



Using Your Portfolio as a Source of Capital – Selling Your Processing Business

There are lots of reasons why building a merchant services business can be extremely lucrative, not the least of which is the fact that you can build a lasting asset (your residuals), which you can then sell. In fact, I spoke to someone in the industry today, and he was telling me all about his plan when he leaves the business and how he's planning to sell his residuals. What that conversation made me realize, though, is that lots of people underestimate the power of those residuals. The best thing you can do with this income is to use it as capital.

To be able to sell your business in the long-run, you need to make sure that you start the business the right way in the first place. There are some major things you're going to have to take into consideration so that your company is able to grow:

1) Own your portfolio's residuals. Maybe this seems very transparently obvious to you; after all, what's the point if you don't own your source of income? However, it's not uncommon that sales agents will lose their entire portfolio simply because they did not read the agreement that they made with their processor closely enough. You should always consider what might happen if you just decide to stop selling; if the answer is that you will lose your hard-earned residuals, then choose another partner.

2) Be able to sell your residuals. If you can't sell something, do you really own it, then? Sometimes processors will require you to have to consider an offer from them before selling to an outsider, and that's fine, but just make sure you are free to choose.

3) Find out if you can borrow cash against your residuals. A large ISO that isn't operating as a middle man should be able to lend you money. If they can't, this is a problem. Usually, you're going to want to exhaust several options before a buyout, and this includes borrowing.

So let's assume you have all of these issues squared away and are the proud owner of a growing portfolio of accounts. Now you can start to use that asset to raise some capital!

Before you do anything else, though, take a look at these general guidelines that will help you get a better picture of what is going on when the selling occurs:

- Do you qualify? Don't bother trying to pump any cash from your portfolio before you have at least two dozen accounts or so. Make sure that your accounts are making at least \$1000 every month as well. You will be hard pressed to find anyone who would want to buy residuals less than this.

- Performing a buyout: When you perform an 100% upfront buyout, you'll get about 12 to 20 times the monthly worth of the accounts that you're selling. This is a rough estimate, but adjust your expectations accordingly.

- Performing an earn-out: Basically, this is the same as a buyout, except you get less upfront. Some of

the money is upfront, and the rest is sent to you in increments with the stipulation that your accounts don't get canceled and that they continue bringing in a certain amount of money. This will yield you more than a buyout in the long run—about 20 to 24 times your monthly income.

- **Performing a secure buyout:** Let's say you have a significantly-sized portfolio and you only want to sell some of your residuals. You can sell some of those accounts, and then use your others as collateral essentially to guarantee against any cancellations. This means less risk for the processor, so they are usually willing to pay more.

- **Getting a loan:** Maybe you just need to borrow some liquid cash and use your residuals as a guarantee. Most ISOs can do this for you. Usually, you can borrow anywhere from a few months to up to a year's worth of residuals. The terms will vary depending on your partner company. Since of course your ISO will be interested in minimizing risk, just show that you are using the funds to grow, and you'll have a better chance at getting the deal you want. Your ISO will also usually offer better terms than outside lenders.

Did this article help you learn more about how to turn your portfolio into a machine that pumps out capital? Do you have a portfolio that you're looking to use right now for these sorts of purposes? Contact us and we'll show you the way.

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