

**SELF-EMPLOYMENT &
THE CASH FLOW
INDUSTRY**

Laurence J. Pino, Esq.

The Open University Press, Orlando, Florida

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DEDICATION

This book is dedicated to those insightful individuals who recognize and seek out self-employment as the means to achieving their ultimate career goals. Their individual dreams embody the future of the American enterprise system

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Laurence J. Pino, Esq.

INTRODUCTION

by Laurence J. Pino, Esq.

Welcome to the age of small business.

Recent downsizing trends have eliminated all security in the corporate job market. Americans intent on success are looking to self-employment for security, income realization and personal gratification. Since the mid-1970s the number of individuals drawn to self-employment has steadily grown. According to data from the Department of Labor's Current Population Survey, the number of workers who were self-employed in their primary jobs increased by 74 percent between 1975 and 1990, while total employment only increased by 33 percent. The motivation for starting a business has always been very clear; the obstacle has been what to do.

Almost anyone with vision and a spirit of independence understands the power of self-employment. The difficulty comes in choosing a specific business. Gone are the days of taking over the family store or graduating from college with a diploma in one hand and three job offers in the other. Today people need a new option for setting out on their own. Diversified cash flow can provide that option.

My own experience in business has shown me firsthand the frustration people feel. Having started more than 45 businesses in the past 20 years, I know that anyone with entrepreneurial drive can take a solid business and make it work; they just need to know what business is right for them. This book will show you it is both possible and profitable for

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anyone to become successfully self-employed. All it takes is a willingness to work hard, educate themselves in a solid business and choose that business carefully.

My personal and professional goal is to empower adults to become successful and effective in their lives. I've done this already, through appropriate training programs, for several thousand new entrepreneurs, and I plan to do it for thousands more.

By profession I'm an attorney, but at heart I'm an entrepreneurial educator. At the age of 30, after building my business portfolio to include real estate investments, a chain of nine sporting goods stores, the largest institutional athletic distributionship in the state of Florida, and a multicity commercial law practice, I set out on the financial lecture circuit to teach Americans how to become successful in business. I designed and developed the *Desktop Lawyer*, a set of audiotapes, manuals and software as a complete compilation of all my legal documents to enable businesspeople and investors to represent themselves in business transactions. Meeting so many interesting people, all eager to make their lives and livelihoods better, eventually inspired me to establish the Diversified Cash Flow Institute as the first institution in the nation focused on teaching adults practical entrepreneurial skills in the diversified cash flow field.

I first began to explore diversified cash flow after I had realized that cash flow was everywhere. I saw a huge growth potential and opportunities to profit by helping businesses and individuals meet unique cash flow needs. In addition to

being so potentially lucrative, I also realized how perfect the business was for home-based, self-employment opportunities for anyone, anywhere.

With little overhead, no investment and the ability to control one's income, becoming a cash flow broker is the perfect solution for those searching for a profitable self-employment option. This book is meant to serve as an introduction to the business of cash flow. By no means do I expect these pages to hold the answers to all your specific questions about this industry. In the end, there is no substitute for proper training, preparation and knowledge. Once you complete this primer, however, you will have a very clear understanding of what it takes to succeed in the cash flow industry. You will also have a solid base of knowledge from which you may decide whether or not to pursue diversified cash flow as a self-employment career yourself.

In any event, I know you will enjoy this easy-to-read book and I look forward to receiving your comments.

CHAPTER ONE

Starting Your Successful Business

You may have already begun to look at ways to start your own business. Perhaps you are already self-employed and you are looking to diversify. Perhaps you made an unsuccessful attempt at self-employment in the last year, but you're wiser now and ready to try again. Perhaps you are trapped in corporate America with no hope for advancement and you're exploring new opportunities. Whatever your personal motivation may be, the decision to become self-employed boils down to three basic options:

#1 Buy a franchise

This is attractive to most people because all the “ingredients” for success are neatly pre-packaged for you. So if you have the money, I say go for it. Just realize that upfront costs and franchise fees almost require you to be independently wealthy before you even start! Plus, ongoing royalties and licensing fees will put you in a position of having to pay to conduct your business. The more you make, the more you pass on to the franchise headquarters. On top of all that, you are pursuing someone else's business dream — not your own.

#2 Purchase an existing business

This sounds a little better because after you've paid out \$60,000 to \$250,000, the business is all yours! That's right... all yours. And with the good comes the bad, including all the risk of inheriting unhappy customers, disgruntled employees, undisclosed liabilities and maybe even a lawsuit or two. I tend to view buying an existing business like buying a used car. The car may look good and the price may be right, but why is the owner so eager to sell it? I'm too skeptical, and realistic, to find out.

Self-Employment Options

1. Buy a franchise.
2. Purchase an existing business.
3. Start a new business.

#3 Start an entirely new business from scratch

Starting your own business gives you the security of knowing what you have and being in control of the money you spend. However, starting a traditional business comes with the uncertainties associated with startup situations — like staying in business through the initial prerevenue and preprofit stages.

I believe that starting your own business is the only way to secure your future. The key, however, is to get the proper training and to start the right business... a business where you don't have to spend your life savings (or more) to get started, a business that enables you to profit almost from day one, and a business that allows you to work at home, full- or part-time.

The diversified cash flow industry is that type of business. Diversified cash flow offers significant advantages over other businesses. Whether you work as a broker or funding source, there is little overhead involved in starting your business. Both brokering and investing offer you the opportunity to work out of your home. The main difference between the two is that a funding source must have a ready pool of cash to finance a deal. A broker needs nothing to get started but good training and the commitment to hard work.

In the following chapters I will present the fundamentals of this industry and show you why so many people throughout the country are excited about cash flow. While you can't expect this book to turn you into an expert, you can expect to learn how trained cash flow professionals can function profitably as buyers, sellers and brokers of any of the various types of debt instruments and, therefore, determine if this is the type of activity you want to be doing on your own.

CHAPTER TWO

Diversified What?

The cash flow industry is built on a simple concept. Anytime a business or individual is owed money they can opt to collect that money sooner rather than later by negotiating to receive a reduced amount from a third party. Any type of cash flow stream, whether it is an invoice to be paid in 30 days or lottery winnings to be paid over a period of 20 years, can be sold to a third party for cash. This third party (known as a funding source) pays the face value of the debt, less a discount, today for the right to receive the income stream over a period of time.

Here's a look at the cash flow industry "players" in more detail:

Seller — The seller is a person who has the right to receive a payment or a string of payments in the future, but is interested in selling that future stream of income for cash today. The seller is sometimes also referred to as the client.

Buyer — The buyer represents a funding source who has capital available and is interested in purchasing the income stream from the seller as an investment of their capital. The funding source can either be an institution or an individual accredited investor.

Broker — The cash flow broker is essentially interested in matching sellers with buyers. The broker identifies sellers

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with particular needs and connects them with buyers prepared to meet the sellers' needs. They broker the transaction for a fee.

Perhaps the most exciting aspect of the cash flow industry is how each of these players clearly benefits and profits from the cash flow transaction. It is important that you understand how the transaction works.

1) The seller benefits by receiving a lump sum of cash immediately instead of staggered payments over the course of the future. This allows them to make large purchases without having to finance or pay off large debts. Utilizing the services of a cash flow broker is often the only means available for them to sell their income stream in exchange for immediate cash.

2) The buyer (a funding source) profits long-term as the debt is collected. You see, the funding source has purchased the income stream at a discount. This discount is the price the seller pays for the privilege of receiving cash in advance. In other words, he/she has given the seller immediate cash, but it is an amount less than the face value of the income stream. The buyer profits when the income stream is paid off.

3) The broker, who makes these purchases possible, earns a profit by receiving a commission from either the buyer, the seller or a spread on the transaction itself. This commission amount depends on the funding source, but it is usually a percentage of the profit earned by the buyer.

If you decide to enter the cash flow industry, it is most likely that you will flip back and forth between being a broker and a buyer. Depending on the transaction, you can change your role to increase your profit — *while* servicing the seller. The higher profits are made as a buyer, so when you find a debt that is not too big or cumbersome, you should invest in it yourself, not broker.

The two most common forms of cash flow brokering and buying involve private mortgages and business accounts receivable (factoring). These two well-established businesses represent just the tip of the iceberg when compared to the many diverse forms of cash flow streams that can be brokered and bought — structured settlements, annuities, lottery winnings, automobile paper, mobile home paper, vendor carrybacks, royalty payments, property leases, equipment leases, business notes, insurance policies, tax certificates, bank deposits and instruments, commercial paper and consumer paper, to name a few.

Although the concept of brokering or buying an income stream at a discount has been a part of the financial services industry since the beginning of recorded time, recognition of the various cash flow businesses as an industry is relatively new. The industry is booming with extraordinarily dynamic and rapid growth — ripe with a variety of self-employment opportunities.

There are five basic categories of diversified cash flow: business-based, collateral-based, consumer-based, government-based and insurance-based. Each is unique in its services and market.

Business-based income streams focus on cash flow that moves from one company to another. This would include everything from invoices and contracts to purchase orders and business notes. For instance, a home builder may have a contract to construct a home, but he won't receive payment until the job is complete. A cash flow broker would enable that home builder to receive all or part of the contracted amount in advance to purchase the materials needed to complete the construction.

Working with business-based income streams means working with business owners and professionals. People are attracted to this type of cash flow because it is relatively easy to develop a long-term relationship and maintain a steady income by brokering business-based cash flow.

Collateral-based income streams are rooted in tangible items. Transactions involving mortgage notes, marine paper (boats), automobile paper, mobile home paper, equipment notes or leases and warehouse inventory would all fall under this category. When dealing with collateral-

**FIVE BASIC CASH FLOW
INCOME STREAM CATEGORIES**

1. Business-based
2. Collateral-based
3. Consumer-based
4. Government-based
5. Insurance-based

based income streams, you always have a tangible item to work with.

This has a certain appeal to some because it means more control. If someone doesn't pay on time you can take the collateral — the car or piece of equipment — away. For others, dealing with collateral is a headache they'd rather not have.

Consumer-based income streams involve all debt instruments being paid to businesses or individuals by individuals. Examples of this type of income stream include credit card debt, tax certificates, time-share and vacation clubs, cemetery preneed contracts, student loans from trade schools and health club/country club memberships.

While some areas of consumer-based income streams are challenging, most of the income streams found in this category are very profitable and safe. The sellers of these income streams tend to be most interested in removing the responsibility of collections from their business than anything else. They aren't necessarily having trouble collecting payment. The types of people owing money on student loans, health club memberships, etc., generally are the types to pay a debt on time. The one exception to this, of course, would be the purchase of bad credit card debt.

Government-based income streams are sold to funding sources usually because individuals do not want to wait for the government to pay them. The most popular examples of government-based income streams are lotteries and tax refunds.

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Although purchasing government-based income streams is sometimes limited by various state and local laws, investing in tax refunds or lotteries is possibly the safest place for a cash flow buyer to place their money. Whenever the government is the payor, payment is guaranteed. The government is definitely going to pay its debt, so there is no question if the buyer is going to receive their money. The question is when.

Insurance-based income streams encompass any negotiable debt stemming from legal proceedings or insurance coverage. Some examples of this include annuities, trust advances, structured settlements, purchase assignments from funeral directors and life insurance.

Dealing with insurance-based income streams tends to be very lucrative. There is a strong slant toward professional contacts and networking with attorneys, physicians, etc. Unfortunately, some areas of insurance-based income streams are a bit controversial. For instance, viatical settlements, the advance purchase of a life insurance policy from a terminally ill individual, has been the centerpiece of many debates because the funding source can only “cash in” when the client dies.

Throughout the following chapters, you will learn how to recognize the specific characteristics of an income stream; what makes it attractive for buying and brokering; the terms needed to communicate effectively with clients, funding sources and other cash flow professionals; and the math and economic principles on which the cash flow industry is based.

CHAPTER THREE

Finding Your Cash Flow Niche

Within the cash flow industry there are literally hundreds of areas you could service. Deciding where to establish your primary niche can make a big difference in your level of success. If you are able to position yourself as an expert in an area where no one else in the cash flow industry has already specialized, then you'll have an entire market all to yourself.

You may already have a general idea that one income stream would appeal to you more than another, but if you decide to actually work in the industry you will want to set yourself apart by narrowing your focus even more. Within each broadly defined income stream there are several types of debt instruments. And, within the several types of debt instruments, there are many different angles you could take to provide cash flow services.

To illustrate my point, take a look at business-based income streams. I can think of five different types of income streams which fall under the category of business-based income streams. When I look closely at each one of them, I quickly see several subincome streams. Take royalty payments, for instance. Anything that can be licensed produces a royalty payment. So, while I may use the royalty

payments earned by musicians, writers and artists to give you a general idea of how that type of income stream works, realize that there are numerous other professions receiving royalty payments which you could focus on. For instance, engineers who patent inventions receive royalties, professors who develop course curricula receive royalties, individuals who register trademarks receive royalties — I could go on.

Listed below are the broad income stream categories and a few specific income streams which can be found within each one. This will give you a general sense of the types of income streams available and a brief description of how they fit into the cash flow industry. I will not go into the details and nuances of each income stream, just the general concepts. As you read them, think of ways you could spin off from the mainstream and find a niche to call your own.

Business-based income streams

1) **Royalty Payments.** Royalty payments are monies forwarded to various artists (musicians, writers, etc.) from publishers, TV networks, record companies, etc., for the use and sale of the artist's material. There is generally a lag between the time royalty payments are calculated and the time they are received. A cash flow broker can assist an artist by advancing a percentage of the royalties due. When the publisher, record company, TV network, etc., finally pays the artist, the cash flow broker recoups his investment, along with a profit.

2) **Business Notes.** A business note is written when money is owed on the sale of a business. It is much like a mortgage note; however, the business note encompasses the

actual business, not the real estate where the business is located. Cash flow brokers become involved with business notes when the seller of the business wants to receive full payment immediately, rather than monthly payments over the next several years.

3) **Invoices.** An invoice is generated when a business has provided products or services to a customer. The business can wait 30 to 90 days for payment of the invoice from the customer or it can receive immediate payment by selling the invoice to a cash flow buyer. The cash flow buyer will advance the business a discounted amount of the invoice. When the customer pays the invoice, the buyer receives a profit.

4) **Purchase Orders.** Companies issue purchase orders as a formal agreement that a specific job is going to be done for a specific price. When a purchase order is generated, businesses may need money in advance to do the actual job being ordered. Businesses in this situation can sell their purchase order in a similar way that they could sell an invoice as previously described.

5) **Contracts.** A contract is treated the same as a purchase order. In general terms, a purchase order is usually generated when an actual product is being made, while a contract is generated when the “product” is more of a service. For instance, a computer consultant may have a \$50,000 contract to set up a new system, but he wants to receive all or part of that money before the job is complete. A cash flow broker can help him receive the money he wants in exchange for payment when the contract is paid.

Collateral-based income streams

1) **Property Leases.** Income generated from rent on property or leases can be filtered through a cash flow buyer if the owner of the property wants their cash sooner rather than later.

2) **Tax Certificates.** When a property owner does not pay taxes on the property, the government has the right to auction off a tax certificate. The seller is the government and the payor is the owner of the property. Funding sources bid on the certificate and the one bidding down to the lowest interest rate wins. The certificate is then held as bond against the property.

3) **Automobile Notes and Leases.** Used car lots are popular places to find car paper. Car paper consists of the income stream generated when a customer buys or leases an automobile directly from a car lot or an individual. Companies selling or leasing cars often provide immediate financing to their customers. Oftentimes, they decide to sell the income stream to a third party so they can have their cash upfront and not worry about collecting payments from the car buyer or lessor.

4) **Recreational Vehicle and Business Vehicle Notes and Leases.** Companies that lease or sell high-priced items such as RVs, delivery trucks, business vans, etc., generate collateral-based income streams. The businesses and individuals who use these expensive vehicles make regular payments directly to the sellers. This payment stream can be sold to a cash flow buyer for a discounted price. As the

payors continue making payments, the cash flow buyer makes money.

5) **Marine Notes and Leases.** Yachts, water ski boats, and fishing boats are all forms of marine collateral-based income streams. If a boat owner or boat manufacturer decides to sell or lease a boat, an income stream is started. The buyer, or lessor, makes payments over time to the seller which could be sold to a cash flow buyer in exchange for immediate cash.

6) **Aerospace Notes and Leases.** This category refers to income streams generated through the sale of airplanes, helicopters, blimps, etc. The cash flow concept is similar to marine paper in that when a plane is sold or leased, the seller has generated a stream of income. Payments toward ownership of the plane or the payments on the lease can be sold to a cash flow buyer at a discount.

7) **Mobile Home Notes and Leases.** Similar to property leases and mortgage notes, mobile home paper can be brokered or purchased by a cash flow professional. When a person owns a mobile home and they lease it, the payments they receive on the lease can be sold to a cash flow buyer. Similarly, the payment stream on a promissory note issued on a mobile home can be sold to a cash flow buyer.

8) **Equipment Notes and Leases.** Promissory notes and leases secured by equipment create another opportunity for a collateral-based income stream. Farm machinery, office equipment and construction equipment are all examples of items which are usually leased or paid for over a long period of time. The seller or owner of the equipment can decide to

sell the income stream generated by payments from the individuals or businesses using the equipment to a cash flow buyer.

9) **Vendor Paper.** When a vendor sells a tangible item (anything from tires to refrigerators) to businesses or individuals and finances the sale himself, the vendor is a potential cash flow client. For instance, if a vendor sells a \$10,000 copier to a business and the business pays \$2,000 and gives an \$8,000 promissory note, then the cash flow professional has an opportunity to broker or buy the \$8,000 promissory note.

10) **Real Estate Notes and Mortgages.** Individuals collecting income from a private mortgage may sell their mortgage note to a cash flow buyer. The cash flow buyer can pay a discounted amount of the balance due on the mortgage to the seller. The cash flow buyer can pay a discounted amount of the balance due on the mortgage to the seller. The cash flow buyer then collects the income stream and makes a profit.

Consumer-based income streams

1) **Credit Card Debt.** Banks which have charged off bad credit card debt often sell the debt at a very discounted price to funding sources who think they can collect the debt from the credit card holders. This can be very profitable for the funding source if they are successful.

2) **Student Loans.** Vocational, technical and trade institutes such as beauty schools, truck driving schools and bartending schools are owed tuition from students. That

income stream of tuition payments can be sold to a cash flow buyer at a discount. The cash flow buyer would take responsibility for collecting the tuition and therefore earn a profit.

3) **Club Memberships.** Health clubs and country clubs receive monthly dues and annual membership fees from their members. The income stream of dues and fees can be sold through the cash flow industry much like student loans.

Government-based income streams

1) **Lottery Winnings.** Lottery winnings are the most high-profile of income streams paid by the government or government-like entities. The laws vary from state to state on their types of income streams. For example, many states have, in part, prohibited the assignment of lottery winnings. These laws have been challenged by aggressive cash flow buyers and in most cases they have the right to buy the winnings.

2) **Tax Refunds.** Each year many people are owed tax refunds by the government. Instead of waiting for a check from the IRS, an individual can receive a discounted refund from a cash flow buyer. When the refund arrives from the IRS, the cash flow buyer earns a profit.

Insurance-based income streams

1) **Annuities.** An annuity is a contract sold by life insurance companies that guarantees a fixed or variable payment to the annuitant (purchaser of the annuity) at some future time, usually retirement. The annuitant can receive their payments in advance by selling the annuity to a cash flow buyer.

2) **Workers' Compensation.** If a person is owed money from an insurance company for workers' compensation, they can opt to receive the money more quickly by receiving money from a cash flow buyer. When the insurance company pays the claim, the cash flow buyer collects the payment.

3) **Viatical Settlements.** A person with a terminal illness can sell their life insurance policy to a cash flow buyer to receive cash today. They may need money to pay for medical bills, make advance arrangements for their funeral or enjoy their last few years/months. The cash flow buyer only forwards them a percentage of their entire life insurance policy and makes a profit when the seller dies.

4) **Structured Settlements.** A court order between two parties involving the transfer of money is a perfect opportunity for cash flow brokers and buyers. If a married couple goes through a divorce and the judge orders the husband to make annual payments to his ex-wife for child support, the ex-wife can go to a cash flow buyer to receive the child support in advance. When the ex-husband makes his payments, the cash flow buyer makes money.

5) **Inheritances.** It usually takes about nine months for an individual to collect an inheritance. The executor of the will must complete the necessary paperwork and appraisals. Then the will must go to probate court for a stamp of approval before any inheritances are released. An individual expecting an inheritance can go to a cash flow buyer for a discounted advance on the money they are expecting. In exchange for providing money upfront, the cash flow buyer receives the inheritance when it is released.

CHAPTER FOUR

Your Future in Cash Flow

As a constantly expanding industry, the business of cash flow not only keeps up with the marketplace, but actively assists its growth. There are countless opportunities to increase personal enjoyment or professional efficiency by improving cash flow.

Today cash flow brokers continue to enter into numerous new markets, from viatical settlements to sports contracts to government invoices. They are involved with companies making everything from medical supplies to toys. They are involved with individuals who have an immediate need for cash as well as individuals with an immediate resource to provide cash. You name it, a diversified cash flow broker can be involved.

The current trend toward international trade will create an even greater demand for cash flow brokers, at home and abroad. Increasing worldwide demand will eventually mean broadening markets to satisfy more people and businesses. The need for cash flow brokers and their services is expected to escalate.

Cash flow brokers meet a variety of needs

Professional Needs

By playing a significant role in the expansion of many small and medium-sized companies, diversified cash flow will

continue to make an important contribution to the growth of business. As banks continually make it harder to qualify for loans, small and medium-sized businesses will find themselves with limited growth potential. Businesses need money to grow and a cash flow broker can provide that money. By selling invoices, contracts, purchase orders, etc., businesses can receive the money they need to grow.

From another perspective, businesses bogged down with the responsibility of collecting payments toward tuition, credit cards, etc., need cash flow brokers for a different reason. They are interested in having someone buy their income stream for the cash and for the freedom of not having to deal with the paperwork and hassles of collections anymore.

Personal Needs

Like businesses, individuals primarily sell their income streams to get cash. Their reasons range from wanting to send a child to college to needing to settle estates or divorces. They are willing to forego a relatively small, but steady, income stream throughout the future for a single, large lump sum of cash today.

On occasion, it's not cash someone is interested in. With collateral-based income streams, people often sell the income stream generated from mobile home notes, marine paper, and mortgages for peace of mind. Selling their notes means no worry of default or devaluation of the item. No collection hassles. They also no longer have federal and state tax reporting requirements to comply with and no monthly

collection responsibilities, and they get immediate access to their cash.

To broker or to invest... that is the question

Brokering Provides Flexibility

Brokers are the people who connect clients with funding sources. In many ways, the broker's job is much simpler than the funding source's. Brokering doesn't involve significant startup costs, financial risk, collections or much paperwork. As a broker, once you ensure that the client's package is in order, including a complete application and paperwork for the debt instrument in proper form, and is received by the funding source, much of your work is done.

Cash flow brokers concentrate much of their effort on screening potential clients. By either speaking on the phone or visiting them in person, you will qualify a potential client in advance to make sure that your services are right for them. If all checks out and the client decides to sell off

The broker's main function is to understand the objectives of the client and then find a buyer interested in meeting the client's objectives.

all or part of their debt instruments, the broker must find a suitable buyer and structure the deal. The broker's main function is to understand the objectives of the client and then find a buyer prepared to meet the client's objectives.

Commission structures vary depending on the funding source and the type of income stream being brokered. Some companies pay a commission on the face amount of the debt

instruments collected, ranging from .5 percent to 1 percent. Others pay a percentage of their fee, usually from 5 percent to 15 percent.

The risks involved for brokers are small. The due diligence that funding sources complete is extensive and does a good job of reducing the likelihood of nonpayment. Through hard work, vision and persistence, brokering can provide any entrepreneur with an opportunity to reach whatever professional goal they set for themselves.

Cash flow investing: higher risks, higher rewards

Working as a cash flow funding source involves significantly higher financial rewards than brokering, but it also has higher risk. Funding sources who don't complete their due diligence on a conscientious basis invite serious problems. Taking care of those problems before they occur requires legwork.

As part of their due diligence, funding sources must check everything relevant to the potential client's income stream. This may include running a credit check on payors, obtaining documentation from appraisals, drawing up contracts — whatever it takes to minimize risk.

Depending on the type of income stream, investors also must know something of bankruptcy laws, setoff, liens and any other possible conflicts that can arise over goods and materials. Knowledge of these areas, combined with the use of well-prepared forms and contracts, can often prevent potential problems.

If you choose to be a cash flow funding source, it's your money on the line; when you're a broker, it's someone else's money. Brokers are always careful because their income is based on the success of the deal, but it makes sense that the investor, the person standing to lose or gain the most, takes the real responsibility when it comes to researching a deal.

Working with cash flow is like any other business

As in any other industry, entering the cash flow industry as a broker or buyer means covering the startup costs of your new business. Being a broker requires brokerage startup capital. Being a buyer requires arranging a revolving line of credit with a bank or using the purchased income streams as collateral. Ironically, cash flow companies often find it easier to obtain credit on income streams than do the clients who sold them.

If you plan to operate as a cash flow funding source from the start, it's a good idea to maintain 20 percent to 30 percent of your cash as a cushion, using the other 70 percent to 80 percent for investing. If you don't have the funds to invest in the business and have little borrowing power, it would be best to begin doing business as a broker until your financial position improves. That's a perfectly good way to enter the world of cash flow, learn the ropes and then progress to the next level with the added advantage of experience and a ready pool of earned cash.

No money is borrowed or loaned in diversified cash flow. The funding source receives a fee equal to a percentage of the income stream purchased. That percentage is determined by the risk, size and average turnover of the income stream.

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For example, a funding source's commission would be smaller when advancing money on a trust fund which is guaranteed to become payable in one year, than it would be when more risk and time is involved.

Cash flow funding sources, like all businesses, try to minimize their risks as best they can. Before buying the income stream, the funding source conducts thorough research on the client and their income stream. But, since this isn't a financing situation, the creditworthiness of the client isn't the real issue. The real issue is the strength of the income stream being sold.

In many cases the risk is small. For instance, if you purchase Steve's annuity because he doesn't want to wait until his retirement to receive his money, you can feel confident that the insurance company Steve used to purchase the policy 20 years ago will pay you when the annuity matures.

CHAPTER FIVE

Case Studies

Let's review a few examples to further illustrate the process of work in the cash flow industry.

Case Study #1

Three months ago, Tim decided to open a copy center. He diligently saved enough money to rent space and buy supplies, including the purchase of five top-of-the-line copy machines, in order to open his business. These purchases emptied out his bank account, but for some reason Tim didn't care because he wanted to personally own everything in his copy center.

It didn't take him long to realize a few mistakes he made. Technology was changing so quickly that his copiers were going to be outdated in another year. In buying the copiers, Tim had no reserve cash left to help market his business. In the end, Tim decided that insisting on owning all the copy equipment just wasn't logical.

As a last effort, Tim opened the phone book and found a listing for Carl, the Cash Flow King. Carl's phone book ad stated that he specialized in commercial equipment leasing — a collateral-based income stream. After reviewing Tim's business, the ownership documents and warranties for the copiers, Carl agreed to work with Tim on a deal. In essence, Tim "sold" the copier ownership papers to Carl. Carl, in turn, "bought" the copiers and gave Tim a lump sum of cash.

Tim came out ahead because he received a lump sum of cash needed to give his business a “jump start.” He is now making equipment lease payments to Carl. Carl also came out ahead because he has structured the payments to make money from Tim’s monthly leasing fees. If Tim decides to upgrade, Carl can lease Tim’s old copier to another company and purchase a new copier for Tim while increasing his monthly payments.

Case Study #2

John and Peg Murphy own a two-bedroom condo on New Smyrna Beach in Florida. Every November the Millers, “snowbirds” from Canada, rent out the Murphys’ condo for \$1,200 per month. They stay at the condo through March, so their rental bill totals \$6,000.

In September, John Murphy was squeezed out of middle management and laid off from his job. He quickly realized that it would not take long for him and his wife to run out of savings. Because of his higher-than-average salary expectations, John knew that it could potentially take several months before he found employment. With a mortgage and his son’s college tuition to pay, John knew he had to liquidate some of his investments quickly.

So, John called his accountant, who referred him to Kevin, a cash flow specialist. After talking to John about his situation, Kevin saw an easy way for John to get the cash he needed without having to give up any of his investments. He suggested that John sell the rent on the condo. He could accept \$5,400 from Kevin immediately and let Kevin receive the monthly rent checks from the Millers. By the time the

Millers returned to Canada, Kevin would profit \$600 for his services.

Case Study #3

Jill is the struggling owner of the Hillbrook Country Club. The club has a solid base of members, but there has not been any membership growth in years. Jill did some research on her competition and concluded that if Hillbrook added a new three-lane swimming pool, membership would triple.

Everyone agreed that her idea was a winner, so she signed a contract with a company to construct a swimming pool. The pool contractor required prepayment for 25 percent of the job, which in this case equaled \$5,000. Unfortunately, Jill did not have \$5,000 to pay at this particular time. You see, membership dues were collected quarterly and toward the end of the quarter, the country club accounts were usually very low. The pool contractor could just wait until after Jill received next quarter's membership dues before beginning construction, or Jill could go to a cash flow broker.

By going to a cash flow broker, Jill could sell the future income stream of membership dues at a discount in exchange for cash today. She could pay the pool contractor sooner, boost membership sooner and, therefore, make more money sooner. The cash flow buyer and broker would also come out ahead because when the membership dues were paid they would receive a profit.

By now, you have a very basic idea of the different roles a cash flow broker can play. So, the next logical question is, where do you find the Tims, Murphys and Jills of the world? The answer is marketing.

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CHAPTER SIX

Marketing Means Business

The success of your cash flow business hinges on one word: marketing. The single most effective choice you can make to create success is to let everyone know what you do.

In this business, marketing closely resembles educating. Most people, even businessmen, have never heard of diversified cash flow, so there is a definite curiosity value in just mentioning what you do. Use this to your advantage. Talk about diversified cash flow to everyone you know and take their blank stare as an invitation to explain what you can do for them.

Good prospects

First, you need to identify whom you want to market to. Your decision to target particular segments of the cash flow market will dictate your marketing strategy. Once you determine what kind of cash flow you are seeking, you can determine what kind of cash flow holder to look for. For instance, by focusing on insurance-based income streams, your marketing efforts will heavily target attorneys because they are going to know who holds insurance-based income streams.

Common sense will point you in the direction of where to find good prospects. After just a few minutes of brainstorming, you can come up with a list of criteria to guide your effort. Imagine that you have decided to focus on

business-based income streams. You would most logically conclude that prime client candidates are small to medium-sized companies who are growth-oriented, having trouble making payroll, young, lacking adequate bank funding, having tax problems, working through a bankruptcy, lacking a net worth or in need of additional working capital.

The only types of businesses that do not make good candidates for your services are cash and carry outlets such as grocery stores.

Marketing strategies

There are many marketing strategies that can work for you. A good rule of thumb to follow is to play to your strength. If you hate speaking in public, direct mail may work better for you. If you dislike paperwork, get out and network in person. Formal advertising is a great tool, but it's got to be backed up with plenty of word-of-mouth, lots of phone calls and volumes of letters to prospective customers. Marketing strategies you may consider include:

Professional Networking. The best way to locate clients is by building a network of professionals who encounter businesses that fall into the categories of prime cash flow candidates. Groups of professionals you might want to cultivate include bankers, attorneys and accountants. Again, think of your target and focus on them. If you just want to purchase viatical settlements (life insurance policies of the terminally ill), you would network with physicians, various disease support groups, etc.

In general, bankers are in an ideal position to refer business to cash flow brokers. Most of the companies in need

of cash flow help have already been turned down for a bank loan. Similarly, accountants have firsthand information that enables them to know which of their clients are most likely to need your services. County-level tax collector's offices can locate excellent leads for you if you are interested primarily in purchasing tax certificates.

Don't be afraid to pay referral fees to those who generate leads for you, at least when it is ethical. In the long run, it is more than worth the cost.

When approaching another professional about your cash flow services, never assume that he understands the concept well. One good way to educate without offending is to preface your remarks with: "As I'm sure you already know..."

Yellow Pages. This is a good place to advertise your services. Check your local directory. You can place your ad under "Cash Flow Brokers" or "Finance Companies." In a big city, your ad will be next to your competitors. Make sure that yours stands out with a stronger message and clearer presentation. In a small city, the only other cash flow listings may be 800 numbers, which gives you the distinct advantage of being the only local provider of your services. Make sure you point that out in your ad.

Business or Trade Journals. There are several advantages to advertising in these papers rather than your local daily. First of all, you can target your message to a distinct market — one in which you may have specific expertise. Second, the cost is much lower than purchasing ad space in a daily newspaper.

Business Cards. This is the least expensive and most effective advertisement you have if you use it well. Avoid the mistake of cards that look fancy or are printed on Day-Glo orange stock. A business card should project the image of a professional and instantly deliver the message of what you do for a living. Once

Marketing Strategies

- Networking
- Advertising
- Group meetings
- Public relations
- Direct mail
- Telemarketing

you have your cards, use them! Hand them out freely at social functions; leave them in restaurants and on bulletin boards. The more people who know what you do, the more business you will ultimately have.

Group Meetings. Every community has weekly meetings of the Rotary Club, Lions Club, Jaycees, etc. Here is an ideal opportunity to get your message across to more than one person at a time. You will have a captive audience of people who are interested in what you have to say. And you'll probably be the first cash flow broker who has ever been presented to these people.

Program chairpersons of these organizations struggle to come up with speakers every week. They will be more than happy to put you on the speaker schedule once they learn that you have something of unique interest to present to their membership.

Public Relations. PR is a much more cost-effective marketing tool than advertising, simply because it has few hard costs associated with it. You don't need to hire a PR firm to get your message out to your public. A little common sense and a good working knowledge of the English language are all that you need.

Try booking yourself on TV and radio talk shows as a guest. Producers are constantly looking for interesting guests and topics. Send a press release to your local newspaper announcing the fact that you've opened a business. Keep it short and to-the-point and describe what you do and how it works. Volunteer to write a small-business column for a local community weekly.

Direct Mail. Establish lists by looking through the yellow pages or purchase lists from a direct mail shop. Lists become more effective if you target them to focus on the market you want to reach. You can target your lists geographically (businesses within a 50-mile radius from your home) or by industry (medical, manufacturing, etc.).

The secret to a successful direct mail campaign is to be noticed. Experiment with postcards, letters, invitations, hand-written notes, anything that will distinguish you from the rest of the mail your prospects receive each day. Put together a plan of action for your mailings with a series of four to six pieces to be sent to each group of names over a predetermined time period.

Telephone. Many people have a subconscious fear of using the phone and dislike the idea of picking up the phone to make a contact call. But used effectively, the phone can be

your most valuable marketing tool. Again, depending on your preference, you can make cold calls directly from the phone book or target your phone campaign by obtaining membership directories, office building directories, etc.

Remember, no matter what method or combination of methods you choose, the goal is to get your message across. Identify your market and then inform them. It's an ongoing process that will never stop in a successful business.

Retention makes a difference

It is a lot easier to generate repeat business than it is to generate new business. Keep this in mind after a deal is signed. Stay in touch with your clients on a regular basis, send a card or note periodically, take your clients to lunch. Maintaining close contact with your clients can also mean gaining referral business and a lasting professional relationship.

Use your newfound familiarity with an industry to open doors with other clients in the same industry. Let's say you closed a deal with an NBA rookie and advanced him \$2.5 million on his five-year \$3 million sports contract. If the transaction went well and the rookie is happy, you stand a strong chance of working with several rookies next year. Once you recognize the potential in a particular industry, it is easier to present the benefits of cash flow services to others.

Another example is the printing industry, a business-based income stream. Printers need good cash flow to purchase supplies in large amounts, such as ink, paper and equipment. Printing customers are invoiced after receiving

their product. The lapse between delivery and payment can make it difficult for printers to purchase the supplies needed for the next job. Your services can be a lifesaver for printers who struggle to maintain inventory and have a high volume of business. Once you work with a printing business, you can approach other printers with confidence and a degree of understanding of the way their business operates. Your knowledge will create new clients in the same industry.

A happy client is the best advertisement you can have. Clients usually offer referrals among their own industry or group of acquaintances once they see how beneficial a cash flow broker is. If you are good at what you do, the referrals will follow. A good professional reputation is your biggest asset.

CHAPTER SEVEN

Securing Income Streams

Once you've found a potential client, you must present your services in a way which will interest the prospect enough to sell their income stream.

Obtaining credit in general, and business credit in particular, has become increasingly complicated and difficult. In fact, for many people, it has become downright impossible. Lending standards and requirements are now more stringent than ever and personal guarantees are almost always required. Traditional lending sources are often unable or unwilling to provide all of the financial assistance needed by a business. That's where a cash flow broker or funding source comes in. You can sometimes solve problems for an individual or business with nowhere else to turn.

To find out if cash flow assistance can help a prospective client, ask them if there are items they'd like to buy or trips they'd like to take but can't because their money is tied up in trust funds, contracts, collateral, etc. Ask them if they could save more money by paying off current debts than if they continued receiving small installments on their income stream. Ask them if their business could be more efficient if the functions of collecting difficult debts were removed.

If your prospect answers “yes” to any of these questions, then there is a good chance your brokerage services could be beneficial.

Financial and mental relief

Cash flow can provide much-needed relief to businesses and individuals. In one respect, businesses can receive advance funds against invoices or contracts that can increase sales and profits, pay bills, or buy needed inventory and supplies. It can sometimes make the difference between shutting the doors or remaining open for business.

In another respect, businesses, like trade institutes burdened with collecting tuition from student loans or car dealerships buried in financing paperwork, can use a cash flow broker to eliminate a time-consuming function of their accounting departments. By selling their debt through a cash flow broker, the business can remove the responsibilities surrounding collection of the debt. They won't have to worry about sending invoices or collecting payment. Using a cash flow broker can increase productivity and actually increase the profit margin for a business.

From yet another angle, cash flow brokers can provide mental relief to people strained with the responsibility of collecting money owed on a variety of debt instruments. They may not just be interested in the lump sum of cash, but they are interested in someone removing the hassles.

Beating the competition: bank financing

It's true that national and state-chartered banks are entering into the diversified cash flow industry. However, banks have a built-in disadvantage because of their limited ability to purchase nonconforming paper. Furthermore, bankers usually lack the training and experience of the new breed of cash flow brokers. These limitations can make bank financing unavailable or unsuitable for the needs of most income stream sellers. Plus, a bank cannot usually meet the needs of someone wanting to sell the headache of managing an income stream.

The largest difference between banks and cash flow brokers is that banks originate repayment obligations. Unlike cash flow brokers, they do not purchase debt obligations already created unless they are building a portfolio to broker. The privately held debt instruments sold through cash flow brokers are of no interest to a bank because they do not fit within the parameters set for their portfolios, usually dictated by the public, secondary marketplace.

With diversified cash flow, people can sell off any amount of their income stream. A lottery winner can sell half of their winnings to buy a mansion right away or they can sell all of their winnings to buy mansions for every member of the family — whatever they choose. It is easier to adjust the amount through a cash flow broker as opposed to traditional bank financing. Diversified cash flow is flexible and immediate.

Self-Employment & the Cash Flow Industry

Cash flow brokers have the flexibility to make quick decisions and act on those decisions without delay. Most traditional banks and financial bureaucracies will not buy privately held, nonconforming paper. Without interested banks, cash flow sellers are lucky to have cash flow buyers and brokers at all.

In addition to the reasons stated above, cash flow brokers have two advantages over other financial service companies — the ability to provide personal service and a loyal customer base.

Whether alone or with a small professional staff, a cash flow broker maintains constant contact with his client and with the client's customers. For instance, you may want to limit your market to those within an hour's drive to provide excellent personal service. This arrangement promotes and maintains a sense of goodwill far superior to normal seller-client relationships. The ever-expanding network of brokers enables a funding source to provide that personalized service virtually anywhere his clients do business.

Once clients enter the cash flow market, the personal service and professional relationship keep them there. In many instances, there simply is no other source or no better source of working capital for those individuals and companies in need of cash flow aid. The stable and loyal customer base gives the cash flow industry a platform to launch into growth areas.

Selling advantages

Improving cash flow can be a valuable tool for any business or individual. It can provide more cash than may be available from other sources. It furnishes a continuous cash flow without the requirement of periodic payments or interim payoffs. Cash flow offers increased access to cash, cuts down on the red tape and paperwork required by traditional financing and is more flexible.

Still, some people may have reservations about using a cash flow broker. Prospects who are unfamiliar with diversified cash flow tend to compare its cost with the cost of a bank loan. In doing so, they are considering only one of the benefits of factoring: the “use of money.” A more realistic assessment can only be made after analyzing the “true cost.” In order to measure the true cost for a particular client, you must look at all the benefits.

Although each income stream has unique benefits, here is a list of benefits common to almost any service you, as a cash flow broker, can promote to close a deal:

Professional collections. A good cash flow broker will handle collections more professionally and productively than the client.

Take advantage of early payment discounts. Cash flow assistance may allow clients to take advantage of early payment terms offered by their banks, credit card companies and suppliers. If a client can save 2 percent of his cost because he has the cash to pay the bills within 10 days, this can significantly reduce the true cost of cash flow assistance.

Take advantage of volume discounts. If clients can buy in greater volume from suppliers because of improved cash flow, they will likely save even more money, another positive impact on the bottom line.

Don't incur any debt. This is not a loan. Therefore, the client is not incurring any debt.

Helps build credit. Once clients receive their lump sum of money and they have adequate cash flow, they can begin to pay off their credit card bills, mortgages, etc., to improve their credit.

It's easy and fast. The application required to establish a cash flow relationship is much simpler than any other form of financing. Clients are not required to turn over tax returns, personal financial statements, business plans, projections, etc. Financing usually occurs within a week or so of receipt of contracts. How many banks do you know that can operate that quickly?

Leverage off the credit of the income stream payor. A company or person does not need to be creditworthy to use a cash flow broker.

Concentrate on other things. The business owner often spends more than half his time on collections, administration, bookkeeping, fending off suppliers, searching for capital, etc. Cash flow assistance frees him up to concentrate on marketing, sales and expanding his business.

No geographical limits. A cash flow broker and funding source can work with a client in any part of the country, and that client can have customers spread out all over the world.

Credit screening. A cash flow buyer will provide credit information on new customers for a client, which enables him to make better credit decisions.

Credit monitoring. A cash flow buyer provides ongoing credit monitoring of existing customers to make sure there is no significant diminution in their credit status.

Guaranteed immediate payment. A cash flow buyer guarantees immediate access to funds which would have otherwise been held until a future time.

Selling your services as a broker

What if a client asks why they should work through you, a broker? Why not go directly to a large funding source?

The biggest advantage to using a professional cash flow broker is your service. The fact that you provide cash flow services at all should make you extremely appealing to a seller. Imagine for a minute that you own an equipment shop and you sell your merchandise with leases or vendor carryback paper. Suppose you sell a \$50,000 copier for \$20,000 down and \$30,000 in promissory notes to be paid over three years at 12 percent interest. Where can you go to receive that \$30,000 in advance? No one, other than a cash flow broker, can help you.

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Furthermore, the kind of personalized service you can provide gives you the decisive edge and can be the reason for your future success. You can accommodate a client by making decisions on the spot. You can provide funding within a short time once a client is signed up.

Another advantage is your flexibility. Large investment firms operate under rules, just as any corporation must. You have the freedom to bend or break your rules and to make up new rules as you go. As a result, you may be able to assist clients in unconventional ways.

Your status as a free agent means that you can review the various investment companies and choose the one that can best meet your client's needs. Your proximity to the client means that you can physically be there to assist with the approval process and you can personally monitor the first few transactions to be sure that things run smoothly.

Once a client is sold on the benefits, it should be simple to sell that client on the benefits of working with you. If you believe in yourself and the services you offer, you will present yourself in a positive, professional manner that inspires confidence.

CHAPTER EIGHT

The Economics of Cash Flow

Whether you are a broker or a funding source, diversified cash flow offers the kind of returns that few, if any, other businesses can match. To fully understand why everyone is excited about this business, you need to take a closer look at the numbers yourself. Numerically speaking, cash flow is really simple. If you've ever taken a high school math class, the calculations will be a piece of cake for you.

So far in this book we haven't played with many figures. We've just said that a cash flow broker buys income streams for a fraction of their face value. That fraction, 70 percent for example, is based on the various risks taken by the funding source and the amount of time until the income stream is paid. There's no doubt that the funding source and broker both make a good return. The question is, how good?

Money has a changing value

The concept of money today versus money tomorrow has its roots in the economic concepts of the value of money. If you are given the choice between receiving \$100 today or \$100 next year, the obvious choice is today, for two reasons: inflation and interest rates.

1. One hundred dollars today can be invested, even at a fairly conservative rate, and turned into a larger amount next

year. Waiting until next year to receive your \$100 deprives you of the ability to generate an income from the money.

2. Inflation will also make the delayed payment less attractive (in this instance, where the payments are the same amount). Inflation “eats

away” at the value of buying power of money. When inflation is high, people want to spend their \$100 right away because they will not be able to buy as much with that same \$100 a year later.

Entire textbooks and courses are dedicated to explaining how and why inflation and interest rates change. At this point, you do not need to be concerned with the hows and whys; you just need to understand the concept that over time, the value of money changes.

The basic concept of investing is to use your money to make more money. Most people think of this as saving money in some sort of interest-bearing account or buying a financial instrument such as a stock, bond or other security. When funding sources “invest” their money in invoices, they are buying the assets of another company. When they do this they receive a rate of return far superior to that of a traditional investment vehicle.

Financial functions

There are several basic financial functions used in calculating the changing value of money. As you review some

If you were given the choice between receiving \$100 today or \$100 next year, you would choose today for two reasons: inflation and interest rates..

of these items, focus on the general concepts that they illustrate. It will be easier to apply them to specific situations later.

The future value of money — You have \$1,000 deposited in the bank today. What will be the value of that money in five years? Given that you are earning 5 percent interest, you can expect to have \$1,276.28 in five years.

The important thing to note is that the \$1,000 does not earn 5 percent every year — only the first year. The second year you earn 5 percent on the original \$1,000 and on the interest that you earned in the first year, and so on.

Year 1	$\$1,000.00 + 5\% \text{ interest on } \$1,000.00 = \$1,050.00$
Year 2	$\$1,050.00 + 5\% \text{ interest on } \$1,050.00 = \$1,102.50$
Year 3	$\$1,102.50 + 5\% \text{ interest on } \$1,102.50 = \$1,157.63$
Year 4	$\$1,157.63 + 5\% \text{ interest on } \$1,157.63 = \$1,215.51$
Year 5	$\$1,215.51 + 5\% \text{ interest on } \$1,215.51 = \$1,276.28$

The future value of money takes into account the interest that you would earn if you had the money. It does not take into consideration the changes in value because of inflation.

The present value of money — This is calculated in the exact opposite way of future value. Keep in mind that future value is how much you *will* have, given how much you have *today*. The present value of money is actually more pertinent to the buying and brokering of cash flow streams, such as accounts receivable. It enables you to calculate how much money you would pay *today* in order to receive that payment in the future.

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Obviously, because of the short time frames (30 – 60 days), the specifics of the calculations are not as important as long-term purchases of cash flow streams. However, the concept of the present and future value of money is very valid in short-term purchases.

In calculating the future value of money, we compounded the interest. To calculate the present value of a payment that we will get at a future date, we discount the amount — it is the exact opposite. In other words, when you solve for the present value of the income stream, you are finding out what it is worth today after it's been discounted. Here's how it works:

15 days	\$100,000 at 3% discount = \$99,876.79
30 days	\$100,000 at 4% discount = \$99,671.79
45 days	\$100,000 at 5% discount = \$99,385.50
60 days	\$100,000 at 6% discount = \$99,018.63

The percentage usually increases 1 percent every 10 – 15 days, depending on the industry and the level of risk assumed by the funding source.

The interest rate — It's "rent" you pay to use someone else's money. Now, if the money is yours and someone else is using it, then interest is what you earn for letting them use the money.

Interest can be figured in several ways. Annual interest compounded monthly is simply the yearly rate (say 12 percent divided by the number of months. It means that a 12 percent annual rate would be divided by 12 months, and would actually give you a 1 percent monthly interest.

After determining the monthly interest rate, it's easy to compute the future value of the principal. With financial equations, it's always assumed that interest will be reinvested at the same interest rate and thus compounded. That's why 12 percent of \$100 is \$12 but the interest earned over a year with monthly compounding at 12 percent is \$12.68.

Discount rate (or the discount to yield) — This is very similar to interest — and the concepts are actually identical. As we just mentioned, the interest rate is used to convert present value to future value. The discount rate is used to convert future value to present value. This is the amount charged by the funding source for the use of their money.

The rate of return (or the yield) — The rate of return uses the same formulas as the interest. Therefore, your rate of return or yield is the same as the interest rate, using whatever compounding period is being applied. A funding source requires a 12 percent rate of return and knows the future value of something; he uses a 12 percent discount rate in order to find how much he would pay for that investment. (And not coincidentally, he also yields 12 percent.)

Funding sources require a certain rate of return for an investment. The base figure is the return rate the funding source would like to receive if there were no inflation, no chance of default, or any other kind of risk. In effect, it is the return the funding source wants in a world that is perfect and static.

However, as we know, the world is quite imperfect and funding sources have to figure that when calculating the rate of return they need on their investment. The more the risk,

the more the required payoff — or rate of return. In the purchase of cash flow streams, certain risks such as expected inflation, default, liquidity premium and any maturity premium are taken into consideration when the funding source looks at what he wants in a rate of return. Let's look at an example:

Suppose you had \$100,000 to invest. Let's say you put that money into some type of security, say a corporate bond, that paid 10 percent as an annual rate of return. If you let that money sit for a year, at the end of the year, you would have \$110,000. That is a profit of \$10,000 and a good rate of return.

Now let's take the position of a funding source with a client that is selling an income stream worth \$100,000 per month. Let's assume the payments made to the income stream arrive within 30 days and you are charging them a 5 percent fee for your service. If you service this account for one year, you will have \$160,000 at the end of the year. That shows a \$60,000 profit and an even better rate of return.

Now that you have seen the figures for one year, take a look at what these different rates of return mean on a long-term basis. In the following example, we have \$100,000 invested in a security instrument that pays 10 percent annually and we let the earnings compound over the five-year period. In other words, we leave our profit in the account every year to continue earning interest. We also have a factoring account doing \$100,000 per month in volume and not compounding every year, which means we are taking the profits out every year and not reinvesting them.

Year	Traditional Investment (10%)	Diversified Cash Flow
1	\$100,000	\$160,000
2	\$121,000	\$220,000
3	\$133,100	\$280,000
4	\$146,410	\$340,000
5	\$151,051	\$400,000

These numbers graphically illustrate the huge potential for making a profit in the cash flow business. Just imagine what those figures look like on a 10-, 15- and even 20-year basis.

Returns for the client

As you can see from the previous section, diversified cash flow can provide a tremendous return for a funding source. Now let's see how the client also benefits.

Company XYZ has been in business for three years and has sales in the range of \$1 million per year. They have just been given the opportunity to expand into a new marketplace and they need a large amount of capital to make this expansion successful. Moving into this new market would double their annual sales volume.

Unfortunately, XYZ's bank says that they have reached their credit limit and cannot get another loan. The funding source has offered to buy their contracts for a flat fee of 5 percent. XYZ company wants to sell their contracts but they are not sure about the cost.

For \$1 million of sales, the company spends 10 percent of that for the raw materials to produce the goods. Their

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fixed operating costs are \$150,000 and their variable operating costs are 20 percent of sales.

As a cash flow broker, you show them their sample balance sheets with and without your services.

	Without Your Help	With Your Help
Sales	\$1,000,000	\$2,000,000
Cost of Goods Sold (10%)	100,000	200,000
Fixed Costs	150,000	150,000
Variable Costs	200,000	400,000
Factoring Fee	0	100,000
Net Profit	\$550,000	\$1,150,000

While this is a very simplistic view of corporate financial operations, it is a perfect example of how cash flow assistance can greatly increase a company's capability for expansion and profitability.

All of these financial calculations appear complicated until you work with them. After a while, they become second nature, especially after you become proficient at using a basic financial calculator. With just a few simple keystrokes, you can sort complicated cash flow streams into present value,

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future value, the amount of each payment, the number of payments and the yield rate.

CHAPTER NINE

Transaction Evaluation

After your first contact with a prospect, you will most likely meet face-to-face to discuss whether the prospect should continue with the cash flow process. During this meeting, it is important to gather the right kind of information to make informed decisions from this point on.

There is nothing as beneficial as a personal meeting with the prospective seller in his place of business or at home. This allows you to get a firsthand impression of him and his possibilities as your client. Your mission during this meeting is to collect the type of information a funding source would want to know to evaluate the client. This meeting will allow you to gather the first wave of information that a funding source will need.

The initial questions you might want to ask need to focus on the income stream itself. For instance, who makes payments toward the debt and how is the money collected? Does the seller send out invoices or is payment received automatically? What type of debt is it and why is the seller interested in selling? How was the income stream generated? Has it “changed hands” many, many times? Basically, at this point, you need to be gathering as much information as possible about the debt itself.

There are three basic considerations all cash flow brokers need to focus on and think about when reviewing a potential deal:

1) **Time Value of Money.** How long will it be between advancing money to the seller and receiving collection on the debt? Is the time frame within profitability parameters?

2) **Collectability.** Is it relatively likely that the payors of the debt will pay on time? The risk of not being able to collect the money due affects the decision to take the deal or leave it.

3) **Assignment.** How will ownership of the debt instrument be transferred from the seller to the buyer? Is it complicated and involved? Is it legal?

Once you begin talking to a potential client, the questions will flow naturally as you learn more about them and their income stream. It is important to listen closely to the answers the client gives. The more you know about the client, the better you can sell your services. During this stage, you may ask the client to sign a client agreement. This ensures that once the client makes the decision to proceed, he must do so with you — not directly with the funding source and not with another broker.

Another reason to carefully observe and listen at this point is so that you can sell this client to a funding source. The more you know about the prospect, the more prepared you will be when it is time to present the client's business to the funding source. If a prospect is interested after this

meeting, your next step is to submit the information to a funding source who will evaluate the client and make an offer on a deal.

Although the research involved in checking out a

client and a client's customers is the responsibility of the funding source, as a broker, you should understand the procedure so that you can assist if called upon. The more valuable you can make yourself

to both the client and the funding source, the more successful you will be.

Although the research involved in checking out a client and a client's customers is the responsibility of the funding source, as a broker, you should understand the procedure so that you can assist if called upon.

Once your client has submitted a final application, the funding source will review the information to determine if the deal would ultimately be profitable for both the client and funding source.

Checking out the seller

During this time, the funding source will need to verify that the prospect is, in fact, who he says he is.

When dealing with businesses, some general questions you might want to ask include:

- the size of the company and how long it has been in business

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- the number of customers it has as well as the number and dollar amount of invoices it generates
- whether the company needs working capital, bad debt coverage and/or administrative help
- the reasons they have to sell the income stream, especially if it is because of a collections problem
- the number of people or businesses making payments toward the income stream
- verification of value or ownership if it is a collateral-based income stream

If you are dealing with individuals, some of your questions will be similar. Other questions you should be interested in include:

- copies of documents verifying value or appraisals
- proof of ownership and warranties when dealing with collateral
- basic information about the payor of the income stream (a friend, life insurance company, business, etc.)
- connections with attorneys who may need to become involved if the income stream is based on a contract policy

If the prospect is a corporation or partnership, the funding source will check corporate records to verify the

names and addresses of the officers, directors and registered agent, and review any pertinent agreements to see if there is a managing partner who is authorized to enter into the investment relationship, how long the corporation has been in business and that the corporation is active and in good standing.

In reviewing the prospect's financial statement and accounts payable aging, the funding source can verify that the company pays its employees, its payroll taxes and its bills, and that the company is operating in a thoroughly professional manner. The funding source will check with the Department of State UCC Bureau or the county records department where the client has his business to see if any statements under the Uniform Commercial Code have been filed against your prospect and his assets. A UCC-1 filing would indicate that a prior lender has attached the client's accounts receivable as security for a loan. In this case, in order for receivables to be sold, the UCC-1 would have to be lifted.

If the prospect is dealing with a collateral-based income stream, the funding source will check warranties, receipts and proof of ownership. It will also be important to verify the condition of the collateral, whether it is equipment or a mobile home, at that time. The funding source will want to know how the collateral has been maintained and review service records.

When the prospect is an individual, the funding source may be interested in verifying legally binding contracts, ownership of insurance policy, policy terms, etc. Also at this point, the funding source would want to research state and

federal laws which may limit the ability of an individual to sell all or part of their income stream.

You may wonder why it is necessary to be concerned with the client at all. After all, isn't it the payor of the debt, the person responsible for making payments toward the income stream, we should be concerned with? In general terms, yes. But, it is equally important to look at the seller (your client) first in order to avoid any obvious shortfalls the deal may have. Why worry about an insurance company's ability to pay up if it turns out that the person interested in selling their insurance policy has lied to you about who they are?

Checking out the people who pay

Checking out the credibility of the people who make payments toward your client's income stream is the most important part of the funding source's job. A thorough review of their background and credit history can limit the risk of losing money on the investment.

From the aging report provided by your prospect, a funding source can see the names of all your prospect's customers, including how your client's customers pay. This information is relevant to the actual pricing of the cash flow relationship and the way in which the transaction between the factor and the client will be set up. Therefore, the aging report is good, solid information that, as a broker, you would want to obtain for the factor.

When there is a legal judgment or insurance policy involved, the funding source doesn't need to do very much legwork. The payor is bound by law to comply with payment

within a specific time constraint. The funding source simply needs to become very familiar with the paperwork, terms of the contract or policy, etc., to ensure the safety of their investment. If an individual is responsible for making the payments, a thorough funding source will conduct a complete credit check on that person to assess their ability to pay.

Following the review of all materials, if the funding source decides to enter into an agreement with the client, you will most likely assist the client in the execution of the final documents.

CHAPTER TEN

Securing Income Sources

Securing a funding source does not need to be difficult. You just need to learn where to look. The key is to break into the inner network of funding sources interested in your business. There are plenty of funding sources out there, but not all of them will be willing to take the deals you bring them. To know which funding sources would most likely have an interest in serving your clients, you need to be on the inside track.

I can provide a few suggestions to lead you in the direction of becoming an insider when it comes to funding sources. First, a great resource for information about different funding sources is the Association of Financial and Debt Instrument Professionals (AFDIP). AFDIP provides a directory of funding sources to its members so deals can be placed efficiently and effectively. AFDIP's telephone number is 1-800-713-6902. Another source for information on funding sources is through the Diversified Cash Flow Institute (DCFI). DCFI prepares their graduates to enter into the industry with funding source contacts in hand immediately. DCFI can be contacted at 1-800-713-6901.

When considering any funding source, you need to gather as much information as possible. Like many brokers, funding sources tend to specialize in certain types of income streams. You may need to find one funding source to buy

automobile paper and another to buy a structured settlement. When choosing a funding source, you need to be sure that the services they offer meet your client's needs. As a broker, you also need to understand the funding source's commission structure.

Talk with funding sources about:

Deal Feasibility
Application Fees
Broker Commissions
Client Requirements
Rates
Response Time

Once your prospect is accepted by a funding source, the bulk of your work is done. However, for as long as the relationship between the client and the funding source lasts, you will want to be involved in the transaction. You should work at maintaining the relationship with your client to ensure that they continue to realize the value of your brokering services.

The following are some of the types of questions you should ask funding sources:

Deal Feasibility. Does the funding source accept deals of this nature? Remember, most funding sources specialize in certain cash flow areas. There is no point in continuing a conversation with a funding source who will not consider buying the particular income stream you are trying to broker.

Application Fee. Does the funding source charge an upfront fee for processing a prospect's application? If so,

how much is the fee and will it be applied to the client's account once accepted?

Broker Commissions. How are brokerage commissions calculated and when are they paid? Does the funding source have a standard broker agreement that they use? Fees vary widely and change rapidly. With most funding sources, your commission as a broker will come from the funding source's charge to the client. (With some, however, you must add your commission to the fee charged by the funding source, which means that the client is actually paying your fee.)

Client Requirements. Each funding source has set requirements when considering clients. You should obtain a list of these requirements from each funding source you are considering working with. Some large funding sources have been in business for years and handle more than \$400 million annually. They can easily handle most any dollar volume of business that a prospect might have. Smaller funding sources may want only clients with an income stream valued between \$75,000 and \$250,000. Some funding sources work only with clients in a particular industry such as manufacturing or medical.

Rates. What are the funding source's charges for recourse and nonrecourse investing? Are these rates firm or negotiable? A funding source should be able to give you a range of fees and explain the variables that will affect their final fee decision.

Response Time. How long does it take the funding source to process an application? Once a client is approved

and the paperwork is submitted, how long will it take the funding source to process the paperwork and remit the client's advance? Time may be the single most important variable to your client. Generally, clients who need cash flow assistance need the cash ASAP.

Completing the application

Every funding source has an application package which must be completed by the prospective client. Here is where you can make your brokering services indispensable. The more you understand about your client's business, the better able you are to assist in the application process. Each and every item of information requested by the funding source must be complete and accurate or approval will be delayed. A good broker will make sure that his client's applications are completely filled out to specifications. In addition to completing the application, a client may be required to submit a small upfront fee for processing and provide specific documents pertaining to the income stream.

As the broker, you should monitor and assist, if necessary, with collecting information and returning the application to the funding source. You can help ensure that your client does not slip through the cracks. Remember, your client is interested because he or she wants to sell the debt instrument now. Delays in processing can make the agreement less valuable to your client.

CHAPTER ELEVEN

Negotiating the Deal – The Offer and Acceptance

Putting a successful deal together separates the professionals from the amateurs. It takes thought and consideration to structure the deal in a way which satisfies the buyer and seller while putting a substantial profit in your pocket.

Gather all your notes: the verifications you made regarding the seller and his income stream, copies of all relevant documents, notes from each phone call or meeting you had with the seller and buyer, credit information on the payor and everything you have pertaining to the deal. Remember, you need to be in control of all the information available before approaching the buyer or seller for a final deal.

If you are brokering the deal, you basically let the buyer calculate the offering price and negotiate the terms of the deal. If you are the buyer, then you have more work to do. There's no magic formula for calculating an offering price. Your most important task in offering a quote is to gather as much information as possible on the full range of circumstances involved. The more you know about the seller's motivation to sell his note, the better you will be able to structure the deal to satisfy him. His reason for selling and how much he wants to pocket gives you indications as to

whether you will offer to buy all of the payments or some of the payments.

The numbers and calculations we have already discussed, and the circumstances in terms of the credit standing of the payor, etc., will ultimately determine the yield. This will help you calculate your offering price.

As a broker, your job is to facilitate a sale between the seller and the funding source who wants to buy all or part of the remaining income stream. The more familiar you are with the numbers and the circumstances, the better your chances are of completing the transaction and making a solid profit.

As you learn more about the cash flow industry, you will recognize that the details and nuances of the deal-making process actually drive up the profit. The more you know about the possibilities, the more profitable you can be. While experience is an excellent teacher, you will benefit from deal structuring and negotiation training early on in your cash flow career.

Know where you are going

When you approach sellers, you should always have a strategy in mind. Even before you offer a quote, know where you are going and where you want to end up.

Guideline #1 — Know whether you want to broker, hold it in your own portfolio or resell it. Know what kind of yield you require. Know what type of income stream you prefer, like business notes or consumer debt, and know if you are interested in purchasing the item fully or partially.

Knowing where you want to end up gives you the power to direct the negotiation to your advantage.

Guideline #2 — Know what the obstacles will be. How low an offer will you be making to the seller? What is the time frame? Is all the documentation available? Get all the facts.

Guideline #3 — Justify the figure before you quote a price. This will soften the seller's disappointment if the figure is low and help him understand your quote.

Guideline #4 — Be flexible in your negotiating. Knowledge makes this possible. Flexibility raises the chances of actually closing a deal and maintaining your rapport with the seller.

Guideline #5 — One of the best advantages you offer is speed. If you are efficient, it is quite possible to close within two weeks after receiving all the critical documents.

Documentation is so important. If you have well-planned, airtight documents, you can prevent bad deals from happening and you have what is necessary to protect yourself in the event of a legal dispute. Especially in cases where you need to repossess or foreclose, you will want to have all of your documentation to turn over to an attorney to handle for you.

CHAPTER TWELVE

The Legalities of Business Ownership

The legalities of owning your own cash flow business are simple. You can operate your business as a sole proprietor under your own name or a fictitious name. To operate under a fictitious name, you need to file an affidavit with your county recorder's office, run an advertisement in a local newspaper or do whatever your state requires under its fictitious name statute.

The only license you may need to obtain is an occupational license at the city or county level. There are no government regulatory agencies in the cash flow industry with whom you need to file. Sales tax does not have to be collected or paid on the purchase or brokering of cash flow.

As with any business, there are six potential liabilities any self-employed individual faces.

1) **General Institutional Debt.** You could incur a general business debt if you borrow money from an institution.

2) **Secured Liabilities.** A secured liability is a debt secured by something else of equivalent or greater value. This means that if the business defaults on a debt, the institution can seize that asset.

3) **Casualty Risk.** There is always the danger, though very, very low, that someone will injure themselves when involved in an activity related to the business. The only protection against this is to have sufficient insurance. This risk is rarely relevant to the brokerage business.

4) **Unsecured Liabilities.** Unsecured debt is any debt that does not provide for some form of collateral. As a corporation, the stockholder and officers are protected against a creditor seizing personal assets to satisfy a debt.

5) **Internal Revenue Service.** Nothing will protect you from the IRS — at least as far as payroll and income tax is concerned.

6) **Contract or Contingent Liability.** This is created by damage caused as a result of your action. Protection from contractual or contingent liabilities is probably the best reason to incorporate.

But as I said earlier, these are similar to the legal dangers inherent in any business you establish. Each business has its unique set of dangers. Most of these can be avoided with training and thoughtful consideration of the options before you.

Six potential self-employment liabilities

1. General Institutional Debt
2. Secured Liabilities
3. Casualty Risk
4. Unsecured Liabilities
5. Internal Revenue Service
6. Contract or Contingent Liability

In the cash flow business, there are some special legal issues to consider. For instance, when the process involves selling notes (like car or boat paper) to noninstitutional funding sources, the notes are considered a security instrument and therefore the Security and Exchange Commission (SEC) guidelines must be followed. When selling the same paper to institutional funding sources, however, the SEC guidelines are not really an issue.

CHAPTER THIRTEEN

Monday Morning: Day One

Starting your home-based cash flow business is a relatively simple task. When it comes right down to it, all you require is a space in which to work and access to a fax, copy machine, word processor or computer. There is very little overhead involved and the operating expenses are limited. Your most regular expenses besides office supplies will be postage and occasional overnight delivery charges. You need no employees to get started, which means no government reporting and no payroll. Startup costs are minimal. Diversified cash flow is an ideal home-based business.

When it comes right down to it, all you require is some space to work in, access to a fax, copy machine, word processor or computer.

So the physical aspects of starting your business are a simple matter. The intellectual and emotional aspects may require more thought. If you are a self-motivated worker, if you have the ability and the desire to be your own boss, set your own hours, and organize and execute a successful marketing campaign, then this may be the perfect choice for you. If you enjoy helping businesses and individuals find creative solutions to challenges, you will find the cash flow

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business a rewarding and enriching experience. If you are committed to getting the proper training in the industry, you will have all the tools you need to be successful as a cash flow funding source or cash flow broker.

The opportunities are there. The need for cash flow services grows every day. Your potential as a cash flow broker or buyer is unlimited. The market for your diversified cash flow business is waiting for you — all you have to do is tap into it!

CHAPTER FOURTEEN

Monday Morning: Day One

This primer has provided you with the basic principles of this exciting industry. In carefully reading each chapter, you have touched on the fundamentals of virtually every aspect of the cash flow business. How you choose to use this knowledge is now entirely up to you.

Hopefully you will use the information covered throughout this book to determine whether you want to play a role in the profitable cash flow industry — and, if so, which one.

Unfortunately, I could not use this format to present all of the information needed to prepare you for self-employment in this field. I know that without being able to walk you through every necessary calculation and documentation, without having an opportunity to introduce you to key industry contacts and provide all the training that goes into certification in this field, you would just end up wasting a lot of time, spinning your wheels to get started. Indeed, training for the business is considered essential.

Thorough training is available to help teach you the business, fill in the gaps and fully explain the legal and marketing aspects that have only been touched on in this book. You can apply the basics taught in this book and build

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on them in training to become a cash flow expert. Gaining professional training on how to run your own cash flow business can be financially and personally rewarding.

The Diversified Cash Flow Institute (DCFI) leads the industry in training adults to become cash flow brokers. If you are interested in becoming a Diversified Cash Flow Specialist and gaining the tools necessary to excel in this industry, I encourage you to contact a DCFI Student Counselor at 1-800-713-6901 to receive more information on training in this exciting industry.

GLOSSARY OF TERMS

Acceleration Clause — A clause in contracts for payment of money wherein the time for payment of the balance of the debt is advanced and becomes due and payable upon the occurrence of a specified event, such as failure to pay interest or principal when due, sale or assignment of the property or the placing of an encumbrance on the property.

Account — A compilation of all claims and invoices against a particular debtor for merchandise sold or for services rendered in the ordinary course of business.

Accounts Payable — Amounts owed on open accounts to creditors for goods and services.

Accounts Receivable — A claim against a debtor for merchandise sold or for services rendered in the ordinary course of business. The debt appears on the books of the seller as a receivable and on the books of the purchaser as a payable.

Accounts Receivable Aging — A schedule showing how long accounts receivable from each customer have been outstanding. It indicates the receivables that are not past due and the amounts past due by, for example, 30 days, 60 days and so forth.

Accounts Receivable Financing — Obtaining a loan by pledging accounts receivable to a bank or other lending institution as collateral security for the loan.

Accrual Accounting — Whereby income and expense items are recognized as they are earned or incurred even though they may not have been received or actually paid in cash. The opposite of cash-basis accounting.

ALTA Policy — A particular kind of title insurance policy that insures the beneficiary against the widest scope of possibilities.

Amortization — The gradual, systematic payment of a debt, such as a mortgage and note, by installment payments of the principal and accrued interest at stated periods for a definite time, at the expiration of which the debt will be liquidated.

Annuity — A contract sold by life insurance companies that guarantees a fixed or variable payment to the annuitant (purchaser of the annuity) at some future time, usually retirement.

Articles of Incorporation — A document filed with a U.S. state by founders of a corporation. After approving the articles, the state issues a Certificate of Incorporation; the two documents become the Charter of Incorporation.

Assignee — The person to whom an asset is being assigned and who therefore obtains rights to the asset.

Assignment — A transfer by an assignor to another, the assignee of rights, such as an assignment of contract or an assignment of mortgage.

Assignor — The person assigning an asset and therefore forfeiting rights to that asset.

Authorized Signatory — The person who is empowered to execute and bind a document on behalf of a corporation, partnership or other entity.

Beneficial Owner — A person who enjoys the benefits of ownership even though title of ownership is actually in another name.

Beneficiary — The person or entity receiving the benefit of something. Very often used in terms of insurance where the beneficiary receives any benefits paid.

Bill of Sale — A document used to transfer the title of certain goods from seller to buyer.

Broker — The individual, such as you, who finds a client in need of cash flow assistance and refers that client to a funding source for a fee.

Business Note — A business note is written when money is owed on the sale of a business. It is much like a mortgage note; however, the business note encompasses the actual business — not the real estate where the business is located. Cash flow brokers become involved with business notes when the seller of the business wants to receive full payment immediately, rather than monthly payments over the next several years.

Closing Statement — When real estate is bought and sold, there are usually a number of expenses involved. A closing statement is an accounting of all monies involved in the transaction and to whom and by whom it was paid.

Club Memberships — Health clubs and country clubs receive monthly dues and annual membership fees from their members. That income stream of dues and fees can be sold to a cash flow broker or buyer.

Collateral — An asset promised to a lender until a loan is repaid. If the borrower defaults, the lender has the right by law to repossess the collateral and sell it to pay off the loan.

Credit Card Debt — Banks which have charged off bad credit card debt (money owed on credit cards) often sell the debt at a discounted price to funding sources who think they can collect the debt from the credit card holders. This can be very profitable for the funding source, if they are successful.

Deed in Lieu of Foreclosure — A deed in lieu of foreclosure is a conveyance of title to real estate. As can be gleaned from the title, the conveyance is executed in lieu of having the mortgage foreclose on the property. The sole consideration on the mortgagee's part is the agreement not to foreclose on the property. This allows the mortgagor to maintain a clean credit record.

Default — The omission of or failure to perform or fulfill a legal duty, obligation or promise. For our purposes, most likely used in the context of payments that are in default.

Due Diligence — The process through which brokers and funding sources assess the risk and authenticity of a deal.

Equity — The value or interest an owner has in real property over and above any mortgage indebtedness or other liens against the property.

Escrow — The system by which money, documents, personal property or real property are held in trust for others by a disinterested third party until the terms and conditions of the escrow instructions made by the parties to the escrow are completed or otherwise terminated.

Foreclosure — A legal proceeding in court to enforce payment of a debt secured by a mortgage that is in default by sale of the property under court order.

Funding Source — An institution or individual investor who provides money or capital for a cash flow transaction.

Inflation — A rise in prices for goods and services. It happens when spending increases relative to supply. To bring demand down to equal supply, prices rise.

Investment-to-Value Ratio — A measure of how secure a mortgage holder's position is and how likely he is to be able to recoup all of his money in the event of a foreclosure. The ratio is found by adding the amount of money the mortgage holder/investor has invested in the mortgage (not balance of the mortgage) to any senior liens existing on the property and then dividing that sum by the current value of the property. A higher ratio indicates a riskier investment.

Invoice — An invoice is generated when a business has provided products or services to a customer. The business can wait 30 to 90 days for payment of the invoice from the customer or it can receive immediate payment by selling the invoice to a cash flow buyer. The cash flow buyer will advance the business a discounted amount of the invoice. When the customer pays the invoice, the buyer receives a profit.

Land Contract — A form of real estate purchase in which the buyer makes installment payments toward the purchase over time and has use of the property but does not receive title to the property until it is paid for in full. In some states, the buyer does not accrue any equity such that if there is a default, the buyer is evicted without compensation of any kind. In other states, the buyer does build up equity and a foreclosure is required to regain control of the property. (Also referred to as “Land Sales Contract,” “Agreement for Deed” or “Contract for Deed.”)

Lien — A hold or claim which one person has upon the property of another as a security for some debt or charge.

Life Estate Holder — Transferring title of property to another party after death but maintaining title to the property while alive.

Loan-to-Value Ratio — A measure of how heavily mortgaged a property is and how likely the owner is to default on these debts. The ratio is found by dividing the total balance of all existing liens on the property by the current value of the property. A higher ratio indicates a riskier investment.

Lottery Winnings — Winners of lotteries usually receive their winnings over a period of several years. An individual winner can sell their future payoff at a discount for cash today to a cash flow buyer.

Market Value — The price at which a ready, willing and informed seller would buy, neither party being under any pressure to act. The price property would command in the market.

Mortgage — A pledge of real property for the security of a debt. A contract by which specific property is hypothecated for the performance of an act without the necessity of a change of possessions.

Mortgage Note — A negotiable promissory note secured by a mortgage on certain specific real estate. It's the legal and negotiable evidence of the debt created by the sale of a property on credit and is a written promise to repay. It states the rate of interest, repayment schedule and other terms associated with the debt and its repayment.

Mortgagee — The lending party under the terms of a mortgage. The lender of money or the creditor and the owner (holder) of the mortgage.

Mortgagor — The borrowing party who pledges property as collateral. The owner of the real estate and the borrower or debtor.

Partial — (Also a Partial Purchase) Any part of the payment stream that is less than the full amount due under

the terms of the note. A partial purchase is the purchase of this portion of the payment streams.

Payee — The person scheduled to receive payments under the terms of a contract.

Payment Stream — The scheduled periodic payments under the terms of a note. As a general rule, it includes all periodic payment except the final balloon payment.

Payor — The person scheduled to make payments under the terms of a contract.

Prepayment Penalty — A penalty for the payment of a debt before it becomes due.

Promissory Note — The document stating a promise to pay the debt or the actual promise that someone makes to pay a certain amount of money at a certain interest rate over a certain period. (Sometimes referred to as a “Note.”)

Property Leases — Income generated from rent on property or leases can be filtered through a cash flow buyer if the owner of the property wants their cash sooner rather than later.

Purchase Orders — Companies issue purchase orders as a formal agreement that a specific job is going to be done for a specific price. When a purchase order is generated, businesses may need money in advance to do the actual job being ordered. Businesses in this situation can sell their purchase order exactly the same way that they could sell an invoice as described above.

Recording — The placing on the public records of the county in which the property is located any instrument that affects the title of that property.

Royalty Payments — Royalty payments are monies that are forwarded to various artists (musicians, writers, etc.) from publishers, TV networks, record companies, etc., for the use and sale of the artist's material. There is generally a lag between the time royalty payments are calculated and the time they are received. A cash flow broker can assist an artist by advancing a percentage of the royalties due. When the publisher, record company, TV network, etc., finally pays the artist, the cash flow broker recoups their investment, along with a profit.

Satisfaction — The discharge of an obligation by paying a party what is due to him, as on a mortgage.

Seasoned — Seasoning relates to the length of time payments have been made on a mortgage note. A mortgage and note are seasoned if many payments have been received in a timely manner. Buyers will have their own ideas as to how many payments make for a seasoned mortgage, but a year's worth is fairly well-seasoned. In that time, the payor will have established his/her financial ability to make the payments on a consistent basis.

Servicing — The collection of payments of interest and principal, and trust fund items such as fire insurance, taxes, etc., on a note by the borrower in accordance with the terms of the note. Servicing by the lender also consists of operational procedures covering accounting, bookkeeping,

insurance, tax records, loan payment follow-up, delinquent loan follow-up and loan analysis.

Structured Settlements — A court order between two parties involving the transfer of money. It is a perfect opportunity for cash flow brokers and buyers. If a married couple goes through a divorce and the judge orders the husband to make annual payments to his ex-wife for child support, the ex-wife can go to a cash flow buyer to receive the child support in advance. When the ex-husband makes his payments, the cash flow buyer makes money.

Student Loans — Vocational, technical and other trade institutes such as truck driving schools and bartending schools are owed tuition from students. The income stream of tuition payments can be sold to a cash flow buyer at a discount. The cash flow buyer would take responsibility for collecting the tuition, and therefore earn a profit.

Subordination — The act of a creditor acknowledging in writing that the debt due him by a debtor shall be inferior to the debt due another creditor by the same debtor.

Tax Certificates — When a property owner does not pay taxes on the property, the government has the right to auction off a tax certificate, so the seller is the government and the payor is the owner of the property. Funding sources bid on the certificate and the one bidding down to the lowest interest rate wins. The certificate is then held as bond against the property.

Tax Refunds — Many people are owed refunds by the government each year at tax time. Instead of waiting for a

check from the IRS, an individual can receive a discounted refund from a cash flow buyer. When the refund does arrive from the government, the cash flow buyer makes money.

Term — The period of duration of a note, acceptance, time draft, bill of exchange or bond, synonymous with tenor and usance.

Title Commitment — A commitment on the part of the insurer, once a title search has been conducted, to provide the proposed insured with a title insurance policy at closing.

Title Insurance — Title insurance can benefit either a mortgagor or a mortgagee. Should the beneficiary suffer any damages due to clouded or false title to real estate, title insurance will recompense the damaged party to the extent of the damages — usually to the extent of money owed or already paid.

Title Policy — An insurance policy, usually issued by the company conducting the title search, that insures a party against loss due to a defective title. Title policies can be issued to both the property owner (owner's title policy) and the lender (lender's or mortgagee's title policy).

Title Search — Research conducted in public records from the distant past to the present to ensure that title to a property has passed cleanly, legally and without dispute from owner to owner. A title search also uncovers any existing liens on the property and any other claims third parties may have to the property researched.

Trustee — The trustee in a trust deed state is an entity holding title to property in trust for the benefit of a lending institution as security for the repayment of the bonds sold by the trustor in order to purchase the real estate in question.

Trustor — In a trust deed state, the trustor is the purchaser of real property financed, in whole or in part, through a promissory note issued to a beneficiary lending institute or seller. The property purchased is placed in trust until the debt is satisfied.

Unseasoned — A mortgage and note that has had few, if any, payments due and received. An unseasoned note and mortgage will not have had enough time to establish the ability of the payor to actually make the payments on a consistent basis.

Viatical Settlements — The purchase of life insurance policies from terminally ill patients, allowing them access to money they need for health care and other reasons.

Warranty Deed — A deed to property in mortgage deed states that includes a confirmation by the grantor that they have sole title to the property and will guaranty that.

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