

## Harborcove Financial — Where Wall Street and Main Street Meet

BY CHRISTOPHER MORAFF

**Last September, two veteran equities traders were introduced to two factors,** and serendipity ensued in the form of Harborcove Financial. In short order, the four entrepreneurs embarked on a mission to bring the best of Wall Street together with Main Street and provide much-needed capital to small businesses. We decided to check in with two of the company's principals — Harvey Gross and Russell Hackmann — for an update on what's happened since.



**RUSSELL HACKMANN**  
President,  
Harborcove Financial



**HARVEY GROSS**  
Senior Vice President,  
Harborcove Financial

**W**hat do you get when you combine Wall Street with Main Street? Most likely something resembling startup factoring firm Harborcove Financial.

The newly launched “re-factor” brings together longtime industry fixture Harvey Gross — who just about everyone in asset-based lending knows from his role as director and chairman of the New York Institute of Credit (NYIC) — with a young Miami-based factor and two Wall Street equities dealers.

The unlikely foursome embodies a combination of skills that made it possible to conceive a company in September and launch it in March with more than \$5 million in equity capital.

Harborcove is the brainchild of Russell Hackmann, a 40-year old former Wall Street securities dealer who until last year was running a group of 18 equity derivatives brokers for global insurance giant Swiss Re. Hackmann spent 15 years on Wall Street, five of them as a managing director with the now defunct investment bank Lehman Brothers.

When, in February 2009 Swiss Re shut down his unit and sent the entire team packing, Hackmann decided to take some time off and

reassess his vision of where he wanted to be and what he wanted to be doing. At least one thing was certain: “I really didn't want to go back to Wall Street,” he says.

It was around that time, as the recession was crippling bank lending, that Hackmann caught a whiff of alternative financing and first became interested in factoring. “I had heard enough about factoring to be dangerous, so to speak,” he recalls. “It sounded like the returns could be pretty good and the losses could be low for guys that know what they're doing.”

Hackmann decided to bring in a former Swiss Re colleague, Simina Kroclicik, to start exploring options in the factoring sector. The two had made the best of their time on Wall Street and together had more than \$2 million in capital that they were looking to put to work. “I said, let's do some due diligence on the opportunity in factoring, and see what happens,” Hackmann says. “So we went out and just started trying to talk to everyone.”

Throughout the fall of 2009, the two embarked on a fact-finding mission, sitting down with factors throughout the New York area to get a pulse on the industry. Coming from Wall Street, Hackmann says the experience was a bit surreal. “We learned really quickly that this was a very collegial industry,” he says. “There were a lot of people who were all very nice and generous with their time and sat down with us even though we were thinking about starting up a competitor. On Wall Street if someone says: ‘Hey I'm thinking of starting a competitor,’ well, let's just say you're not going to get a lot of meetings that way.”

In one appointment after another, Hackmann and Kroclicik eagerly took in all they could on the factoring issue. But the more they learned, Hackmann says, the more they

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realized just how little they knew. “We quickly realized from those conversations that while certainly it seemed like there was a need for more capital to be brought into factoring ... we’d better find some experienced people,” he adds.

While Hackmann and Kroculich were getting a crash course in the cordiality of factors and looking for a place to put their money, 1,200 miles away in Miami, Gross — who since officially retiring from the industry in 2000 had been running his own consulting firm, HSG Services — was in the process of counseling a factor named Alejandro Nathan.

The general manager of a company called The Factor Group, Nathan was looking to go out on his own, and he wanted Gross to help him formulate a business plan and find capital to make it possible. Immediately impressed by Nathan’s tenacity and business acumen, Gross says he decided to do one better: he would join forces with Nathan and make his first foray back into the factoring industry in almost a decade.

“I knew [Nathan] was a pretty aggressive guy and knew his stuff and I said you know what? He’s in Florida, I’m in New York, we’ll put together a little company and I’ll help him with it,” says Gross.

As luck would have it, it was just around that time that an industry attorney, Jay Silverberg, put Hackmann — who was still conducting his due diligence — in touch with Gross, who was looking for investors. “Russell called because Jay gave him my name, and it was almost like on the first day I could see the perfect fit,” says Gross. “I saw Alejandro with his talents and our business plan, which we had put considerable effort into developing. And speaking with Russell and Simina, I saw two people who were very sharp and knew a little about factoring. In the next few months we must have brainstormed so many different plans of the way we were going to roll it out.”

“It was a great match because, in a sense, Simina and I had capital and no factoring expertise, and Harvey and Alejandro had the factoring expertise but they needed capital,” adds Hackmann. “We had a couple of million dollars of our own that we wanted to put to work but we wanted to have a little more capital so we went out and raised another \$3 million or so,” mostly from friends and business contacts.

On March 29, Harborcove filed a securities offering notice with the SEC detailing nearly \$5.3 million in equity it raised from 11 investors. With the capital they launched a fund, Harborcove Fund I, which, as Hackmann explains, will serve as the company’s financing vehicle.

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Hackmann says that the format will enable the company to grow its equity capital base “very significantly, very quickly, provided that we produce attractive returns.” He offers, “We think we could have, in a couple of years, \$25 million or more in equity capital.”

Gross reflects a similar optimism: “We’re closing deals, we have a tremendous pipeline and we’re advancing every day. You’re seeing us in the early stages and I believe you’re going to see a lot more, and I believe in a year we’re going to look back at this and say: ‘Wow these guys were rookies of the year in their first year.’”

As a “re-factor,” Harborcove partners with North Carolina’s BB&T Bank to provide the credit side of the equation, and which may also provide credit lines, providing Harborcove with the backing of a regional banking giant.

“BB&T has not historically had much of a marketplace in the Northeast, but has been building up in the wake of the industry turmoil of the last couple of years, and so I went to the guys that ran it who were all guys that I worked with when I was at Bank of America and I said, ‘I got this group that I’m going to be involved in and would appreciate your support for this new but strong venture and they did,’” says Gross. “So, BB&T provides us with credit protection and eventually, when we need it, we will request that they provide us with financing as well.”

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Hackmann says the typical Harborcove client will have sales between \$1 million and \$10 million, but adds that the company’s “sweet spot” is \$2 million to \$6 million in sales. The company plans to advance between \$100,000 and \$750,000 per client at any one time.

For the time being, the company will be something of a generalist, although it plans to stay away from what Hackmann calls “trickier industries,” such as trucking, construction, medical and jewelry. “These are industries that are kind of fraught with peril, but there are other factors that specialize in these things. So we’re staying away from industries like that.”

Since its launch, Harborcove has hired two salespeople, bringing the team to a total of six, and when we spoke with Hackmann and Gross, was in the process of hiring a junior associate. The company started booking deals soon after its fund launch, but Hackmann says he’s in no rush to deploy money. “We’ve got a plan and we’ve got patient investors. We’re being very careful, diversified and deliberate.”

When asked to reflect on the experience of switching from Wall Street to Main Street and the culture shock that may have come with it, Hackmann reflects for a moment before saying: “You know I was always servicing these big companies. I was doing these sort of abstract transactions and it was all on paper and contracts and the markets and it’s all just electronic. You couldn’t really touch and feel it.”

“Now, it’s enormously gratifying for me to go out and meet with these small business people. I love to hear their story, how they got into the business, how it’s going for them, who their customers are. It’s enormously more gratifying than helping a multi-billion-dollar corporation hedge their stock. It’s a lot more fulfilling.” **abf**

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