



# The Green Sheet

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## Lending for the Long-term



American Microloan

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### MLS/ISO benefits:

- Upfront commissions
- Ongoing residuals
- Add-on service offering
- Repeat business

Many small businesses are unable to secure traditional financing. The business may be too new or serve an industry that a bank sees as risky, or the business owner may rent his facility and equipment and not have much to offer in collateral.

Couple that with the fact that a majority of small businesses don't survive past their first year, and the process of keeping a thriving business afloat is a challenge.

But, when businesses are faced with funding challenges, they are not the only ones at risk. ISOs and merchant level salespeople (MLSs) also stand to lose. If merchants' sales are dwindling or they are struggling to stay afloat, an MLS's residual checks will most certainly suffer.

There are options for such cash-strapped merchants. One option is American Microloan, a company that enables businesses to borrow funds based on their Visa and MasterCard credit card processing volume.

American Microloan provides small businesses with loans from \$5,000 to more than \$200,000, in as little as seven to 10 days. Business owners are free to use the funds for anything from remodeling and expansion, to advertising and marketing, purchasing new equipment or hiring additional personnel.

The company is affiliated with Quantum Corporate Funding Ltd., a 20-year-old financial institution serving more than 3,000 clients nationwide with revolving credit of up to \$15 million per client. American Microloan was born out of this affiliation.

"Quantum doesn't look at loans below \$100,000," said Woochae Chung, American Microloan Managing Director. He and Howard Chernin, the company's Executive Vice President, did some research and found

that many small businesses were left with no choice when it came to financing.

They found that companies went out of business, took on an equity partner or borrowed from an exorbitantly expensive financing source.

"Do you borrow from them or do you go out of business?" Chung said. "Of course you borrow, at a high cost, but it's better than going out of business. We knew there had to be a way to provide a better alternative for them."

Chernin and Chung set out to find out how to fund the loans that the banks won't, either because the businesses are too small or too risky.

They tested the market and American Microloan's underwriting system. "We decided that it is a viable model, and that is why you are hearing more about us," Chung said.

American Microloan, owned by The Sheinker Family Trust, is two years old. In that short time its staff of 10 employees, as well as independent sales agents, have loaned funds to more than 300 customers.

Other companies do provide factoring-type financing based on credit card receivables, but "We were the first to do credit card receivable financing," Chernin said.

When asked how American Microloan stacks up, Chung and Chernin said that its solution is less expensive and funds are received faster than with the competition. "We have a better product ... we can charge a more reasonable finance charge and still make money," Chung said.

The company reported that a typical cost of the advance is approximately \$1,100 for every \$10,000, meaning the merchant pays back \$1.1059 for each \$1 borrowed.

"American Microloan's payback ratio is the best rate available in the market," Chung said. "The next cheapest competitor charges \$3,525 for the \$10,000 advance, i.e., their payback ratio is 1.3525. This means you can save \$2,466 on a typical \$10,000 advance over a six-month term. American Microloan's product is 60 to 80% less expensive compared with other products in the marketplace."

Chung and Chernin also strive to make their product simple. "We engineered our entire lending process from the beginning with the express purpose of making the short-term micro business loan as simple as renting a car," Chung said. "It is a straight loan with simple interest. We didn't have to create a new term to describe this product, like many of American Microloan's competitors."

The standard advance amount is 70% of the merchant's monthly Visa/MasterCard volume, which is an average of the prior six to 12 month's of processing.

### **Who Is Eligible?**

Almost any business is eligible for a loan from American Microloan so, if you are an ISO with a cash-strapped merchant, this could be an option. The business must have been formed and be operating in the United States for at least one year and have at least six months of credit card processing history.

The owners' credit report is checked, but the credit score does not have to be perfect. "Even if you think you have bad credit, we probably think differently," Chung said. "We are not like a traditional bank. We have [an] entirely different point of view. Most of our customers are small business owners with less than perfect credit history."

### **Partnering With ISOs**

American Microloan offers merchants loans through a nationwide network of ISOs, independent contractors and processors. All are compensated with commissions and residuals. The standard structure is an upfront referral commission of 2% to 4% of the loan amount, followed by a 1% to 2% residual income when the loan is completed.

For example, if an ISO sells a \$25,000 loan for six months, he will earn approximately \$1,000 up front and a \$150 – \$300 continuing residual during the account relationship. As Chernin pointed out, the commission is truly upfront. "We cut the commission check on the same day we fund the loan," he said.

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

Chung also stressed the value of selling American Microloan as an add-on service to an ISO's existing client base. "ISOs are visiting our target customers on a daily basis anyway to win their business," he said. "By offering our product they can

enhance their chance of winning those accounts. It is good for them because they can close more by offering the best rates. We benefit because we are using [a] massive sales force."

"They are not doing anything more than what [they are] already doing," Chernin said. "They are using our product, getting better results and doubling their income."

And, ISOs benefit from repeat business. Chernin said more than 90% of customers renew their loans. "This is unlike other products where the merchant wants to bolt from the high cost financing provider the minute they can."

### **In It for the Long Haul**

Chernin stressed that American Microloan is focused on long-term service and goals and is looking for ISOs that feel the same.

"This is a good product, at a good price and a chance to keep a customer for the life of the account," he said. "This is not a one-time shot; this is not a hit and run. This is to build annuity for you and your family."

"The industry has gotten so competitive that a lot of guys are in it for the short-term," he said and cited examples of agents putting merchants in expensive deals, taking their commission and walking away.

"In the end it's not going to benefit them at all," Chernin said. "From a long-range planning standpoint, this is not going to survive. They need to be in it for the long-term, and our agents are in it for the long-term. American Microloan is here for the long-term."

"Everyone is jumping in and trying to grab market as fast as they can," Chung said. "We are looking for long-term relationships with merchants and ISOs."

We are working with well-established, reputable processors and ISOs who wouldn't work with our competitors but will work with us because they don't see our product as degradation to their image."

### **Looking Toward the Future**

A lot of merchants don't know about us right now, but that is going to change," Chung said. "We are doing a lot of advertising and direct mail. The most common thing merchants say is, 'Where were you six months ago?' In fact, I have an account now that is saving \$60,000 a year by using American Microloan's credit card receivable financing instead of my competitor's factoring-type financing."

"We offer the best product in the market," Chernin said. "We'll keep our customers longer. We'll outsell any competition. We'll be able to maintain client contact and do further, ongoing business with the customer. We'll be able to have a long-term relationship with our customers. It is an exciting time and exciting industry." ☑