Independent Banking Consultants

Six questions a finance broker will not want you to ask >>

At IBC, we believe that any borrower who enlists the help of an intermediary to help them raise finance has a right to expect that the intermediary will be truly independent and that they can, and will, act in the borrower's best interests.

Before you consider appointing a finance broker to arrange finance for your business, here are six questions to ask first.

1. Does the broker accept arrangement fees from lenders?

It is normal practice for lenders to pay to an intermediary (such as a finance broker) a referral fee for introducing a borrower. However, we believe this creates a conflict of interests and puts borrowers at a disadvantage, because:

- There is a risk that a broker will 'follow the fee'; that is, they will gravitate towards lenders (or finance products) that earn them the biggest fees rather than towards those that offer better value or terms to the borrower.
- Borrowers have little control over the amount of the fee paid to the broker.
- A referral fee paid by a lender to a broker still comes out of the borrower's pocket because the lender will simply add it on to the lending fee it charges for agreeing the facility. In other words, if a lender has to pay a bigger referral fee to a broker, the lender will recoup it by charging a bigger lending fee to the borrower.

Therefore, rather than accept any referral fees from lenders, our approach is to agree a fee with our client instead. Then, to offset the fact that the client is paying us, we ask the lenders to deduct from their lending fee the amount they would otherwise have paid to us, had we been operating in the same way as a broker.

This is a much more transparent and reassuring way of working that does not disadvantage clients and instead puts their interests at the forefront. An added benefit is that we can then usually make even more savings for our clients because:

- Banks will often reduce their lending fees even further to reflect the work we do in preparing our credit paper. These reductions can be high and in some cases, banks have not charged clients a fee at all.
- Because we put lenders in competition with each other, they have an incentive to be as competitive as possible. This leads to improved borrowing terms, including longer-term savings in interest rates and other cost savings.

In summary, apart from being more transparent, our approach often results in even bigger cost savings, as well other benefits such as reduced security, less onerous conditions, etc.

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2. Does the broker receive other incentives from lenders?

Some lenders offer additional incentives that create potential conflicts of interest. For example, some pay additional fees to brokers based on the volume of successful referrals made. This is an added temptation for brokers to refer borrowers to a favoured lender.

By contrast, we do not accept such incentives from lenders.

Some lenders are more 'proactive' about securing a larger share of referrals from brokers. One independent lender wrote to some of its brokers (and to us) to say that our volumes of referrals were too low to remain on their introducer panel. Is this good practice or not? In our case, this lender had never won any of the business opportunities we sent them, because in the eyes of our clients they were not competitive enough compared to the other lenders.

Whatever your view, it is a fair bet that some brokers will have upped their level of referrals to this lender, not necessarily because it was right for their clients, but because they wanted (or needed) to remain on the lender's panel.

3. Does the broker have any personal lending experience?

We know from experience that the vast majority of brokers have no direct lending experience at all. Just because someone has been a broker for several years does not mean they understand lending - without direct lending experience a broker will be working with one arm tied behind their back.

Arranging finance on the right terms, particularly for a trading business, requires a high level of technical knowledge – not only of the many available lending products, but also of the different types of security that lenders ask for, and of the actual lending process itself. A trained lender has that technical knowledge, so is likley to be the better bet.

At IBC, everyone in a client-facing role is a trained and experienced lender who has worked for many years in a lending role for a major commercial bank – either as a Lending Manager, Business Development Manager, or as a Credit Manager.

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4. Does the broker deal with just a few lending products?

As most finance brokers are not trained lenders, they tend only to deal with a basic range of lending products, such as bridging loans for property, hire purchase/ leasing, or invoice finance for working capital. The problem with this is that, without realising it, borrowers can find themselves with unsuitable products, which can lead to a host of problems and add significantly to overall costs.

By comparison, IBC personnel are trained lenders who are capable of dealing with virtually any lending situation and can arrange a wide range of lending products according to the borrower's needs.

5. How many lenders does the broker typically approach on each case?

Some brokers deal only with one or two preferred lenders, which again is dangerous. We saw an article in which a lender was singing the praises of a particular firm of brokers. One thing that delighted the lender was that, when the broker brought them a lending proposition, they knew that no other lenders were involved. This was no doubt an innocent remark intended to somehow make the whole exercise appear more efficient; however, to us it seems wrong, because an important benefit of using a broker is to encourage competition amongst lenders for the benefit of the borrower.

At IBC, we have no preferred lenders and instead select from a wide range of banks and independent lenders, according to our client's needs. Although this means more work for us, it is the right thing to do. It is not for us to presume which single lender will be prepared to offer the best terms in any given situation.

6. Does the broker's firm own (or is it owned by) a lending institution?

It will probably come as no surprise that close working relationships exist between some brokers and lenders. There is nothing wrong with close working relationships as long as they do not compromise the interests of borrowers. However, some lenders and broking firms are actually under the same ownership, which must raise the concern of a potential conflict of interests. If you were a borrower, would you feel 100% comfortable if a broker directed you towards its own in-house lender?

Independent Banking Consultants is a completely independent business and has no such ties with any lender.

In summary >>

In order to differentiate how we work, we do not refer to ourselves as brokers. We do not believe in accepting arrangement fees from lenders, and neither do we use a panel of preferred lenders - so we have no conflicts of interest, no divided loyalties.

We work hard to eliminate risk for our clients, and unlike some unscrupulous brokers we do not take the easy option of obtaining an 'approval at any price', safe in the knowledge that the happy lender will pay us when the borrower signs up. Although this means more work for us, it is a more transparent way of working and tends to result in better outcomes for the borrower.

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