

An Introduction to Factoring and Alternative Commercial Finance for Note Brokers

As brokers and investors in *discount mortgages* seek ways to enhance the profitability of their *consumer-based* residential note and cash flow business, many will be attracted to the less practiced area of small business finance or *factoring & commercial loan brokering*. For some brokers, the attraction is short-lived due to the more "high-profile" nature of the commercial finance business. For others, however, the attraction is permanent as the discovery of alternative commercial finance provides a more career-oriented option than the more typically part-time vocation of *note* or *cash flow note broker*.

Commonly referred to simply as "loan brokers", consultants operating in the *factoring* and *alternative commercial finance* (ACF) industry make their living by providing readily accessible cash flow, working capital, and trade finance solutions to cash-strapped small and mid-size business owners worldwide. But that's just half the story. In addition to ACF's almost legendary problem solving capabilities for entrepreneurs, the industry also offers eye-poppin' income opportunities for those brokers lucky enough to discover the generous commissions and referral fees paid by the industry's lending sources. Add to the mix that certain types of fees and commissions, such as those paid for *factoring* referrals, are paid to the submitting broker for the "life of the account", and it's clear to see why many who discover this industry immediately recognize its potential as a permanent career.



A Day in the Life of a Loan Broker

What most find immensely attractive about a career as a broker in ACF is the wealth of marketing opportunities that present themselves on a daily basis. Whereas certain brokering areas of the cash flow industry present marketing challenges, ACF is just the opposite. From a prospecting standpoint, the target market for ACF brokers is simply small to medium size business owners seeking money to finance their businesses. According to the U.S. Small Business Administration, there are over 23 million small businesses operating in America at any given time. Most importantly, virtually all of those businesses need additional working capital as their business grows. Many are young companies with little collateral or credit and which are unable to access traditional loans from local banks for their capital needs.

A typical loan broker will spend his or her day utilizing the various methods of direct marketing and networking to generate *leads* for prospecting. These methods will include *direct mail marketing* and *e-mail marketing* campaigns focused on demographically pre-qualified categories of small business owners. Many brokers will also utilize small *classified ads* in trade magazines and other business-oriented publications to drive readers to their company web site where they can "register" to receive additional information in the form of a FREE booklet, report, or an online brochure on factoring or some other financial product.

While a high-profile loan broker's daytime hours are filled with the qualifying and prospecting of leads, after hours time is most often spent on the "networking circuit" building relationships with bankers, lawyers, accounting professionals, business brokers, members of fraternal clubs, associations and Chambers of Commerce. Once established as experts in their field, ACF brokers receive client referrals from members of their networks seeking non-traditional financing solutions to grow their businesses.

While all of this makes for a busy day, most loan brokers cope by being extremely well organized and by using powerful contact management software, or securing adequate secretarial help to keep from becoming overwhelmed by the amount of marketing and follow-up.

Entering the Loan Brokering Community

For those with an entrepreneurial spirit, the attraction to a career in loan brokering with its readily attainable six-figure income potential is very understandable. Competition is limited in the U.S. as few understand the opportunities available in this unique field of consulting and even fewer are familiar with any of the product areas that make up the *alternative commercial finance* industry. With the current economic turndown and challenges small business owners are facing when trying to access growth capital, the timing clearly could not be better to begin a career as an independent commercial finance broker.

For new broker candidates, the biggest challenge historically for entering the industry has been to find a source for financial product training in such areas as *factoring*, *asset-based lending*, and *equipment leasing* so they can initially launch their business. Fortunately, industry organizations such as the IACFB (International Association of Commercial Finance Brokers) now offer extensive training and continuing education opportunities to member /brokers much of which is free with its modest annual membership.

Once some financial basics are learned and a few marketing techniques mastered, simple hard work will eventually begin to generate a certain amount of commission income for almost any broker. As the income grows, so can the product areas serviced and consultants can begin to add slightly more advanced areas of finance to their mix such as export trade finance solutions including *letters of credit*, *forfeiting*, *international factoring*, and *export-import credit guarantees*.

Earning Commissions and Fees

As mentioned, one of the primary reasons consultants are attracted to the *factoring* and *alternative commercial finance* industry is due to the industry's almost legendary commission and compensation schedules. As an industry norm in factoring, for example, a broker will earn 10% of the factoring fees charged to the client (seller of invoices) by the factor. Most importantly, this commission arrangement is often for the life of the account. This means once the client has been referred and the factoring service begins, the broker will earn 10% of the factoring fees earned on each invoice purchased for as long as the client / factor relationship exists. Career-minded brokers learn to build "books" of factoring commission business and as a result will receive multiple checks each month for their portion of the factoring fees generated. Incredibly, such commission income streams can last for many years.

Additional Information

The most easily accessed source of information regarding a career as a broker in the *factoring* and *alternative commercial finance* industry is through membership in the industry's trade association, IACFB. The IACFB, or *International Association of Commercial Finance Brokers* is patterned after a similar European organization and provides extensive services to its broker members. One of the more important benefits of IACFB membership is access to the new MEMBERS FORUM which provides an interactive networking media for lenders, brokers, and other industry intermediaries. Through IACFB FORUMS, lenders periodically sponsor "*Showcase Tele-conferences*" where members can take part in presentations explaining specific product areas, the lender's financing preferences, and special promotions and sales contests regarding referred business. Additional information on the IACFB can be found at www.iacfb.org.