ISO Corner

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The Loan Ranger

Offering Loans Gives ISOs a Competitive Edge in the Marketplace

Independent sales organizations (ISO) have been under enormous price pressure during the past two or three years. As resellers for credit card processors, they are left with very little flexibility, and ISO profit margins have thinned as emerging technology has made it conducive for more enterprises to join the competition.

Geography used to be an important consideration when a retailer or merchant chose to place their account. Today, instant telephone, Internet and other high-performance rapid message technology have minimized any selling advantage that the local ISO once had over the distant-site business organization.

Consumption of services in this field has evolved into a commodity mindset. Being associated with a conglomerate giant vs. a small operator is no longer an issue for the merchant. In many instances, it makes competition among ISOs an agonizing experience.

Many ISOs struggle to devise ways in which to distinguish their company. What tools do they really have at their disposal that will enable them to attract and engage their prospect? How does today's ISO position itself so the potential customer perceives that this particular affiliation offers them an advantage and benefit? What is the motivation for this merchant to actually sign up?

Let's diagram the priorities and concerns of many start-ups, micro enterprises or small businesses. Many of these entrepreneurs begin with nothing. Often, they have no money or a small amount of seed funding. If the business triggers activity and begins growing, more money needs to be invested in the expansion process, so the relatively small dollar amount in starting up is usually never enough.

An entrepreneur is constantly preoccupied with how to generate the cash required to take a growing business to the next level. Entrepreneurs who perform hard-work, hands-on business (i.e., restaurants, cleaning/maintenance, auto service stations, movers) often have little or no time to identify funding sources. And they certainly do not have time to go through a lengthy, cumbersome qualification process in an attempt to obtain the money—especially when it is likely to lead to a rejection or a failed effort.

Today's ISO is up against a challenge where the only language for their prospective merchant is: How much cheaper are you? How much less money will it cost me to work with you vs. my present ISO? And how much better service will you be providing? In many of these selling environments, there is scant maneuvering room for the ISO.

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Lend a Hand

A relationship with a credit card receivables financing lender represents a new opportunity for an ISO in the sales approach. If a business owner needs financing (which again, many of the micro start-ups do) this proprietor is very likely to listen to what an ISO has to say about their ability to access a loan.

By looking at a company's Visa and MasterCard monthly sales volume for the previous six to 12 months, an ISO can easily calculate how much money a small business could potentially receive from a credit card receivables financing company.

Generally, a credit card receivables financing company should be able to provide anywhere from 70 percent to150 percent of a merchant's average monthly card volume, on a relatively streamlined basis (one week to 10 days).

Make no mistake about it though, the merchant's costs for this type of financing is going to come in much higher than a conventional bank. But what good is the conventional bank if, in the end, the merchant is denied the needed loan?

As a typical example, on the basis of either six months or 12 months (if the business activity is seasonal): On a 70 percent loan, about 15 percent of daily Visa/Master Card sales are automatically collected to amortize the loan. Typical interest amounts to anywhere from $700 to $1,100 per $10,000 borrowed, generally covering the six-month period. Interest costs will vary based upon actual daily sales, while the loan is outstanding. The longer the life of the loan, the more the interest costs and vice versa.

A feature of this lending format is its elasticity. If the sales are growing, the amortization could be quicker, lowering the interest amounts. On the other hand, if a proprietor experiences some interruption or temporary drop in sales, then payments will also be lower. (Again, payments are based on a percentage of sales.)

Custom servicing, enabling proprietors to use other credit cards like American Express, or check and cash sales are available on a case-by-case basis.

Costs and Benefits

There are out-of-pocket expenses for closing costs under $200 (i.e., individual credit reports, Dun & Bradstreet data for a business, overnight mail, bank-wire transfer fee, UCC filing). Otherwise, the application process does not represent any expense.

However, with just about any lending option the borrower will likely incur processing fees. As an example, the United States Small Business Administration loans have considerable costs as part of their format.

This working capital loan can be used for items like: bulk inventory purchases, redecoration or renovation, catching up on past due tax bills, buying out a partner, expansion, opening a new location, adding new employees to the payroll, marketing/advertising, and more. It cannot be used to finance personal items outside the scope of the business entity.

A merchant may have a sketchy or distressed credit history. Items like past tax issues, a list of delinquencies, collection matters, liens or judgments would be an automatic red flag for a conventional bank. The ISO will find that these issues may not be automatic deal-breakers for the credit card receivables lender.

A commission that an ISO can receive from credit card receivables lenders is anywhere from 2 percent to 4 percent up front, and 1 percent to 2 percent residual.

As a model, on a $25,000 loan for six months, the ISO stands to earn $500 to $1,000 up front, and $150 to $300 residual (which will continue during the account relationship) above any compensation from his employer.

Let's say that the ISO generates one such lending transaction a week on the $25,000 loan (a relatively low situation). The extra income here could easily exceed $50,000 per year. And this payment process to the ISO takes the form of an ongoing annuity for the life of the borrowing relationship.

If the ISO is credited with helping his customer obtain the needed financing, it helps to strengthen and secure his client relationship. It becomes less likely that the client will leave the ISO for a different one.

In the case of AmericanMicroloan.com, we insist that the customer stay with the ISO who referred them, for at least the period of the loan. ***TT***

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