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Strategies from Bobby Keon with Secrets on Accessing Merchant Cash Advances to Grow Your Business!

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Bobby Keon

Scott: Good evening, everyone. This Scott Letourneau, CEO of Nevada Corporation Planners. Welcome to another of our monthly Top 5% calls, where our goal is to help you be part of the top 5% that is not only in business after 5 years but profitable and successful.

A large part of being able to do that, especially in today's economy, is the **ability to have access to cash and capital to grow your business**, and **also to be in the position to take advantage of some extraordinary opportunities to buy inventory and things, sometimes as low as 10¢, 20¢, 30¢ on the dollar.**

We're going to talk about one of the most common areas, or I should say an area that's become much more popular over the last year and a half, especially since the banks have tightened up dramatically when it comes to **giving businesses access to cash and capital**.

We're going to talk about those strategies, what to look out for. Many of you may have already been solicited to this type of an opportunity, but we're going to give you really the insider view with one of the experts in the industry, that will tell you the good, bad and the ugly, how this really works, and what you need to look out for, and how this may perhaps help you.

Let me go ahead and introduce our special guest. Our special guest is the **president of Discount Merchant Funding,** which was founded in 2007. **Discount Merchant Funding, as a management team, has facilitated over $65-million in merchant cash advances**. We'll talk, of course, more specifically tonight what that's all about.

He's the manager of a 50-person mortgage bank sales office since 2002 to 2006, he has a lot of experience in the mortgage and finance industry. He's managed 3 offices of all of the product development with JP Turner's offices, totaling 500 brokers since 1991.

He's an investment licensed individual to series 763 and 24 in the past. I'd like to welcome our special guest, the president of Discount Merchant Funding, Bobby Keon.

Bobby, how are you doing tonight?

Bobby: Scott, I'm doing real well. Thanks for asking. And thanks for the gracious welcoming.

Scott: Thank you. It's really a pleasure to have you on the call. This is such a hot topic, what we're going to talk about tonight. Like so many subjects in life, there's so much misinformation. And if you get the right information, the right strategy, this could really help a business.

And then, of course, if you get the wrong information, this could really take a business under.

So, I'm glad we have the expert on, which is you.

Bobby, before we get started, can you tell us a little bit more, perhaps about your background or how you came about of why you founded Discount Merchant Funding?

Bobby: Certainly. I'm glad you asked.

Back in 2006, we were running a mortgage company. Things were going very well. This product happened to be introduced to us, and I was asked to sit in by one of my partners on a meeting in regards to this cash advance business.

At first, I was more than cold to the idea. What I happened to notice were a couple of things. **There were people being charged – excessively – broker fees, high dollar amounts for the money, being charged for equipment**, and it kind of rang a bell of familiarity to me from years past, from the investment banking industry.

I said, "I can see why people would need the capital for their business, and sooner or later somebody's going to come out and get this money to these customers and these business owners at the right level."

I had seen trends in the past whereas stock brokerage firms turned into Charles Schwab's, turned into $10 a transaction. The mortgage industry had the same type of thing.

So, what I did was I said, **"You know, somebody's going to do this cheaper. Somebody's going to do this better. Somebody's going to do this better for the end user."**

And that day, I came up with the name Discount Merchant Funding.

We came out with the exact idea of being cheaper, doing a better service, and helping the customer, the end user directly.

That's how we actually ended up getting into this business, and we've been doing it real hard for the last 2½ years, and we're very proud of the successes that we've actually been able to enjoy in this particular business. It is a very misunderstood space, to say the least.

Scott: Yes. We're going to talk about quite a bit of that tonight. Before we get into exactly what is a merchant account cash advance and how does it work, can you give us a little bit of your feedback? Everybody knows about the economic conditions, about the bailout, cleaning up a bank's balance sheets. Obviously, things have changed dramatically with how business owners would traditionally get financing; go to the bank, bank lines of credit, and business loans.

What are some things you'd like to add to the changes you've seen over the last year, and maybe even since the bailout? I kind of get the feeling some people were perhaps individually overly-optimistic that the bailout would somehow touch their small business. I don't think that's quite happened.

But can you give me a little bit of input, from your point of view, what you've seen for small entrepreneurs, as far as options from banks and financing before and maybe even after the bailout?

Bobby: Before the bailout, business owners generally had a couple of different options that they could do. Not that they were necessarily correct to do in the first place, but at the time, in 2004, 2005, 2006, it was moderately easy to go to your house and get a home equity line at a very reasonable rate.

That market has all but disappeared.

As far as the small business, it's really a bad word in most of the banking circles that are around today. It hasn't been a very favorable market, by any means, for the small business owner.

I knew there was an issue, and this is what actually originally attracted me to this industry, when **in 2005/2006 it was next to impossible for an entrepreneur to get a stated credit line on their house. And yet the employee or the chef at a restaurant, he could very easily qualify for this.**

So, there were signs that there was something wrong with the free markets when **the entrepreneur was harder to qualify for credit than his employees**. That led to his market absolutely exploding.

We're, right now, maturing this market, whereas 2, 3 years ago this market really wasn't functioning that well.

We're really getting a very good understanding. A lot of our customers understand how to use this money, and there's very different opportunities available to our customers to use this money correctly. I hope that we can touch on that tonight.

Scott: Absolutely. Let's talk about the basic definition of a merchant account cash advance.

Part of my understanding is when you go to banks; banks traditionally look at your credit score.

The challenge with an entrepreneur is, first of all, a lot of them start off as a sole proprietorship way too long. They should have incorporated earlier in the game, but **they start a sole proprietorship, they jack up their personal revolving debt, and their personal credit gets shot.** A lot of entrepreneurs have a lot of debt, have a lot of credit card debt personally, in overhead.

All of those things don't add up very well going to a traditional bank to get a business line of credit. So a lot of those people, traditionally, would get turned down going the bank route.

Can you tell us what a merchant account cash advance is and what does it look at differently than say a traditional bank might look at?

Bobby: Our number one concern, what **we're really looking for is number of credit card transactions, amount of volume, and then some very basic underwriting guidelines, starting with what's their rent per revenue that**

they're doing. How long have they been in business? What's tying them to that business, as far as do they have X rent? What kind of inventory do they have?

We're not necessarily looking at a credit score.

Now, a credit score does come into effect, to a degree, and that offers the better products that are out there. There are some products that we do have, that touch as low as 1% a month. A product like that, you're going to be looking at minimally a 650 FICO score.

But most of the other products, **anything over a 500 credit score is something that we're going to entertain.** And we do understand that an entrepreneur, in many cases, is somewhat of a risk taker and often has many mouths to feed before they can feed their own. So, we're not necessarily credit shy.

But we are **looking at how many transactions** somebody's doing a month. We are **looking at trends**. And we are looking to do something for them to enable growth through their cash flow.

We're involved in the cash flow aspect of it than we are, necessarily, in the credit aspect, if that's any help to you.

Scott: Yeah, I think that is. I think that's the real basic difference is banks will traditionally look at credit score and the merchant account cash advance is an advance against your Visa/MasterCard monthly transactions, not American Express or checks or cash. That's all separate.

What's the definition? It's an advance against future sales? How would you say that?

Bobby: It's really a purchase. **What we're generally doing is we're purchasing your future credit card transaction at a given percentage, anywhere from 75¢ on the dollar to 85¢ on the dollar.**

In some cases, on the larger accounts, up to 90¢, 91¢ on the dollar.

What we're doing is we're generally collecting that back anywhere from 4 months to 12 months down the road. So, we are giving people the liquidity to go out and purchase the inventory, to do the advertising that's necessary.

There are deals out there right now that have customers buying inventories 20¢, 30¢ on the dollar. I'll touch on that with you later.

And advertising, as we all know, as important as it is, it has remarkably come down anywhere from 30% to 40% for our customers.

So, it is a good time to understand this. This isn't something to walk into without knowing what you're doing. You do need a plan. And if you carry it off correctly, this could be **one of the best financing choices because of its flexibility isn't seen by any sort of bank product that's ever been out before**.

Scott: That makes sense. I know we've probably said a lot of terms so far, that some of you may not understand. But we're going to clear all of those up in the next hour here that we're going to spend together with Bobby, and lay the foundation.

Again, as a little summary so far, we're talking about for entrepreneurs. We'll talk later about the difference between a home-based business. You heard Bobby talk about rent and things. Some of you may have a home-based business. We'll talk about the difference between that and somebody who has a traditional office lease.

We'll talk tonight about how long, **what's the minimum timeframe you have to be in business, what's the minimum dollar of Visa/MasterCard transactions, the consistency, how much money are you likely going to get, what's the cash advance ratio, the remit rate.**

It's a very important subject, we're going to cover all of that tonight, in the next 45 minutes or so that's remaining, so you have a clear picture of how this really works.

I'm sure many of you, if you do have a merchant account where you accept Visa/MasterCard, and credit cards for your business, which hopefully you're all doing, unless you have a business like you're collecting rents for real estate. They wouldn't have that.

Again , if you have a merchant account, you probably got some solicitation in the mail that said something like, “Would you like to get $20,000 in cash within 72 hours, no personal guarantees, almost 100% approval?”

If you’ve gotten something like that in the mail and you have a merchant account with credit cards for your business, more than likely it’s in this arena that we’re going to talk about tonight, which is a merchant cash advance.

Bobby’s going to go into all of the details of how it works. The opportunity here, and maybe, Bobby, we could talk about that. I’m probably jumping ahead of my questions.

Can you talk a little bit, so everybody has the big picture of a success story? Somebody might be saying out there, “My business is going fine. I have enough cash flow to cover everything. Why would I need a merchant account cash advance? What is one or 2 of the things I may use it for?”

And then, maybe what would be one of the common wrong reasons to do it, which I think what comes to mind for me is if they’re just behind on their bills.

What I like about your company is you actually consult with people a little bit, if they do get the advance, how are they going to pay it back, how are they going to have additional profits in the next coming months, what do they need to do.

So, can you comment a little bit about maybe an example or 2 of how this would come into play, so people can calibrate, besides just needing money to grow their business, what are a couple specific examples?

Bobby: Certainly. Before I even touch on that, just to clarify what a merchant cash advance is and how it works, and how it's different than conventional financing, there was actually no better year than last year to really take a look at that.

There was a similar product offered by a company called On Deck Capital, which was a little bit lower of a rate stretched over a little bit longer of a period of time. And their collection method was on a fixed payment, ACH method, which meant every week you'd have X amount of dollars taken out of your account.

Now, nobody could have anticipated that business would be down so drastically last year, but it came and what happened was having that fixed payment to save that 3%, 4% or 5% on the cost of the money devastated a lot of businesses.

What I mean by that is if you're doing $500,000 a year in revenue and you're paying out $50,000 in notes, that's one thing. But if you drop down to $350,000 in revenue and you still have that same debt service, that's when people run into problems.

A merchant cash advance, one of the reasons that I happen to be a big of **the product is it's so flexible**. **If your revenues are up, you're going to pay it back a little bit faster. But if your revenues are down and you do have an off week or off month, you're going to pay it back slower.**

So, the flexibility that it offers is very important, especially in an environment that is so unpredictable.

I just wanted to make that clear. And on top of that, one of the other important things is **you're only paying interest on the money that you're using**. You're not paying interest on previous and old debts.

If you refinance your business or you refinance your house that you owe $300,000 on, to get an additional $50,000, if you look at your closing costs you'll probably find that, in many cases, this money's actually cheaper.

I'll happily touch on that later and explain that to you, or anybody on a personal level.

Scott: That makes sense. Bobby, do you want to give the examples first, and should we explain what the cash advance ratio and the remit rate is? Do you want to maybe give an example or 2 first, so everybody can kind of calibrate to how this may play out and what they may need this for?

Bobby: Certainly. I'll tell you what. I'll give you one of my favorite examples. It's one of my favorite customers, and I happen to be fortunate enough to do business with them every year.

He owns a nursery. He called me up for cash advance in the beginning of January, about 2 years ago.

I said, “What are you using the money for?” And he happened to say, “Well, I have to get through the winter. I have a really big May, June, July, August, September, October, but my winters are real slow.”

I said, “What can we do to make you some money on that money?” And he said, “Well, I could save 5% on my inventory.” I said, “Well, if you’re going to pay 30%, 35% on money to make 5% on it, you’re going to be out of business pretty soon. I’m going to take a stab in the dark to say that you have some wholesalers who are seasonal, just like you. Why don’t you make a call, see what you have, and see who could actually give you a good deal on some inventory now?”

To his surprise, the wholesaler that sells him his mulch gave him his mulch at 40¢ on the dollar. I gave him $50,000. Instead of paying $100,000 for mulch, he paid $40,000 for it. With the cost of my money, it brought him roughly to $55,000, which locked in an additional $45,000 in profits for him last year.

Now, last year was probably one of the worst businesses for most businesses. But he happened to lock in an extra $45,000 in profits in the very first month of business; which, as any of you guys know that are self-employed, that’s absolutely priceless. So, I do count him as one of my better customers.

I have had some other good uses of this product recently. Unfortunately, at the expense of maybe some other people, I'll give you an idea on that.

I have a few restaurants that have managed to purchase inventory in their wine cellars at 25¢ on the dollar, been able to purchase equipment on businesses that are no more.

There are deals out there, and I'm sure every one of you guys knows that, that there have been some deals out there – deals of the century. The problem is people haven't had the cash to take advantage of them.

Well, if you understand this product, you'll find out very quickly that **this could be one of the best ways to expand your business and take care of that opportunity without letting it go past you.**

Scott: That makes sense. Can I add a comment to that to everybody listening? I don't now if you really focused on it, but one of the differences, what I like with Bobby – and we've worked with him, we've gone through the advance, to go through the process and their customer service – is the fact that what he said up front, somebody called, "We need money," their first question is, "What do you need it for?"

I'm sure in the industry, Bobby, most people wouldn't even really ask that question, per se, or at least dig down deep. They'd just say, "Okay, great. How much money do you need? Will send out the application and we'll see if you qualify."

Wasn't there, about a year ago, about 20 players in this industry? And now, how many are there today?

Bobby: There are a few stragglers, but there's really **only 3 main players left**, a few smaller players, but they're well-financed companies. There's really only 3 or 4 that have actually survived.

Scott: And is the big reason because those companies, a year ago, **when people were looking for money, they didn't take the time to understand how are you going to pay it back, what are you going to use it for**, like you suggested, a creative strategy. "Why don't you call the wholesalers and see, if you had the cash, what kind of great discount would they give you? They probably need the cash right now and they might be willing to negotiate."

Is that one of the big reasons, do you feel, why some of your other competitors are no longer in business, because they really didn't take care of their customers and because their customers went out of business, therefore it affected them? Is that fairly accurate?

Bobby: You know, it's kind of funny that you say that, because absolutely. I've got to tell you some of my competitors still think that it's not okay to ask that question. And they pride themselves on they can do whatever you want with this money.

If you're going to put money into a business, the way I look at it is I'm investing in the business with no share of equity into that business, but at the end of the day it only is good for both parties if I can help them succeed.

I speak to a lot of people and I say, "You know, it really makes no sense. If somebody really didn't want to share that information with me, it's probably not such a good idea to invest in them."

I take it as an opportunity to really actually help out my customer. We've been doing it with that in mind for the last few years, and I'd say 9 out of 10 times the idea may be coming from them, but sometimes they just need that little spark to figure out exactly what they should be doing to get themselves back on track to where they need to be.

Scott: That makes sense. **One of the areas of opportunities is if you're a business that needs to buy some inventories or purchase things, you can get things at discounts – big discounts now – because a lot of people are hurting for cash.** And later, we'll talk about some more examples in that arena.

I'm sure there's some people on the call that they've gotten their business up and running, maybe they're a year into their business, 6, 7 months into it, maybe 2 years, and sales have slowed down, things haven't happened the way they thought they would, and they're probably behind a little bit on bills, they probably need some more money for marketing. And I guess from my understanding of this product, the area that's probably the big concern if somebody needs money just to pay their current bills and they really don't have any money to invest in marketing, that's probably going to be a problem in the future. Is that correct?

Bobby: It is. And a lot of the companies, in the beginning, thought they could solve that just by finding out if people are current on their rent. That was one of the first major stipulations.

That's still a stipulation, people being current on their bills, having the ability to get their inventory, to buy their inventories, and it's very important. But this really isn't a product that should be used to refinance debt**. This isn't a product to try and make your debt go away. It's a product to expand your business.**

So, if this product's going to be used correctly, you really want to be putting a small percentage, to say the least, towards marketing, some of that money towards improving your location in cases, grabbing an inventory that you can get a better deal on.

It's important that people see this, because these are things that they do every day, but it should not be used as a last resort. **This is a product that can be used to make your business bigger, faster and stronger. It should not be looked at to stave off creditors.** That's not what it's for. That's not what it was meant for.

And that's probably the reason that you've seen such a thinning in this industry, is because people have used this product wrong. It's a lot of the banks' faults themselves, for not educating their consumers and not educating the people using their products correctly. And it's a shame, because, as I've said, I've seen this product work for companies. I've seen products jump up from $200,000 a month in revenue to $600,000 a month in revenue. I've seen restaurants that would have otherwise failed, who ran out of money after they put their life savings into it, and they were just shy on making sure that all of the oil and the grease were in the cogs of the wheels.

We've really made people just realize their dreams. I think that is the American dream, to own a business and to make your own living. And we do our best to make sure that we can help our customers do exactly that.

Scott: I appreciate that, because the honesty's very important, especially in these challenging times, as far as what needs to happen.

Let's talk about the specifics and some of the details I'm sure people on the call are very curious about. Do I qualify for this? Do I not?

And then, I just want to remind people, if you don't yet qualify or if it looks like it's not the case, the key is to get excited about where you need to be maybe 3 months from now, 6 months from now, so you know that this could be one of those options out there.

Basic building business credit with Dunn & Bradstreet, trade credit, vendor credit, we've talked about that in the past. We've talked about banks. This is another common financing option.

So, just keep that in mind. Some of you are going to be in a position that this may make sense for you to call Bobby's company tomorrow. For some of you, you may want to follow-up in a month or 2. But at least you want to take notes, especially at this portion, as we go through some of the criteria.

Bobby, do you want to start with kind of explaining what the cash advance ratio and the remit rate, so they have an idea of how this works?

Bobby: Certainly. On a cash advance ratio, about a year ago, many companies, which is another contributing factor to why I have a little bit less competitors out there, was people were doing anywhere from 125% to 200% of the merchant's monthly average.

That being said, the collection ratios were anywhere from 20% to 45% of Visa/MasterCard transactions.

Scott: Can you give us an example? Bobby, sorry to interrupt. Can you give us an example? In other words, when you say 200%, does that mean if they did $50,000 a month in Visa/MasterCard, these other companies were giving a cash advance of $100,000?

Bobby: $100,000, yes. I've actually seen worse than that from one of my competitors, and I've actually seen people doing $50,000 getting $225,000.

I actually have a particular customer that I'm actually funding this week, who was really hurt and should have been put out of business. His name is Wayne, and I've been dealing with him for a year to get him out of this.

We're actually probably going to fund him on Thursday, just to keep him full of inventory.

You see this, and you see this happen, and you see people that take things that they shouldn't. We work real hard with people. If anybody would ever want a referral from our end, to see how hard we work on this, I'd be more than happy to furnish them.

Scott: So, **what should the ratio be?** What would be a comfortable level that people should be considering? Let's say if you did $50,000 a month consistently in Visa/MasterCard sales, what would you expect, typically, to get that would be a comfortable number of what you would manage?

Bobby: It's funny you ask that. **There's no set formula**, and I'm going to tell you why.

There are 2 things that you have to take into consideration. Number one; what's the profit margin on the product that they're selling? A lot of your customers, Scott, are Internet-based companies. By the way, I have come out with a product for you that I wanted to talk to you about. I'm going to let your customers know about it. But it's with you in mind and the kind of business that you do.

Scott: Appreciate that.

Bobby: A couple of things come to mind when you say that.

Number one is how much of their business is getting done on Visa/MasterCard? Is it 50%, 70%, 80% or 100%? In a lot of cases, your customers are only paid with Visa/MasterCard.

Scott: Sure.

Bobby: If that's being said, what we like to do is we like to stay between 9% and 12% of the gross revenue of the company. We like to be paid back between 6 and 7 months. We will take things and stretch them out to a year for certain situations, especially if the use of proceeds is correct, and it could be business changing and it could set somebody off and launch them.

But for the most part, that's where we like to stay and that's where we like to live.

We're one of the few that will actually fund on top. So, I'm never in a rush to give every nickel to somebody and put them in a position where their back' is against the wall.

If somebody qualifies for $50,000, I'd rather see them take $25,000. And if they need another $25,000, I'm a phone call away. And Scott, as you know, I always answer my phone. And that's also very important.

What we really try and do and where we try and stay is we **try and give what is needed**, as opposed to giving people the security to have additional money in the bank. So, **we try to take it on a project by project**.

` We don't really try and give people a maximum amount. If somebody does $100,000 a month in Visa/MasterCard but they make $5,000, if I give them $100,000 I'm going to put them out of business.

But if somebody does $100,000 a month in Visa/MasterCard and they make $50,000, they can probably take somewhere in the neighborhood of $100,000 to $150,000 and seamlessly take that and deal with the additional capital and the capital requirements that I'm going to take on by taking over remits.

But you can figure for 100% to 125% of their average Visa/MasterCard, I'm going to be somewhere between 15% and 20% of Visa/MasterCard. I generally try and stay on Visa/MasterCard. I try and leave American Express alone. That is because I'm not a big fan of doing a lockbox. **My business is to make your cash flow better;** it's not to put something in the way of your cash flow.

If you have any questions about that, Scott, which I'm sure you do, fire away.

Scott: Okay, so let's recap for a little bit. We're hearing lots of numbers, so I want to kind of chunk it down.

The cash advance ratio, for example, **if somebody had a 1.12, that means if you got a cash advance of $100,000, you'd pay back $112,000**. Is that accurate?

Bobby: That's accurate.

Scott: Not to say you'd get that ratio, but that's an example of what that ratio might be.

Bobby: It's funny you say that. That's one of the banks that actually went out of business. And that was a bank with a personal guarantee.

One of my competitors, sent some business with a 112 product, was a very popular product among restaurants. There was a personal guarantee that went along with it. That is the way the factor does work.

On an Internet-based business, guys, just so you know, the premiums are a little bit higher than that in general.

Scott: Sure. Sure. What would you say would be kind of a range, so people have a mindset of what this would look like?

Bobby: **The average for a home-based Internet business is going to be a 7-month 138. So, that would be $10,000 to $13,800.**

On a $10,000 advance, you're going to pay back $13,800 over 7 months. That seems to be about the average.

The high end of that is going to be $14,800 on $10,000. And the low end on that is going to be $12,700 on $10,000.

Scott: That makes sense. And I guess to clarify for people; we haven't used the word loan. **This is not a loan with an interest rate. Right?** What's the difference?

Bobby: **We are purchasing the future receivables**. Our money that we put out is non-recourse. So, **we are taking a chance on your business, we are investing in your company. And we don't get an equity share of your company.**

If you compared us to a venture capital firm, you might think we were crazy because what we're doing is we're investing in companies when they have a need for cash and we know there is nobody else that's going to come and bail them out if they can't do this.

So, **we have to be selective in who we do this with**. But at the same token, we are willing to build your credit, just like anybody else. And **we do take a shot on somebody just based on a gut feeling and the fact that we like someone.** And I want to make that abundantly clear.

As a matter of fact, while I'm on that, what we have done is we've seen the approval ratings go down drastically from 2 years ago, where it was 96% – across the board – of merchants getting approved just by having a Visa/MasterCard. It's considerably less than that now.

But what we did to expand this market for the new entrepreneurs and for the smaller businesses and for those home-based businesses, is we came out with a product where if somebody's doing north of $2,500 a month in Visa/MasterCard, when they change their merchant account over, we will give them a new merchant account and we will give them an advance of $2,500 just to get them started. We'll give them a second advance of $2,500 over the next 3 months, if they need it. And we'll give them 75% of their Visa/MasterCard transactions if they've paid both of those back successfully.

We are willing to work with people and we are willing to take a chance on people that are new to business and that are doing this**. It is, without a question, a necessary product.** We are proud that we've started this program and we really did have you in mind on this, Scott, I can promise you that, because we do know how hard you work on these companies. You've told me about the many mistakes that these individuals make when they go into business, and it's not building their business credit.

I think what you're doing is real important. To be honest with you, I wish I knew you 5 years ago, as opposed to 2½ years ago. I think you would have saved me quite a bit on my credit score personally. Because, as you know, I started my business myself and I did it the same way as many of these people did, with credit cards. And I did it at the same time I was building a family.

So, I've seen all of these issues first-hand, I can promise you that. So, they are near and dear to me, and I do understand them. It's a lot easier to understand them when you've actually walked through them, as opposed to when you just watched someone do it.

Scott: Absolutely. You mentioned a couple of parts and pieces there, so I have a couple of questions for you. I want to point out that what I'm hearing you say is when you do get a merchant account cash advance, obviously people have a merchant account provider. And then, one of the things they're doing is **switching their merchant account processing over to your company**. So, when they get the advance, and some people are probably wondering how this works, I guess the money comes automatically. Maybe you can explain that and why that happens, that part, and maybe get into the remit rate.

So, if I get $10,000 next week, how is it determined how I pay you back, and how does that come out of my account?

Bobby: How about for starters, we'll be very straight on this.

Number one, there's a value to that merchant account to a provider like myself. A portfolio of people's merchant's accounts is valuable. It gives us a source of raising capital that we can put out without taking a loan in order to do so, because our money is expensive that we borrow. That's number one.

Number 2 and more importantly**, is to not interrupt the cash flow of a customer when you give them money**. So, if you, Scott, being the merchant, does a credit card transaction on a Friday, and you're used to seeing that transaction show up in your bank account on Tuesday, if I extend that to a Thursday or a Friday by putting a lockbox between you and your processor, I've now lent you your own money.

What I mean by that is I'm funding you money and, at the same time, the money that you're already making is taking longer to get to you.

So, if I give you $10,000, I might as well have given you $8,000 and made sure that you got your money on time, because it's going to have the same effect on your company.

So, when I change the processing over, 2 things happen. Number one, when you do a transaction, if I'm receiving 15% of it and you're receiving 85%, you get your 85% at the exact same time as you usually did, and I get my 15%.

If I do it with a lockbox in place, a third-party bank will get 100% of the transaction and I'll get my 15%, and you'll get your 85%.

It's like anything else. The extra moving parts never work out well for anybody. They don't work out well for me, because if there's a problem with a transaction on your end, that account, after it's all already been sent out, that's where the return goes to. So now we have to wait for another transaction. And they don't work well for the customer, because I'm interrupting their cash flow.

That's why **we really suggest that you change the merchant account**. Just so you know, I have 9 processors. We have our own processor as well, but we have 9 processors to deal with. **And depending on the industry you're in, we have the right processor for your company**.

Scott: Let me ask you a question, because part of my job is to kind of chunk some of this down for the listeners the best I can.

I think what I hear you saying is some people, and maybe some of the other competitors sell this, if they don't switch over their merchant account, they can put in between something called a lockbox. Because obviously, what's happening with what's called the remit rate, there's a certain percentage of your transactions that go to pay down the loan automatically. You don't wait for somebody to send you a check and pay it down. It kind of automatically comes out of the bank account.

But what I hear you saying is a lockbox is typically a bad thing, because it would allow somebody to keep their merchant account; but if you have a lockbox, the time the client would receive their money would probably be double the time. That's really not a good thing to do.

The **benefit** is when you **switch merchant accounts** to one of your providers, A) the **rates are going to be very competitive**, B) you don't have the lockbox scenario, so **people can get their money in the same timeframe** they would have otherwise.

If I normally would get my money in 2 days after I do a Visa/MasterCard transaction, money would still come in 2 days, typically. And then what would happen would be a certain percentage, maybe between 15% to 20%, maybe less, would come out of my daily transactions to slowly pay off this advance. And that's why it takes about 6 to 7 months to pay off.

And I think what you said earlier, if your **sales actually go** up and your Visa/MasterCard's go up, the percentage you pay back daily stays the same, you'd actually **pay off the advance soo ner**. Maybe instead of 7 months, you'd pay it off in 5 months.

If your **sales slowed down**, the **percentage stays the same**. It's not a set payment. Maybe **instead of 6 or 7 months, maybe it might be 8 or 9 months.**

So, is that a pretty good summary, or did I misspeak in a couple areas?

Bobby: That's a perfect summary. And just so you know, the way I actually became a funding company and was able to start funding my own deals was there's a sister company of mine that actually owns a portion of Discount Merchant Funding. It's called Strategic Funding. And they allow me to do a few things that they don't even allow their own salesmen to do, and I'll happily get into that, if anyone gives me a call in, or Scott as well.

I was consistently calling Andy Reeser, who's the CEO of that company, and saying, "You know, my customer's doing real well. Could you lower their remit?"

And he goes, "I have 1,400 people that I do business with, and you're the only one that calls me every time his customer has a good month and asks me to lower the remit."

And after about the 100th customer I did that to him with, he came out to my office and he said, "You know something? I really want to be in business with you." The rest is history.

We've actually been rewarded by doing the correct thing by our customer base. That's one of the best things to do, is to actually give somebody money, increase their business, and not necessarily get your money back faster but get the person to a position where they can actually start cash flowing better and better.

And if somebody does have an explosive growth trend, I'm always the first person to take that call, take a look at that, and do my best to lower that down so that they can actually take advantage of the revenue that they've created.

Scott: Very good. Bobby, let's talk about some of the other criteria.

Let's say somebody is fairly **new in business**. When I say in business, let's say they have an LLC or corporation. They've got to be around for at least 6 months, 9 months? What's the minimum that your company feels comfortable with?

Bobby: Well, in something that's brick-and-mortar, a restaurant, I'll do before it opens.

An Internet-type business, we like to see 12 months.

If you're referred by Scott, I'd consider anything with 6 months.

Scott: Just so everybody understands the difference, obviously a restaurant is going to sign a lease, they're going to have inventory, and they're going to need some cash flow. Obviously, your company checked, hopefully they've had experience at that business. That would be like one of the lowest ones on my list to start. But if you've had good experience and you know what you're doing, it could be an opportunity, especially when a lot of those competitors are dropping like flies now.

It's not like people are going to stop eating. There's going to be a lot less restaurants to go to. So, maybe yours could actually be the one that actually does better in this economy.

Bobby: Our most successful payback on any product, believe it or not, it's funny you said that, is restaurants, new restaurants.

If you drive by a new restaurant that's in your town, you're probably going to try it. And then, it's up to them to win your business over, which is the same with any business that we're dealing with.

Scott: That makes sense. I could see that. So, if you're a home-based business, the difference is obviously you don't have a lease; you don't have a lot of inventory overhead. There are pluses and minuses to that. To me, you don't have more overhead, so there might be a little less risk. But **they want to see that you've been in business for at least 6 months, you've been processing, probably consistently, at least $2,500 a month, which is certainly not a lot, and that you're doing that consistently.** Obviously, the more, the better.

Some of you may be doing $100,000 to $200,000 a month, depending upon the size of your business.

Let's say they have those couple criteria met. I think we touched up on this, but when does a personal guarantee come into play and when does it not?

Bobby: A **personal guarantee comes into play** in a couple of things. Every credit card processing that you sign up with has a personal guarantee. You're **guaranteeing that you're going to do non-fraudulent transactions**. So, there's a guarantee on credit card processing.

But an area where a personal guarantee does come into play is fraud. **If you have an agreement to pay myself or any of my competitors back, and you unplug your terminal and you start using a different processor,** that's where fraud comes in, and **that's where a personal guarantee is triggered.**

There are some of my competitors that have actually figured out a way to write the personal guarantee into the contract.

I'm not an attorney and I don't really have an opinion on that. That's not what we're trying to do.

If we're taking a chance on someone's business, we're investing in their business. We're not looking to come after somebody's house for a lost business opportunity. We've factored that into the cost of the money.

We're not one of those banks. We're not trying to do that. But there are quite a few banks, especially out of California, that are doing exactly that. That is their personal guarantee.

But this money, if it's done correctly, there isn't a personal guarantee on it.

Scott: Bobby, some people are going to have some issues because maybe in the past, because of the housing market, they've either had to have a foreclosure or they've had a bankruptcy personally. **Does the bankruptcy kick them out of the process?**

Bobby: No. **Actually, in some cases yes and in some cases no**. I hate to say that to you, but that's the way it is.

Just keep this in mind. The way we operate our business, I can't speak for all of my competitors because some of them are pretty rigid, but **the way we operate our business, as I said, it's on a gut feeling.**

So, entrepreneurs in general, especially the successful ones, are very likeable people. It's not exactly that hard to qualify based on that fact.

But **if somebody lives in California, they were upside-down on their house and they were running a business and they have 3 kids to support, we're more than understanding of that.**

At the same token, **if somebody hasn't paid their credit lines in the last 15 years, no matter what they are, we know there's a good chance that they're not going to pay us back, either.**

Scott: That makes a lot of sense. And you said earlier, personal credit score doesn't have to be stellar.

Bobby: I hate to say this, because it's taped, but in a lot of cases a really good credit score scares me worse than a guy that's got a 650 or 680 credit score.

I can show you the numbers to prove it, that **the credit score really is one of the least reliable factors on getting repaid on this.**

Scott: I understand why you say that. The banks look at opposites. I know your viewpoint from talking to you in the past as an entrepreneur, you're going to take on some debt, your credit score probably may have gotten beaten up a little bit to get the business up and running. So, you probably utilize that.

If somebody has a great, high credit score, if they've never done anything entrepreneurial, and this is their first shot at it, that might be more risky, somebody who has a 780, than somebody who has a 580 that's been in business off and on for 20 years. Is that kind of what you're saying in that area?

Bobby: It's kind of what I'm saying, and it's actually exactly what I'm saying, because it's true.

An entrepreneur will look at money and say, "I can get $10,000 for $13,800. I can take that $10,000 and I can make $20,000 with it."

An employee will say, "I'm never paying that kind of a rate."

Scott: A different mentality.

Bobby: It's a completely different mentality. And that's one of the first questions I usually ask to somebody is, "If I gave you $20,000, how much do you think you could make with it?"

If they have an idea and a preset notion of what they're going to do, most entrepreneurs will make a lot more than the amount of money that you're giving them. They're not doing it to make 5%, to say the least.

They’re not looking to invest it in a bank account and save. It’s just a different type of minded person.

As far as my mortgage experience is concerned, employees always had the better credit score and employees always had a worse credit score. And anybody that’s been an entrepreneur before, in the past, knows exactly why. I don’t think we even need to beat that into the ground.

Scott: That makes a lot of sense. We’ve got a few minutes remaining and there’s a couple other distinctions that I want to share, that you shared with me the other day, about inventories, that were really kind of surprising to me.

Before we do that, Bobby, do you want to go ahead and give out the phone of your company for people to call, so tomorrow or the next several days or whenever people listen to this call? What’s the best phone number to contact your company at?

Bobby: **(516) 799-4400 is our office phone number**. It is either forwarded to me or my office manager on the after-hours. So, you can always contact us, actually, on that phone number. We always will answer that. And we’ll answer it a lot later than I think most of our competitors will.

Scott: I can attest to that. I’ve called your company many times, late at night. There’s typically always someone there working.

So again, that number is (516) 799-4400. The website is **DiscountMerchantFunding.com**. If you want to take a look at the website, you can call Bobby's company and talk to his staff. Let him know you were referred by NCP and you were on the teleseminar. **They'll take good care of you and they'll tell you the good, the bad and the ugly.** They'll tell you if it's a good idea, a bad idea for you, what's likely to happen, or maybe what you need to do differently to get in the position, and maybe you need to call them back a couple of months from now and maybe they can help you out at that point.

Bobby: Definitely, **say you're referred by Scott Letourneau. Because, in most cases, home-based Internet business wouldn't be considered by our company.** That's the absolute truth.

The one thing that we've always been very proud of with our business is our referral network. **Referrals are generally the best customers in this business, as with any other business.**

As a matter of fact, I'm going to give you a toll-free number. It's (877) 429-3396. That will come to us, as well.

As I said, anybody that comes from Scott Letourneau, please make sure that you mention his name. And anybody at my company will more than happily assist you correctly. I will myself, personally, if you give us a call.

Scott: I appreciate that, Bobby. On the other side of the coin, for those who are in that position, because my name's involved, make sure you implement everything we teach you, because we want you to be successful, so you stay in business. That's why we talk about the top 5%, because it doesn't do us any good, or you, if you go out of business.

So, **our goal is to provide you the tools, the resources, and your job is to implement, execute, so you can be successful.**

Bobby, in the last couple of minutes we have remaining, the other day we talked about something pretty interesting, about **buying inventory sometimes 20¢ on the dollar.** Can you tell us about a couple of those possibilities?

Bobby: I can tell you this. I mentioned Wayne before. He's buying his inventory anywhere from 20¢ to 25¢ on the dollar right now, from some major clothing manufacturers.

I have people who are able to purchase used equipment at ridiculously low rates. I've been approached by the auto industry to start buying the cars from the Chryslers that are forcing people to sell out their inventory. **There are fire sales everywhere.**

I don't even know if I could cover that. You'd have to give me another hour to cover just the things that are for sale. As a matter of fact, I'm sure that the people listening to this phone call could teach me a thing or 2 on what's up for sale right now at a very discounted rate.

But the things that I've come across are countless. Clothing, anything that's getting shipped from overseas, there's fire sales. Electronics have customers going to Costco, which happens to be a great Internet business, guys. They're going to Costco. The local Costco manages their own inventories. So, an individual manager at Costco will sell their electronics, on average across the country, about 22¢ on the dollar. And this isn't for broken equipment. This is for **overstocked equipment**. This is for old equipment. They don't keep anything that's not the newest model on the floor.

Costco, as a company, took about a $66-million loss in electronics last year alone. That's your opportunity to make money.

There are things out there that you can go out and purchase and sell very readily on the Internet, and turn a very large profit. You can consider that Scott's tip for the day is the Costco connection, which is a local connection. You can walk right in there, to the manager, and ask him if you can bid on the electronics. They'll sell you anywhere from $5,000 to $15,000 every 2 weeks of equipment. Nothing will be broken. Anything that's broken, they'll take back and fix for free.

I'd say this whole call was worth it just based on that tip, Scott. You have anything else that I can help you out with?

Scott: It's been tremendous. It's very interesting, just to get the mindset of when other people are struggling, if you have the foundation in your business, you're out there making it happen, if you do have the ability to negotiate, cash is king. A lot of people are hurting in certain industries. And if you can find a way, obviously you don't have to turn around and sell things at 100% face value. You could sell it at 30% off.

But if you can buy things right, which is the way to do it, you can make money on the spread and afford to pay back, like Bobby's company, pay the company back and make a profit for yourself. So, it's a win-win for everybody.

Bobby: Costco's a great thing. But just on a personal note, **there's plenty of businesses that are, unfortunately, going away.** Like Bonus World, I happened to stumble in on a 90% sale the other day, and I think my children have shoes until they're 19. They're 2 and 4 right now. But **there are opportunities out there. You've got to keep your eyes open**. And when you see something, we're pretty quick. We're not the fastest in the business, by any means, but we are pretty quick at getting things done. If you give us everything that we ask for, we can do it just about immediately.

The first round is never the fastest. After that, as anybody who's one of our customers can attest, that's when we really get magical. We want to get comfortable with you, first. And when we're comfortable with you, we understand your goals, we'll make sure that you can see them to fruition.

Scott: Wonderful. I appreciate it. Again, the phone number to call Discount Merchant Funding is (877) 429-3396. Let them know you were referred by me, Scott Letourneau at NCP, and you can call them directly and they'll be able to see if they can help you out, explain what your the options, to possibly get a merchant account cash advance for your business and take it to the next level.

Bobby, I really appreciate your distinctions and strategies, and all of the information. I know it's going to be very helpful to our members. So, I appreciate all of your insights, again, tonight.

Bobby: Any time, Scott. By the way, thank you for even thinking of me and my small company to help your customers out. I really appreciate it.

Scott: You're very welcome. I think I said it earlier, **but we've used Bobby's company. The service has been tremendous.** So, if we've gone through this process ourselves. It's a very good service and it works out very well, again, if you use it correctly, which is the name of the game. And their company will take good care of you.

This will wrap up the call for this evening. Everybody have an outstanding night, and we'll talk to you soon.