



# FREIGHT BROKER 101 TRAINING FOR BEGINNERS

## FACTORING AND BOND INFORMATION

### Factoring

1. What is a **Factoring Company**? They are a finance company that finances your receivables or invoices, charging an interest rate on money that they loan
2. Questions to ask Factoring Company prior to setup?
  - Do you charge an application fee? (up to \$500)
  - Do I have to factor 100% of my invoices?
  - **What is the finance charge per invoice? (Up to 5%) The lower the interest rate means the volume of invoices is much higher (carrier is moving a lot of loads)**
  - How long is the contract? (1 to 5 years)
  - What is the out clause and how does it work? Exit clause
  - Recourse (Carrier pays)
  - Non-recourse (Factoring company pays)
  - How do I pay for Lumpers (T-check or COM Data check) or Fuel Advances? Brokers pay lumpers and fuel advances through factoring companies by getting setup with a company like EFS (Electronic Funding Source)
  - Factoring companies take over accounting of the trucking companies (**Some carriers do not like this idea**)

### Bond

1. What is a **Surety Bond**? It protects the shippers and motor carriers by ensuring the freight broker follows the rules set by the FMCSA. MAP-21 (Moving Ahead for Progress in the 21<sup>st</sup> century) bill, which was passed under the Obama administration, increased the bond amount from \$10,000 to \$75,000 to kind of ward off fraudulent individuals posing as freight brokers and making the entry a bit more challenging.
2. What factors determine **Surety Bond price**?
  - Credit
  - Experience in the industry
  - Type of Bond
3. The cost per annum for a Surety Bond is between **\$750 and \$9,000**. New brokers pay on average no more than \$3,500 per annum.
4. What is an **Indemnity Agreement**? It is a legally binding agreement stating that you (broker) are responsible to pay claims caused by YOU (broker), up to the full bond amount (\$75,000). You cannot get a surety bond without signing an indemnity agreement.
5. Which bond provider company should you use choose? Criteria:
  - 800+ credit score
  - At least 5 years' experience
  - No claims filed
6. **Sample Companies**
  - JW Surety
  - Lance Surety
  - Bryant Surety Bonds, Inc.