

BOXING OUT RISK— Background Checks Should Not Be Taken Lightly

“Whoever is careless with the truth in small matters cannot be trusted with important matters,” wrote Albert Einstein. Today, personal misrepresentations and embellishments of accomplishments and credentials through social media and other forms of technology are elevating the importance of background checks.

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We live in a dynamic world where the rampant skill of “social fabrication” has lowered the bar on society’s acceptance of lying. Enhanced information technology, including social media, has fashioned the art of fabrication as the new normal. People embellish their life on Facebook, and those fabled threads do trickle into various areas of life including inflating past accomplishments and skills, misrepresentation of education, certification, degrees and even fraudulent claims of military service and awards. This redefined culture has elevated the vigilance for background checks.

Lenders More Vigilant Today Than Ever Before

Lenders and business leaders face many extraordinary challenges in today’s business environment. Brand reputation, narrow margins, and bottom lines hinge on good decisions. Those decisions are powered by prudent due diligence in the underwriting process. Lenders are educated to assess their borrowers, and traditionally follow these five key elements to provide credit:

- Character (integrity)
- Capacity (sufficient cash flow to service the obligation)
- Capital (net worth)
- Collateral (assets to secure the debt)
- Conditions (of the borrower and the overall economy)

Off-Balance Sheet Risk -- Contingent Liabilities

There has never been a more important time than now to be concerned with a borrower’s contingent liabilities. The takeaway for lenders now is to view contingent liabilities as more than just an insignificant footnote on the balance sheet, if they’re even disclosed at all. Paralleling the Five-C Due Diligence Assessment with a background check will uproot potential contingent liability risk.

Background Checks: Not All Are Created Equal

The emergence of background checks has spawned a competitive arena. The National Association of Background Screeners estimates there are approximately 650 background search companies in the U.S. Today, for most business leaders, background checks are standard procedure. While this is a competitive industry, treating a background check like a commodity is not advisable. Completed reports that reside on a desk may appear to have some type of relevant content, but not all background reports are created equal. There is no substitute for excellence in proven processes, methodology and compliance in the research process by experienced research specialists.

Reports Differ Based on Scope of Search Features on a Subject

There are many variations in report types and pricing seen across the board when considering a background check. Two basic types include:

Preliminary Screenings. There are preliminary screenings that will confirm the subject’s background information as well as highlight potential adverse information in order to help you make a more informed decision. This information could be critical to know before you enter into a business or financial relationship, investment, or other transac-

tion with the subject. A search of information at this level with an experienced eye would include criminal and civil litigation histories, research of numerous data intelligence sites, public records, and government repositories. A typical search history is up to ten years in this scope of due diligence.

Comprehensive Deep-Dive Investigation Reports. A comprehensive background investigation digs deep into an individual's background. It includes criminal and civil litigation histories, research of data intelligence sites, public records and government repositories, analyses and reviews of business affiliations, tax lien/judgments, real property, court filings, global news media and extensive internet footprints. Reports can include a credit report (with written consent of the subject), references, UCC filings, education and certification verification. Thorough analysis of all data by an experienced professional research analysts helps lenders and business leaders make informed, intelligent decisions. Search history is usually between 10 and 20 years on this scope of due diligence.

What differentiates the good and bad of background checks?

With market maturity, there are trends to cut costs that have developed that *do differentiate background check* companies and there are some practices of which the buyer should beware:

Homogenized reports automated by inexperienced processors to cut costs

Speed and volume expectations have automated the process so much that a report can essentially be a data dump. The data is ordered and assimilated into a report template by industry unexperienced processors rather than experienced, tenured research risk specialists that gather, analyze, and prepare information. This is due to high volume, frequent turnover of the employees processing reports (either direct employees or overseas call center workers). They need to keep their procedures very basic in order to accommodate inexperienced processors and keep costs down.

Human judgment and intuition play a big part in accuracy

How you start is how you finish. In a volume-based automated report environment, it is a plug-and-play model and this can lead to misdirected searches. Databases also can be conflicting, inaccurate, or incomplete or may not offer the most recent and up-to-date information. There are many factors that can dictate the scope of the search. Most background search companies separate the search features into groups, having a processor focus on that one search feature. It is important to think through each search feature and compare all data from all contributable online and onsite data sources. Having one set of eyes of a seasoned professional from start to finish investigating a subject helps to ensure the most accurate and compliant report possible.

Background check companies that utilize “off-shore” call centers Cutting costs has resulted in overseas contracted call centers for employment checks, education verification and reference checks. Savings comes at a cost. The potential for identity theft and cyber-fraud is increased. In addition, information gathered from domestic reference verification may be a valuable insight and catalyst to unveil additional information to a trained risk intelligence specialist.

Compliance is a major focus in reporting information

The scope of a background check should not be taken lightly. Compliance is more critical today than ever in avoiding potential legal action resulting in how information is reported in accordance with the Fair Credit Reporting Act and other state and federal laws and regulations.

The Takeaway on Background Checks

I am asked all the time if it is better to do something rather than nothing. I think a quote by Warren Bennis sums it up very well. “Leaders are people who do the right thing; managers are people who do things right.” Background checks provide the backbone of truth to provide you and your team with the most accurate and intelligent information possible to make an informed decision. Defend your brand and bottom line at all cost. ☺

ABOUT THE AUTHOR | Sue Bury is the CEO and Chief Marketing Officer at 1STWEST Background Due Diligence.

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