those above \$1 million in AGI will pay a surtax of 5.4 percent.

Furthermore, "under the health care reform bill proposed in the House, small businesses would face financial penalties if they don't provide health insurance to their employees." Employers will be required to offer qualifying coverage and pay at least 72.5 percent of each worker's individual premiums and at least 65 percent of family premiums. Except for the smallest businesses, penalties will be imposed for noncompliance.

- Businesses with annual payrolls of \$250,000 to \$300,000 would pay a penalty equal to 2 percent of their payroll if they do not provide qualifying employee insurance.

- Businesses with payrolls larger than \$300,000 will be penalized at 4 percent, 6 percent or 8 percent of payroll on a graduated scale.

(Jones & Villarreal, 3)

"The Tax Foundation estimates that the average-income business will report adjusted gross income of \$948,414 in 2011. This business would face a total tax increase of \$66,979, bringing their federal tax burden to more than \$293,000." (Jones & Villarreal, 3) These taxes will impose higher overhead costs on small businesses and put pressure on profit margins. Many small businesses cannot pass along increased costs to their customers. So, they will have less money for payroll, marketing or reinvestment. Instead of stimulating job creation, these regressive measures will actually spur higher unemployment.

3. The Impact of the Cap and Trade Bill. The Heritage Foundation recently performed an economic analysis of H.R. 2454, the American Clean Energy and Security Act of 2009. Cap and Trade raises the cost of energy high enough so that individuals and small businesses are forced to use less of it. This economic pain will be shifted from utilities to small businesses, individuals, automobile owners and farmers. (Lieberman, 1)

"The Heritage Foundation notes that electricity costs will go up 90 percent by 2035, gasoline by 58

percent and natural gas by 55 percent by 2035. The cumulative higher energy costs for a family of four by then will be nearly \$20,000." (Lieberman, 2)

"Beyond the cost impact on individuals and households, Cap & Trade also affects employment and especially employment in the manufacturing sector. We estimate job losses averaging 1,145,000 at any given time from 2012 to 2035. These are net job losses, after the much-hyped green jobs are taken into account. Some of the lost jobs will be destroyed entirely while others will be outsourced to nations like China and India that have repeatedly stated that they'll never hamper their own economic growth with energy-cost boosting global warming measures like Cap & Trade." (Lieberman, 2)

4. What Can Small Businesses Do About This? If ever there was a time for aggressive political action by small businesses and small business bankers, that time is now. For a list of Congressional contact information please see the following Web sites:

To write or call a Representative, go to link below and choose the state: www.house.gov/house/MemberWWW_by_State.shtml

To write or call a Senator, go to link below and choose the state: http://senate.gov/general/contact_information/senators_cfm.cfm

WORKS CITED:

1. Jones, Biff and Villarreal, Pamela; *Soaking the Rich and Drenching Small Business*-Brief Analysis, August 6, 2009, National Center for Policy Analysis, Dallas, TX. www.ncpa.org

2. Lieberman, Ben; *The Economic Impact of the Waxman-Markey Cap and Trade Bill*, June 26, 2009, The Heritage Foundation, Washington, D.C. www.heritage.org

Author: Michael Hosemann, Managing Director, Enterprise Consulting Solutions

Top Industries that Factor with Allied

- Technology
- Oil Field Services
- Manufacturing
- Small Businesses (Early Stage/Start Ups)
- Staffing Companies
- Service Companies
- Telecommunication
- Transportation
- Energy Services/Management
- Government Contractors



Allied Contact Information

We welcome the opportunity to assist your clients or prospects with their working capital needs through our unique funding solutions. Please give one of our Regional Business Development Managers a call today:

Mike Battle

Southeast Region

Direct/Cell: 205-616-1149

mike.battle@FundingByAllied.com

Tanya Fontenot

South Texas, Louisiana, Mississippi & New York

Direct/Cell: 972-510-8886

tanya.fontenot@FundingByAllied.com

Eli Gross

North, Central, West & East Texas

Direct/Cell: 972-658-6536

eli.gross@FundingByAllied.com

Michael Hosemann

Florida

Direct/Cell: 214-728-1559

michael.hosemann@FundingByAllied.com

Don Kennedy

Northeast/Mid-Atlantic Region

Direct/Cell: 443-562-5389

don.kennedy@FundingByAllied.com



Visit our Web site at www.FundingByAllied.com or call us toll-free at 1-877-404-9904.



Allied
AFFILIATED FUNDING

Transforming Your Options