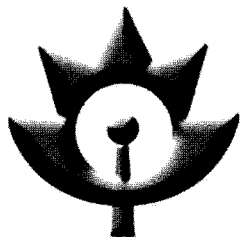


COMPANY PROFILE ◀◀◀



Resource Finance Co.

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ISO benefits:

- Provides working capital loans based on, secured by and repaid from residuals.
- No need to sell off all or a part of a portfolio.

Grow Your Business without Shrinking Your Portfolio

What if your business has a terrific opportunity – but you need working capital to make it happen? Let's say you have a chance to open a new sales office but need "up-front" money to set it up. Or you have a chance to buy out an investor or a partner. Or you want to open a telemarketing group that will generate significant business. Where do you find the money?

Traditionally, an ISO would sell off part or all of a portfolio of residuals to generate the necessary funds. An ISO owns a valuable asset – the continuing future cash flow of residuals. However, it has always been difficult to convert this value into cash that can be used to fuel growth. And selling off and shrinking the business in order to grow the business seems counter-productive. This has been an ongoing dilemma for ISOs.

It was this dilemma that provided the genesis for Resource Finance Co. "We figured if we could quantify the value of the future stream of residuals and find a way to collateralize it, then we could lend against that future revenue stream," says President David Putnam.

"We spent a lot of time working on the business model and testing it over a three-year pilot program, during which we made a bunch of smaller, risk-limited loans to ISOs. The ISO/borrowers loved our loans because they could get working capital without having either to sell off part of their portfolio or dilute their ownership by selling equity or taking in a partner.

"The acquirers/processors are positive because growing ISOs mean more 'clicks' – more transactions and therefore more revenue – for them. Also, the processors are able to use scarce corporate funds for their own growth. Furthermore, the processors avoid the conflict of being a vendor and a lender – sometimes referred to as "lender liability," under which theory a borrower can avoid repayment and even obtain damages if the lender has certain elements of 'control' over the borrower. (A White Paper on this subject is posted on Resource Finance's Web site.)

"Once the pilot was completed, based on the positive comments by ISOs and processors," Putnam says, "we knew we had a winner. Our loans help the ISO grow. They also help the processor by enabling growth, by freeing up corporate resources and by eliminating potential liability."

The source of the concept behind Resource Finance was industry veteran Chip Nichols. He was one of the original members at VeriFone and of Transaction Network Services, Inc., the largest network provider for POS transactions in the United States. He built, directed for 15 years and recently sold Resource Leasing Corp., a leasing company and supplier of POS equipment. He also has served on the board of a major ISO and therefore can identify with ISO issues.

Putnam has run Resource Finance since its inception. His background is in law, business and technology. "Now that we've tested our business model and located the necessary

financial sources, we look forward to rolling our products out to the nationwide community of ISOs. Our lending capability answers a clear need that has not previously been met," Putnam says.

Resource Finance has intentionally made the loan process simple and fast. "Typically, we can turn around a loan application in less than 30 days. Thirty days is much quicker than selling to an investor or selling off a portfolio," says Putnam. "Our debt financing is easier, faster, more convenient and, most important, demonstrably cheaper. If you compare the after-tax cost of debt financing versus equity or selling off part of your business, debt financing is clearly preferable."

Resource Finance's process is intentionally streamlined: Resource Finance e-mails an application to the ISO/borrower. Upon its return, Resource Finance telephones to discuss the loan, raise any questions, clarify any issues, complete the required credit and due-diligence checks, etc. Resource Finance then e-mails ready-to-sign, standard-form loan docs. Again, these are pretty straightforward. They require:

1. An assignment of the ISO/acquirer contract to Resource Finance for the duration of the loan.
2. Subordination or payoff of outstanding debt.

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3. A minimum of 1 "point" (maximum 2 points).
4. Personal guaranties by the ISO/borrower's principals.
5. A simple form letter (provided by Resource Finance) to the processor authorizing the processor to send copies of the ISO's monthly residual reports to Resource Finance and to pay electronically to Resource Finance via ACH the amount of the monthly debt service from the ISO's monthly residuals. The rest of the ISO's monthly residuals go to the ISO in their usual fashion.

"That's it. We don't dictate that the ISO process with a certain processor or that he send his lease deals to a certain leasing company. With Resource Finance, the ISO retains his operational independence," Putnam says.

It's even easier to borrow additional funds. All the ISO has to do is update the loan documentation and sign a new note – the rest of the documentation is already in place from the original loan. Thanks to its automated processes, Resource Finance can lend as little as \$25,000 and as much as \$1 million.

The processor ACH's to Resource Finance the monthly payments until the loan is paid off. Once the loan is repaid, 100% of the residuals revert to the ISO, who has not had to diminish a portfolio or dilute ownership. There is continuing compounding from merchant referrals. At the end of the day, the ISO owns 100% of the growth that the loan has produced.

Resource Finance lends based on a multiple of the ISO's monthly residuals. Typically, the multiple is 6x (sometimes as high as 10x) the ISO's monthly residuals. So, if the borrower is receiving residuals of \$50,000/month, the maximum loan amount would be \$300,000 (or possibly as high as \$500,000). The term is usually 36 months, but this also can be extended under certain circumstances. So, for a monthly payment of roughly \$10,000, the borrower gets \$300,000 to build the business.

"Debt financing produces useful leverage. But it can cause problems if it is overused," Putnam says. "We try to make sure there is a positive differential between the financing costs and the ISO's ROI (return on investment). Part of our loan-modeling stress test is to make sure the borrower has sufficient resources to avoid being choked by the debt service. We always caution borrowers to borrow what they need, not what they can get.

"We have worked with most of the major acquirers/processors, and they like our product because it brings them more transactional 'clicks,' which equates to more revenue, and it is a 'value-added' service that they can offer their ISOs. We are not yet well known because we have been quietly testing and refining the business during our pilot phase. Now that we are nationwide, and the response has been so positive, we hope to become the proverbial 'household' name – at least in ISO households!" 