

SUMMER 2007

The Community Lender

from **FOSTRIAN** | Business Capital Corporation

Fostrian Business Capital is a commercial lender specializing in working capital loans to emerging companies through the factoring of their accounts receivable.

BANK + FACTOR = PARTNERSHIP = SYNERGIES = PROFITS



Partnering up with a quality factoring company (factor) benefits a bank by enabling it to better serve its prospects/customers, which translates into higher profits for the bank. Too often, banks don't take advantage of the benefits available from a relationship with a factor....benefits that are free of charge to the bank.

To put it simply, factors make loans to financially weak and/or rapid growth mode prospects that fall outside a bank's underwriting criteria. Factors also provide credit department related services to its clients. A quality factor partner will supplement a bank's arsenal of products it can offer its prospects/customers.

As I see it, benefits to banks of partnering with a factor fall into four categories:

Turndown Referrals

A bank/client relationship often entails the bank providing both lending and operating account services to the client. Some prospects will not have the financial strength to warrant a bank loan, but the operating account is potentially a profitable piece of business that the bank does not want to lose. A good factor partner can be brought into the deal by the bank as part of the bank's package to the prospect, make the loan and work closely with the bank to ensure the bank wins the operating account.

Down the road, the prospect (turned client) will strengthen its financial position and be ready to roll its factoring credit line into a bank credit line. It will for certain give the bank first shot at its business as the bank will already have the operating account relationship.

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The client will also remember that when it was at its financial nadir, the bank cared enough to steer it to the factor, who was able to provide it with the needed credit facility. Looking at turndown referrals from a different angle, word of mouth is an important determinant of a bank's image within its market. A loan prospect who is financially weak, and thus must be denied credit by a bank, will go out into the community and talk about his/her experience with the bank. He/she will speak of the bank with much higher regard if the bank packages, with the turndown, a referral of the client to a factor who is able to provide the credit facility.

Lastly, referring a turned down prospect to a factor is a great help to the prospect, and is plain and simple the decent thing to do!

Workout Credits

There are many workout avenues for a bank's problem credits. One is to have a factor pay the bank out and take on the lending relationship with the client. A good factor partner will not only pay-off the balance owed to the bank, but can often provide the client even more funding than the bank was originally providing. Lastly, a factor will provide services, above and beyond the provision of a credit line, that will be helpful to the client in its challenge of turning itself around.

Participations

A bank can earn revenue on prospects it refers to a factor partner by participating in the credit facility provided by the factor. Yields to the bank can be healthy here. Also the bank benefits by having an expert (the factoring company) manage the credit facility. For obvious reasons, it is critical here for a bank to partner up with a competent factoring company.

Referrals Back To The Bank

A good factor will invest its effort and skills into its



clients which results in a healthy "graduation rate" of its clients....clients improving their financial strength and becoming eligible for bank financing. A bank that has a good relationship with a factor will benefit from the factor referring its graduating clients on to the bank.

To sum up, a relationship with a factor can be an important strategic tool for a bank. Access to a good factoring company partner can help a banker do his/her job better. But it's critical for a bank to find the right factoring company to partner up with....one with integrity, one with competence in the factoring industry, one that genuinely cares about the well-being of its clients and one that values its partnership with the bank and will give 110% to holding up its end of the relationship.

Jeff Jentgen
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