

Diversifying your business into commercial lending:

THE BETTER BROKERS GUIDE



AFG

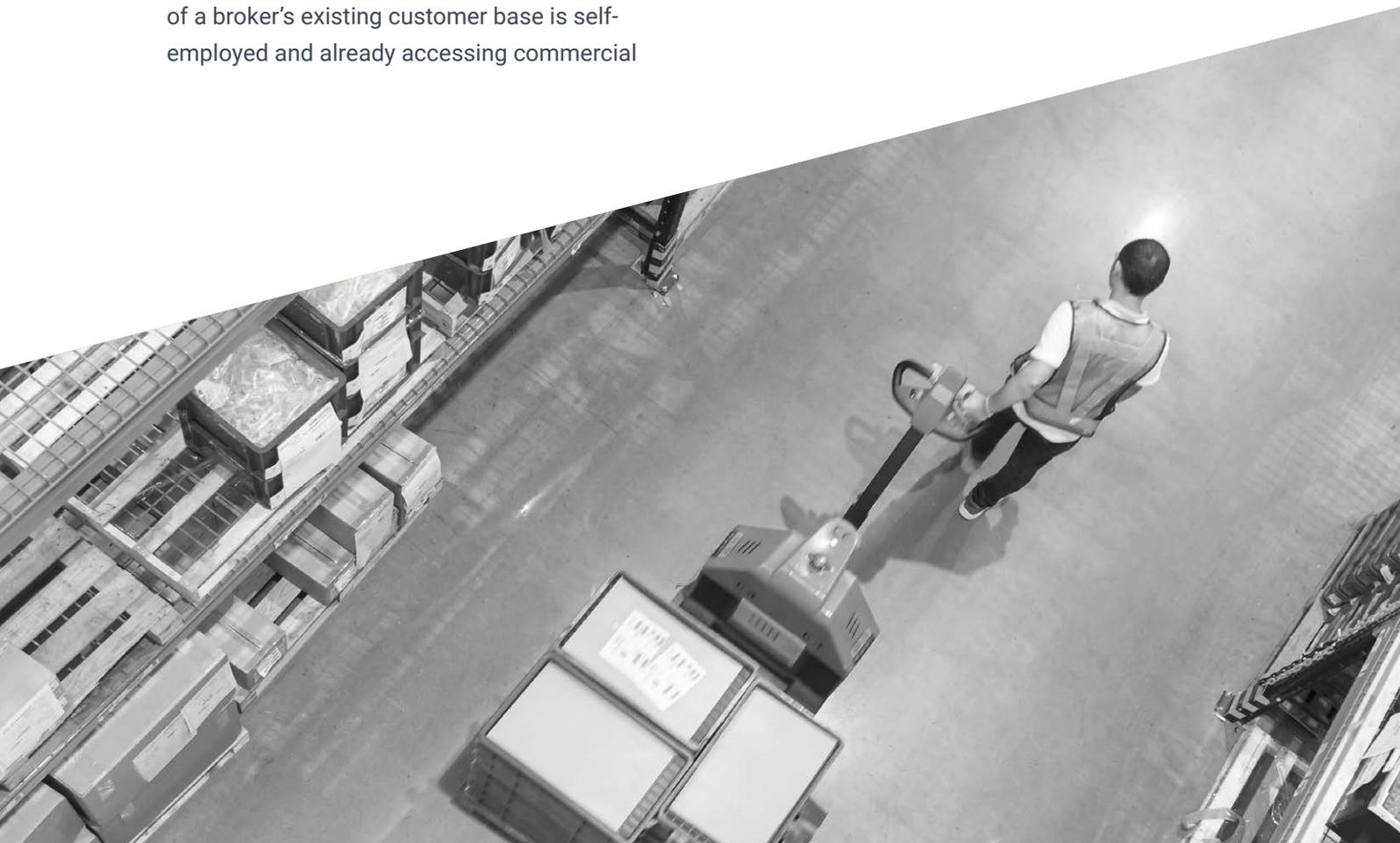
If there was ever a time for finance brokers to add a commercial arm to their business, it's now.

As traditional and non-bank lenders battle for shares of the [\\$347 billion business loan market](#), the proverbial doors have opened for brokers that can offer business customers a range of lender options, structured deals and simplified application processes. What's more, the economic impacts of COVID-19 and the implications of the Banking Royal Commission have made it even more important for brokers to diversify their income streams and safeguard their business.

Fortunately, the opportunities are already there for brokers ready to conquer commercial lending, as is the support. On average, 23% of a broker's existing customer base is self-employed and already accessing commercial

finance directly from a bank, making this a good starting point for commercial opportunities. And, while there are complexities to commercial lending, the training and support available through lending partners and certain aggregators, such as AFG, has never been better.

The mechanics of transitioning into an entirely new sector are important to consider and detailed here in this step-by-step guide; from learning the basics of commercial lending, to getting accredited, to finding prospects, to talking to customers, and settling the deal.



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Commercial lending: The basics

In short, commercial lending is any form of financing for commercial or business purposes. This can include loans to purchase commercial property, equipment, vehicles or assets; or loans to boost cash flow, fund business expansions and assist with the costs of running a business.

For the most part, commercial lending isn't too far removed from residential lending. For example, the process and engagement

between client and lender is largely the same. The complexity comes in various business structures, new loan types, multiple and composite securities, complicated/inter-related streams, loan terms and terminology.

For example, commercial property loans typically have shorter loan terms of between two and 15 years, compared with the typical 30-year terms of residential property loans. There are also two types of commercial property.

Owner-occupied (OO)

Owner-occupied deemed properties exist when a business owner operates their own business out of a commercial property for which their business is the sole tenant or anchor tenant.

Investment

Investment deemed commercial real estate properties are when a third-party tenant occupies the facility or where the operating entity uses less than 40% of the total square footage of the property.



Why expand into commercial lending?

Commercial lending may not be the right move for every broker, but it's a good way to future-proof your business income strategy. Some of the benefits include new revenue sources, expanded business capabilities and fresh opportunities.

David Drinkwater, AFG National Sales Manager Commercial & Asset Finance, says there are three key reasons why expanding into commercial broking makes good business sense.

01 To create a consistent income stream

Diversifying into commercial is a natural hedge to ensure a consistent stream of income during flat periods in residential lending.

02 To leverage your existing customer base

Given the sheer number of SME's in Australia, it's highly probable you're already working with customers who own their own business. Looking for commercial opportunities within your current base can lead to new revenue sources, but also safeguard your residential income sources.

"If another broker or a lender directly reviews a customer's business facilities, sure enough they'll review their residential facilities as well to make a play for refinancing," David explains.

03 To fulfil a need in the market

A lot of business customers work directly with the major banks, where their representative may only have three or six months' experience and thousands of SMEs in their portfolio.



“TO OTHER BROKERS THINKING ABOUT MOVING ACROSS INTO THE COMMERCIAL WORLD, I WOULD ABSOLUTELY SAY DO IT. IT’S PROVIDED OUR BUSINESS WITH ADDITIONAL INCOME STREAMS AND ENABLED ME TO BROADEN MY HORIZONS IN TERMS OF MY KNOWLEDGE.”

MICHAEL TAIPI, DIRECTOR/FINANCE
MANAGER, MT LOAN SOLUTIONS

Getting started

Becoming an experienced commercial broker doesn't happen overnight. Like entering any new market, it takes time, patience and ambition to succeed.

But it is possible to manage alongside the needs of your residential business – provided you have a strong plan, the right information and tools, and the right partners. If you were to break commercial diversification down into steps, there are six to consider.

Step 1 Make a plan

It's important to have a plan in place for your diversification strategy. This doesn't need to be a complex task, but rather some general guidelines for how you'll approach your move into commercial. Ask yourself:

- Who will be responsible for making the transition? Is it you, someone else in the business or does it make sense to bring a partner with commercial expertise on board?
- What's your ideal timeline for diversifying?
- What steps will you take to get educated and accredited?
- What tools and technologies will make it easier to manage the commercial lending side of your business?
- What will your customer base look like? Should you focus solely on your existing customers or look at new markets as well?
- How will you get the message out that you're working in commercial lending?

Step 2

Educate yourself

Education is necessary in order to understand the basics of commercial debt products and have the right conversations with customers. Aside from any formal training and courses, invest some time into understanding the landscape. For example, consider:

- Speaking to other brokers with commercial lending experience
- Familiarising yourself with commercial lending products
- Reading industry news and articles
- Having preliminary conversations with existing customers to gauge interest

Step 3

Choose a technology partner

Most brokers understand the value of technology in managing customer relationships, connecting with lenders and supporting the end-to-end financing process. You may already use a technology solution that can be applied to commercial scenarios. If not, consider investing in an aggregator designed to offer small business borrowers with a broad range of finance options.

A good aggregator will support you through getting accredited with a panel of lenders and provide you with software, training, marketing, business development and compliance support.



What to look for in an aggregator

- ✓ Training and education pathways
- ✓ Simplified accreditations process
- ✓ Ongoing support with set-up, applications and lodgement
- ✓ Access to a broad panel of lenders
- ✓ A technology platform that allows you to find and process applications for a range of commercial products
- ✓ Customer relationship management (CRM) capabilities
- ✓ Sales tools and marketing collateral

Step 4 Get accredited

Like residential broking, you can only start recommending commercial products from a lender once you're accredited with them. You can do this by seeking accreditation with the lenders on the panel of your chosen aggregator. In most cases, this will involve taking part in training modules to receive your accreditation codes.

Step 5 Identify prospects

Building a qualified prospect list can be daunting. Fortunately, some of those prospects will exist within your existing customer base. Depending on your aggregator, you may be able to identify those prospects using customer analytics such as occupation, income and employment data. Try filtering customers by those that are self-employed, have an ABN, or own a business as an asset.

Your first port of call as a commercial broker should be to go out and talk to those customers you have a relationship with and understand their business requirements.

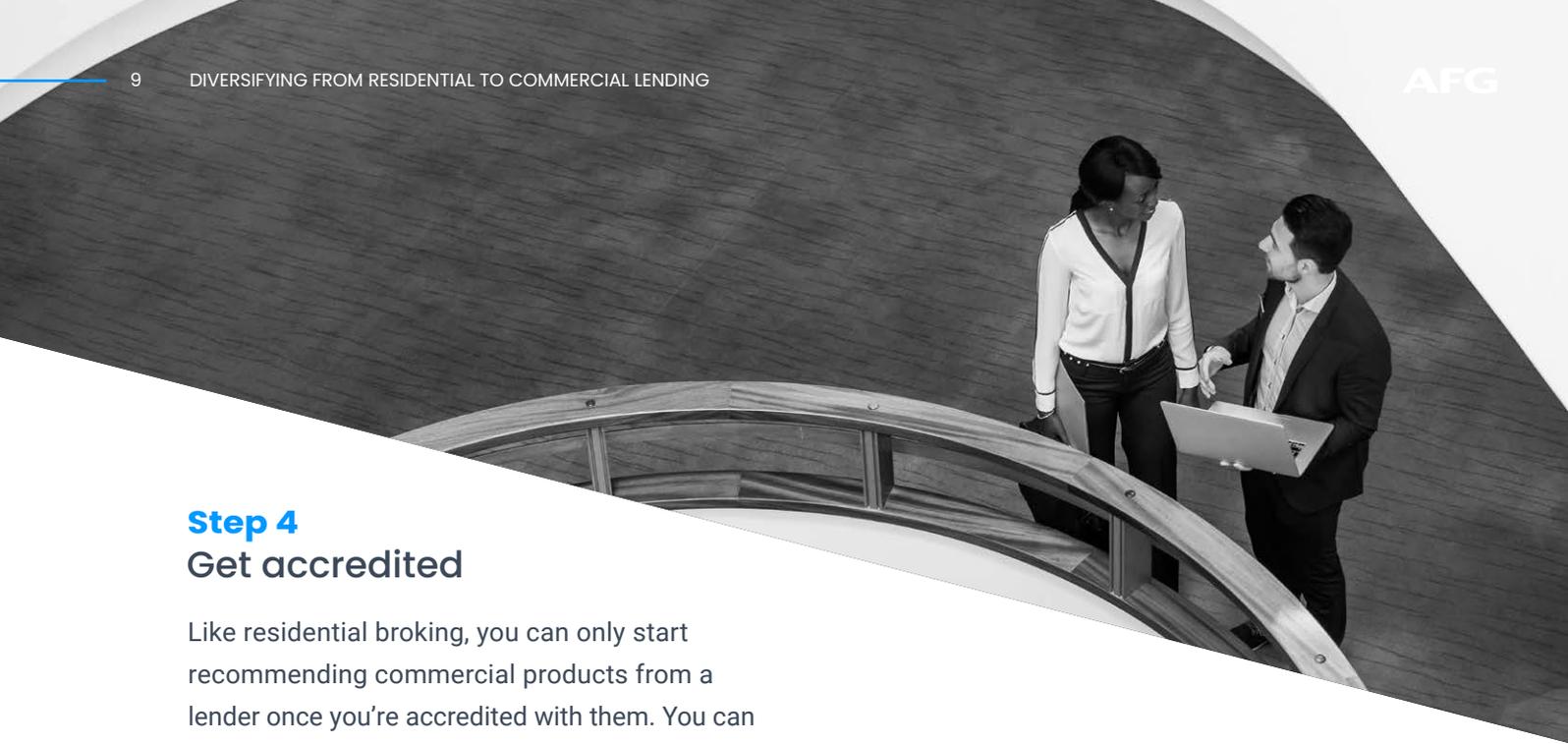
At the same time, think about ways to reach new prospects. For example:

- Your existing professional network outside your customer base
- Your lead referral network such as accountants or financial planners
- Post an update to your business and personal social networks about your new commercial venture

Step 6 Market your new offering

Marketing is a key component of any successful business and commercial lending is no exception. Once you're accredited, you'll need to get the word out that you're operating in the commercial space. Some activities you can undertake include:

- 01 Revisiting your marketing material:**
Update your website, social media profiles, Google My Business listing and any other online or offline marketing material to reflect your new services.
- 02 Sending an email to your network:**
Get in touch with everyone in your database to let them know you're ready to assist them with their commercial financing needs.
- 03 Posting to your social networks:**
Post an update to your business and personal social networks about your new commercial venture.
- 04 Getting registered:**
Sign up for relevant associations and bodies, such as the [Commercial & Asset Finance Brokers Association](#) and the [Australian Finance Industry Association](#).



Seizing the opportunity

Being experienced in closing residential financing deals gives you a big advantage for transitioning into commercial finance. In both markets, communication and understanding the customer's needs are the keys to success. Here's how it works

01

Book a meeting

Use the double bind technique to present the customer with two choices, making them feel in control of the outcome.

For example:

*Hi Joe,
The purpose of my call is because I was thinking about your business and would love to float an idea past you.
Does next Wednesday after 1pm or Thursday after 10am work to run it by you?*



02

Uncover their needs and goals

Your goal should be to walk away from the meeting knowing:

- What they do
- What they need financing for
- What is important to them

Some aggregators will offer fact find templates or you can create your own.

Fact find example:

Purpose of funds	Seeking a commercial property for o/o purposes. Clients will cease renting and the new site will provide an additional 600 sqm storage and office space
Address	123 ABC St, Port Melbourne
Purchase price	\$1,200,000
Loan amount sought	\$960,000
LVR sought	80%
Stamp duty and GST	Client will self-fund
Additional landed security	Nil
Sponsor	Sponsor has been in commercial and residential plumbing for 11 years and operating his business for six years
Website	www.business.com.au
Doc type	Bank statements and BAS available
Other	Paid default on personal credit file \$256.98
Important to the client	Lowest deposit and need for low doc as financials are not available

03**Present options**

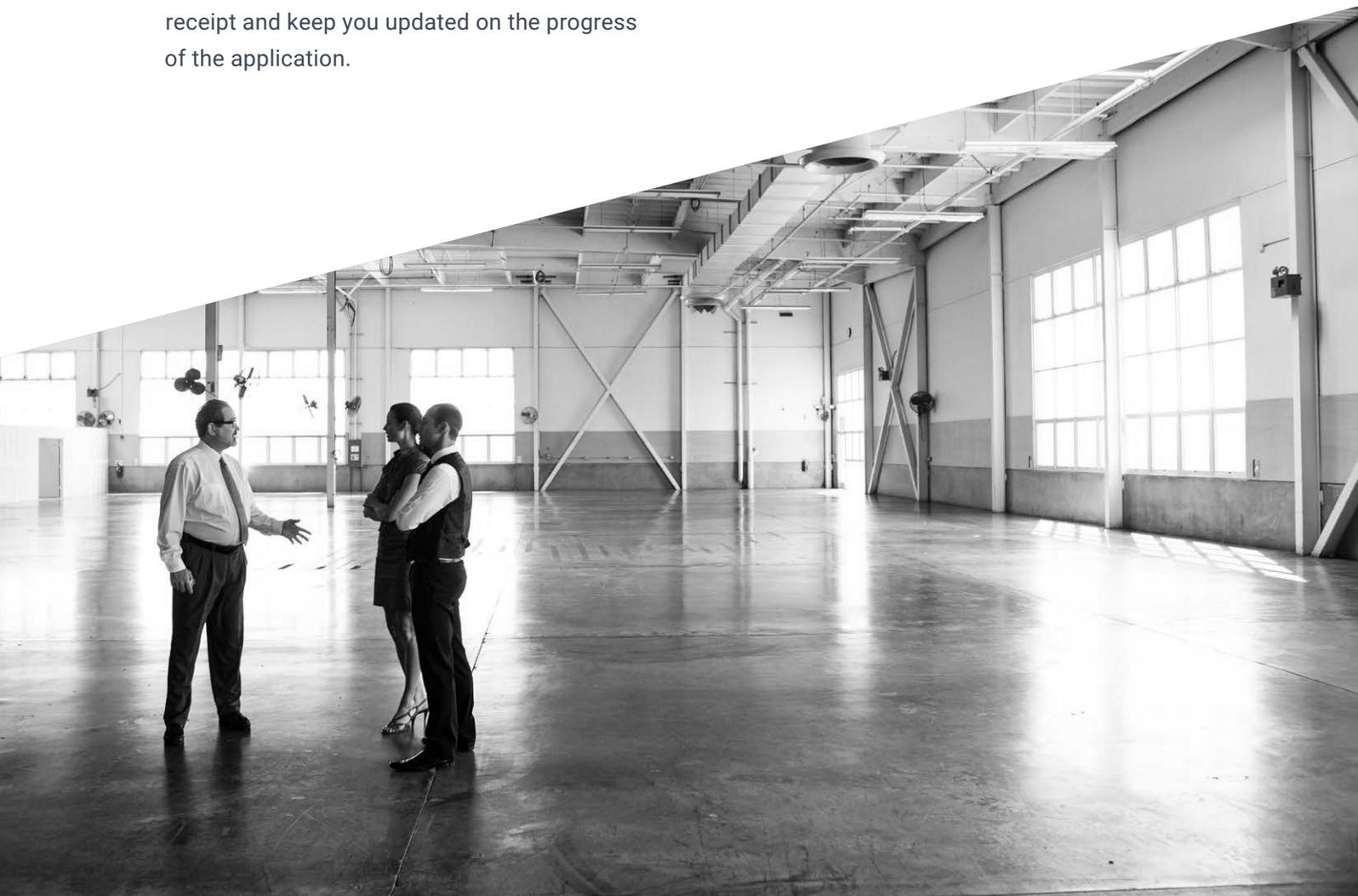
Input the customer's criteria into your aggregator's platform to generate a range of relevant product recommendations. Using an aggregator with a large lending panel will be beneficial as it gives the customer more choice and flexibility in finding a solution that's right for their situation.

04**Lodge and settle the application**

Once the customer has chosen their preferred product, lodge the application with the lender through your aggregator. In most cases, the lender will contact you after submission either by phone or email to acknowledge receipt and keep you updated on the progress of the application.

05**Keep in touch after the deal is closed**

Business requirements evolve over time and commercial customers often need to review their financing more frequently than residential customers. Stay on top of the retention opportunity by keeping in touch and checking in regularly.



CASE STUDY

Michael Taipi, MT Loan Solutions

When Michael Taipi founded [MT Loan Solutions](#) in 2017, his focus was solely on residential lending. But after a chance opportunity led him to make the shift into commercial finance, he hasn't looked back.

"Adding commercial finance to our services meant our value offering to our customer base was so much better. Now I can confidently have a conversation about purchasing a commercial property, doing a development, looking at a business fleet...there's just so much that it can add to your business and your offering," Michael explains.

Like all new ventures, diversifying came with a learning curve, but Michael says the support from AFG was a huge help.

"I was lucky enough to attend AFG's commercial boot camp and that really assured me that there was plenty of support available and that we weren't being thrown in the deep end. That made a massive difference to my confidence levels in going out and looking for opportunities."

Today, Michael uses the AFG Business platform to manage the end-to-end commercial financing process for his customers.

"The platform is super easy to use, and the team is always there to answer any questions and assist you in finding options," he says. "There's someone there to 'hold your hand' in a sense, which is especially important in the early stages."

For others thinking about diversifying into the commercial space, Michael's message is clear.

"I would absolutely say do it! I'm not sure why you wouldn't."

Commercial lending: Product glossary

Term loan

A loan with a choice of fixed or variable interest rates and flexible repayment options over a set period. Term loans are often used for financing longer-term investments and assets.

SMSF loan (non-recourse borrowing arrangement)

A loan used by a self-managed super fund (SMSF) to purchase commercial property.

Unsecured business loan

A loan that doesn't require the customer to borrow against an asset such as a vehicle or property. Unsecured business loans tend to suit business owners who don't have collateral to leverage.

Line of credit

A funding facility against which businesses can draw on continuously. Lines of credit are often used to boost business cash flow when it's needed.

Overdraft

A line of credit linked to a business transaction account that covers transactions up to an approved overdraft limit, if the account balance drops below zero.

Equipment and vehicle finance

A loan to cover the cost of purchasing, renting or leasing commercial vehicles or equipment.

Trade finance

A loan to fund imports/exports or purchases. Trade finance bridges the gap between the borrower buying their stock and selling their goods to the consumer. Collateral is typically the goods in transit.

Invoice (debtor) finance

A percentage of a business' unpaid invoice amount is provided as a line of credit. This provides the business with working capital while the customer's invoice is outstanding.

Insurance premium funding

A lender pays a business' annual insurance premiums on their behalf, and the business pays the lender in monthly instalments. This helps the business avoid tying up cash flow in annual insurance premiums.

Finance lease

Vehicles or equipment are purchased by the lender on behalf of the business. The business pays monthly instalments and, once the term of the lease is up, pays out the residual value.

How can AFG help?

AFG Business technology provides small business borrowers with a broad range of finance options to align borrower needs with lender appetite, delivering faster and more efficient access to the appropriate capital.

What is the AFG Business platform?

The AFG Business platform enables brokers to prepare a single commercial or business application from a list of suitable lenders with a high likelihood of approval, satisfying a wider range of commercial market segments and giving choice on criteria such as purpose, term, repayment options and more.

Most panel lenders within the AFG Business platform will waive commercial experience and minimum volume requirements, providing quicker and easier bulk accreditations.

Alongside a state-of-the-art platform, brokers have access to:

- The largest panel of business lenders of any Australian aggregator.
- Full learning and training pathways and courses.
- Simplified accreditations and paperwork.
- Specialist support for deal workshopping, applications and lodgement.
- The ability to find and secure a range of products for clients in one simple application.
- Industry-first, back-channel messaging system.
- Integrated live chat with business lending specialists.



Visit www.afgonline.com.au/diversify
for more information on how AFG can
support your successful diversification strategy.