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Think Outside the Mortgage

Offering your clients alternative sources of financing could bring lucrative business

By **Howard Chernin,** senior vice president, Quantum Corporate Funding Ltd.

We've heard the expression, "Think outside the box." But in the commercial mortgage industry, a more appropriate version might be, "Think outside the mortgage."

When it comes to mortgages, commercial brokers have their finger on the pulse of the commercial real estate industry and are experts in every aspect of commercial real estate deals. But what about other types of financial products?

Given brokers' visibility — and their long list of clients — it would make sense for them to consider offering their clients a wide range of financial products. After all, they're on the phone with the businesspeople who make the industry run. Commercial mortgages are only one piece of their day-to-day operations.

There's a long list of additional financial products that could be of interest to people involved in the commercial real estate industry. These products range from asset-based lending to factoring to equipment leasing. Becoming familiar with these types of financing — in other words, thinking outside the mortgage — could prove to be a wise business strategy.

Asset-based loans and factoring

Asset-based loans are made against a business's assets, including its machinery, equipment, inventory, accounts receivable and of course, real estate. To advance money, the lender simply needs to see a list of the company's assets to proceed. Most types of business can benefit from an asset-based loan.

Another type of financing that is not widely understood is factoring. Factors will advance cash to a business by buying one or more of the company's invoices and advancing as much as 70 percent of the amount upfront. Only the creditor's creditworthiness — not the business's — is considered. Once the invoices have been paid, the factor remits the balance to the customer, minus a fee.

The advantages of factoring are numerous. Customers do not have to borrow money. They make no monthly payments and can control cash flow by controlling how much the company factors and how often. In addition, the money can be advanced quickly, often in a few days.

Equipment leasing

Another method of making funds available is through leasing equipment — from office equipment such as computers and copying machines to construction equipment such as bulldozers and trucks.

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Encouraging your clients to lease equipment, instead of buying it, makes good business sense. Doing so offers them three benefits.

First, there are tax benefits, because leased equipment is typically a write-off. Second, your clients do not have to lay out all the cash required to have access to the equipment they need. Third, they do not have to worry about obsolescence. The leased equipment can be returned when needed. By leasing equipment, your clients can remain up-to-date with the latest cutting-edge technology.

Other financing methods

The list of alternative financing methods goes on. A lender might advance money to a company by calculating its accounts receivable minus its accounts payable and advancing funds against a portion of the equity. It may advance money on accounts receivable in less than 90 days, based on the dilution of the receivables of the company.

A lender also may advance funds on the finished goods of a company at 30 percent of their cost; as much as 60 percent of knock-down value of machinery and equipment; 50 percent of patent rights held by the company; or 10 percent on the name brand of the company.

Lenders might also loan money to a company that can support a credit line with additional collateral. Such collateral includes a second mortgage on someone's home, additional commercial or residential real estate, the cash value on life insurance, a company's stock or any other asset that has value. Even a company that is losing money may qualify for funding if it still has working capital or any type of collateral.

Besides increased involvement in a client's business, what does the broker get from offering such alternative methods of financing? With asset-based loans, a broker usually receives about 10 percent of the monthly profit. Compare this with real estate loans, in which the broker typically gets 1 percent of the line fee. In the case of factoring, the broker gets about 10 percent of the fee for the life of the deal. Factoring provides residual income, not one-time-only income.

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As the market tightens, some of your business-

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owner clients are bound to run into cash-flow problems. That's where you come in.

If you have a range of financing products to offer borrowers, from factoring their receivables to receiving an asset-based credit line for their business, you can help. You can also provide advice on how they can use these tools to expand their business and to survive an unexpected downturn. If you expand your business relationship by working with clients in these other areas, they'll likely come back to you later when they need commercial mortgage financing.

Getting to know the other commercial-financing products is one of the best ways to ensure your clients' success and to expand your business. The keys are to understand your customers' business, know the financing options and remain flexible. Once you've done that, thinking outside the mortgage will soon become second nature.