

To Fee or not to Fee – That is the Question?

Alfa Financial Management Limited (AFML), is constantly asked why it charges monthly retainer fees and also closing fees.

Borrowers and principles have attained various opinions and conclusions, some accurate and some we feel not so accurate.

We present here some of the pros and cons which funders and borrowers should consider before jumping to reach a conclusion which may actually mean they miss a credible opportunity to obtain their required funding.

Unfortunately, the world we live in does have corrupt individuals, these are made up of both lenders and borrowers.

The corrupt people and organisations operating within sophisticated layered complex scams are sometimes difficult to ascertain.

It may be a corrupt company is seeking to obtain funds from an unsuspecting borrower or indeed it may be that a borrower is seeking to deceive a lender and has actually no intention of remitting fees or loan repayments.

The key is to be able to determine the good from the bad, on both sides and as much as possible choosing the correct financial path and risk.

The press and social media tend to always focus on the person that has lost money as this is the head line news, which grabs the attention of the reader, however they would not be so interested in the person who has successfully secured his monies and is completely satisfied.

The press do not look at the broker or lender who has absorbed huge works, cost for man hours to find that a borrower has not been truthful and does not pass the due diligence tests of a fund or the project is simply not accepted. Sometimes we see that principles have a dream or idea however in reality have not the means or capability to perform as their presented project to the broker.

We also see borrowers simply deciding not to complete the borrowing with a change of mind or choosing to go with another provider having used information provided by the broker.

People read the press and social media and reach their own conclusions rightly or wrongly, as mentioned many borrowers of course are simply seeking to obtain funds based on an idea or a dream which they believe in, however have no real understanding of the actual process, the time, works and cost involved in obtaining funds and as such are quick to decline to proceed where there are costs involved for them.

It is however completely understandable and warranted that borrowers should be concerned when paying out money for a service, that they are indeed obtaining value for money.

Certain factors can lead to perhaps a better chance of reaching the funding goal if one considers matters in greater detail and understanding from all sides the borrower, the broker and the lender.

AFML has looked greatly at the fee process and has implemented a procedural path which we feel is fair to both sides as it is key to understanding and appreciating that there are both sides to consider when offering a professional and workable service solution.

The word up-front fee unfortunately has been given the image of scaring many borrowers, however perhaps if one looks further into the actual process of what brokers and lenders do and to how fees are applied, borrowers may reach a different conclusion and the word up-front fee may actually mean **“costs for services rendered”**

Of course, ultimately it is this will be a commercial decision for the funder, broker or borrower.

One would not expect a builder to build a house for someone, using their own labour and time, materials and expertise in the HOPE that when the property sells the owner of the land will pay them, the builder of course carries costs. Asking a company to work on a pure success basis simply put is asking them to deliver a winning lottery ticket and only then to pay them the cost of the ticket with a small percent of return. Basically, people are not so keen on paying for a service, they don't mind paying for a product as they feel they are attaining something in hand which they can physically see. An example would be people do not like paying their gardener for their services as they feel they can do it themselves if even in reality a gardener may do a much better job, however people have no issue paying for a new car as they cannot build a new car and they have an asset in hand. Borrowers need to appreciate of course that credible fund service providers have many years of experience and have built up many connections over years and this brings the value.

An example would be a doctor or a lawyer, who has spent many years passing exams and developing their expertise.

The position in relation to a lender/broker is exactly the same scenario;

The question is what to look for to determine the good from the bad.

1) Up-front Fee - Are the fees payable completely up front or at certain stages of the process?

If payable up-front before any assessment of the project has actually taken place, this should be a raise for concern.

If, however the service provider has received the project, taken time to evaluate at their own initial cost, then presented a clear upfront procedure proving the clear cost process then it should be considered reasonable.

2) Size of fee! - Are the fee charges proportionate to the work involved?

Should a company be requesting £50,000 USD per month, for reviewing a project and seeking to place, one should again be concerned?

How-ever if the costs are realistic, one should evaluate properly the size of fee and determine if the works conducted evaluate into value for money. It should be born in mind that a broker will incur costs, labour cost, phone cost, office costs, meeting costs, for a professional service one will be required to pay professional fees. Another point to note is that a professional company offering services will have to pay corporation tax so a fee payable of £2,500 per month in reality is net £2,000 to the service provider

One should also consider that if a borrower or client is seeking many millions of dollars is not able to cover the mere fee for the services, legal contract or pay the cost of service works in relation to their funding application, then the broker, lender or funder would seriously consider the seriousness and indeed the financial capability of the borrower. It should also be remembered that the borrower is responsible for paying parties involved in the process and if they balk at service fees then they will likely balk when it comes to paying out closing costs to the parties.

Fee Risks for the Broker and funder

Many borrowers are not understanding to the works involved and the cost implications and should consider that a real company offering a professional service will charge.

One should also be aware that there are many organisations stating they don't charge fees for work! **(BE-WARE!)**

It should be considered that no one works for free and when we see these adverts it may actually be a broker who has no real chance of realising the funds or has not the connections however been thinking they can take a fee.

Another BE-WARE tactic we have seen is service providers stating no upfront fee who in reality are unscrupulous parties seeking to obtain funds by deception having arranged to get their fees much later in the process i.e. when the funder informs the borrower there is a diligence fee payable! (usually this is in the tens of thousands and indeed funds may not actually be available), education and awareness on both sides, is key to the whole process and AFML provides a clear explicit path providing realistic costs for works and services rendered.

There is no such thing as a free lunch, real companies carry real overhead costs!

A genuine broker has years of experience, qualifications and connections and these come at a cost.

A company advertising - NO upfront fees! could actually be party to a layered scam and clients should be aware:

We have heard horror stories of fraudulent companies even providing clients with POF (however of course the lender has no intention of closing any deal!!), the poor unsuspecting client invariably seeing the POF has confidence and has remitted large diligence fees - we have heard horror stories upwards of well beyond \$100,000 USD of course the broker is part of the elaborate layered scam and is taking a slice of the cake!

We have also heard stories of clients being asked to remit into escrow accounts large sums of money i.e. their 'contribution' some in the millions of dollars to the project only later to discover they cannot meet the lender terms or 'dead lines' to subsequently find that to exit the escrow involves huge penalties or costs payable by the client.

We have even seen companies being requested to cover huge travel costs to meetings on business class rates and hotel costs - simply for a few days. **Costs should always be reasonable to the works involved.**

The above horror stories are just a few examples that clients should consider before engagement with companies stating - NO UP-FRONT FEES! **This should in our opinion be a warning signal to clients as of course no one can run a business for free!**

Due diligence is key to the process and both borrowers and lenders are not always the scrupulous individuals they portray to be.

A quality application process is paramount to quickly ascertain the borrower's real capacity to transact, after all a borrower who is unable to take the time to complete an application form and provide the relevant paperwork is unlikely to have the time for their business.

Many clients seek equity partners, thinking that an equity partner will lead to a better cheaper borrowing and they will have access to further money should they need, some borrowers also think that by taking an equity partner they can circumvent the closing fee costs payable by taking on a partner. Private equity is of course much more difficult to attain than institutional equity and the cost of meetings and works involved is much greater expense and should be considered on all sides. AFML do have many connections seeking equity of course.

Another fact that borrowers should appreciate is that many lenders for equity tend to seek senior position to protect their investment.

Borrowers will perhaps will not like to give up the decision making for their company.

Factors to consider for borrowers

- Is the lender / broker company legally registered entity?
- Is there a website?
- Are the individuals carrying qualifications?
- Is there a clear explicit path of procedure?
- Is the company declining applications?
- Are the fees proportionate to the work?
- Is a meeting option available?

The above options of course should provide comfort to a company or person seeking funds.

Our group has taken the commercial decision to be completely explicit with clients regarding our fee charging structure.

Subsequent to review of a project we issue clients a SOW (Schedule of Work) Fee document, detailing cost of works and closing fees in relation to clients funding applications. We assist clients by spreading the cost, requesting quarterly payments of works cost.

Trust and conclusion

Funding is never guaranteed and is always subject to KYC and due diligence, both borrowers and lenders need to be understanding to the whole fee process, of course it is a commercial decision on both sides.

Parties should of course carefully consider the reasoning of both parties involved and actively engage with them, meet and discuss to attain the level of comfort. We as a company have chosen to position a fee structure which we feel fairly respects all parties covering our costs in relation to offered services, real companies of course do carry costs and clients should expect to pay, from our experience clients unwilling to meet fees have lost great opportunities, from a time and resource standpoint we have taken a corporate decision to request a contribution to our basic service works cost, we hope you have found our fee explanations useful and will choose AFML to assist your company in seeking its funding.