

## Fountain Partners: The Instant Proposal — Qualifying & Pricing Your Prospects Online

BY TOM CARTER

**To wrap up the year, the *Monitor* asked** Fountain Partners' founder Tom Carter to share both the genesis and the intricacies of the San Francisco-based funding source's Instant Proposal Service. For Carter and his team, it's all about giving brokers and lessees what they've always wanted...



**TOM CARTER**  
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**F**ountain Partners was launched in 2006 as a funding source for non-investment grade and high-growth credits. The company invited brokers and other leasing companies to refer deals that were either too complex or too risky for other sources. This rewarded the firm with a growing business, but the challenge was and continues to be that it is inherently difficult to qualify "story," or non-investment grade credits. When credit profiles range from pre-revenue-stage companies to "big three" automakers (at a time when they are insolvent), it can be especially challenging.

In such cases, we cannot rely solely on past payment records, composite credit scores, or even individual financial statements to make a judgment to either qualify or disqualify an opportunity. With a team of just two executives early on, it did not take long before we ran out of hours in the day to qualify and price all the potential opportunities. We found that we needed to be able to service more brokers and leasing companies simultaneously and do it more efficiently.

After carefully considering our process and gathering input from our brokerage and lessor partners about their needs, I decided to build a Web-enabled tool that allows anyone to qualify an opportunity, to provide input on lessee preferences and to immediately obtain one or more proposals all in one session. After months of design, coding and testing, we revised our website with the inclusion of this tool we referred to as the "Instant Proposal" program or sometimes the "Proposal Engine."

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This is more than an online lease application form or a lead collection tool. The service is designed to tease apart a company's credit profile with a series of questions and conditional queries that are meaningful, but not exhaustive. We consider a prospective client's equipment request and lease structure preferences. There are drop-down boxes to speed the process and make it easy for people who may not be familiar with each financial metric, or do not want to share specific information at the proposal stage. The qualification questionnaire usually takes less than ten minutes and users get an instant response. If a prospect is qualified, one or more term sheets are offered instantly through the system.

Some of the questions in the program do not increase or decrease the probability of approval at all; they are merely used to trigger additional questions that do impact approval. Our online service may better be described as an interview tool featuring the most fundamental questions about the opportunity with weights and tallies to those responses. Upon conclusion, the system can deliver one or more tailored lease proposals. Additionally, the tool is not static; we can adjust it to accommodate any of the hundreds of potential pricing combinations in the system today.

### **Key Benefits of the Instant Proposal Service**

#### *Offering Self Service*

Brokers and leasing companies by no means are required to use our online tool to work with us, but it has been terrific for the ones that have adopted it both in accelerating their ability to get terms to a prospect and to make more money. There is more time to engage with more prospects and the ability to shrink "time to feedback" because our partners have ready access to our pricing at their convenience. No matter how full our calendar may be, a partner can self-serve by running through the proposal engine on his or her schedule. This is especially helpful in the segment that we serve, which tends to have lower approval rates on average than small-ticket or investment-grade leases, no matter the funding source.

Brokers and leasing companies can forward the Fountain Partners proposal to their clients and then remit the proposal back to us, or they can use our term sheets as a basis for their own proposals on their own letterhead. In either case, we are able to identify the prospective credit submission and review or answer any questions with our partner before or after the proposal may be offered.

#### *Accounting for Client Preferences*

We know prospective lessees like choices and we have positioned ourselves deliberately to be flexible on lease terms. Because of this, the service includes questions about the lessee's preferences and, by default, we offer two different proposals to qualifying lessees. We could offer more or less depending on any number of factors, but we like offering two in every case so that the client can see the tradeoffs between cash runway (lower year-one payments) and a structure designed to mitigate risk and cost. The lessee's preferences provide important information about the way they think, about their confidence in growth and their overall cost of capital.

#### *Making Initial Information Requirements Transparent*

Another advantage of using an online qualification service is that the partner or prospect knows what information we require in order to qualify. For some people, this in itself is a blessing. We have heard complaints before about how murky it can be trying to figure out which company will finance their business, under what terms, and who will make the decision. We make clear on the website that if the proposal is executed, it will require additional due diligence to approve.

We designed our system so that sets of questions can be presented or withheld depending on answers to previous questions. For example, if a company is not yet generating revenues, we do not have to ask questions about customers or net income. This makes for a more efficient interview for the prospect or partner and a more efficient review of the credit profile for us.

#### *Providing Common Framework for Quantifying Risk and Reward*

While I was motivated to help scale our ability to qualify deals, I was just as motivated to ensure that deals would be qualified consistently. As a capital-providing entity, we want to be consistent for the sake of our deal partners, our end-users and ourselves as managers and capital providers. We will never be perfectly consistent in our approvals, which are far from programmatic, but the tool we built is sophisticated in its ability to allow us to create and maintain the risk and potential return matrices that power our term sheets.

The benefit internally is that no matter how an opportunity was generated, no matter the credit profile or terms the client has already agreed to pay, we reduce all of that to common credit risk metrics. This, in turn, determines the potential payments that are required over the life of the lease. When we are asked to approve lease terms for a credit that has already been agreed to on a partner's term sheet, we can quickly determine the economic factors relative to our target.

#### *Pinpointing Sources of Weakness or Strength*

Since our team knows the strengths and weaknesses of a deal immediately up front, we can focus our evaluation, research and management questions, as well as our internal credit discussions, on those areas. We want to validate the perceived strength and probe into the perceived weakness. For example, if the main source of risk for a prospect is customer concentration, we can focus our energy on understanding that particular risk. Our diligence will not change the fact that concentration exists, but we may approve, re-price or decline based on our attitude toward that single risk element. Our pricing matrix always reminds us which risks are present, and

we know that we need to be paid for taking those risks, change our perception of them or suggest something else structurally to compensate for the risks.

#### *Getting to Zero*

Reducing qualifying time was a primary motivation in developing our online tool, but I did not seriously expect to reduce that time to zero. I expected that the tool would certainly be helpful, but that few if anyone would sign and return a proposal without talking to us.

Earlier this year, we started a dialogue with a software company CFO via e-mail. At her request, we had a phone call scheduled to discuss her company's needs and our capabilities. We did not mention the proposal engine in our e-mails. Prior to our call, however, the CFO visited our website and clicked straight through to the proposal engine. After completing the questionnaire, she reviewed the lease proposals generated, made a selection, printed and signed the documentation, and faxed it to us the night before our call. We were surprised and quite happy to say the least.

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The CFO was impressed with how her advance work made the rest of the process easier for both of us. We had all of the summary information we needed up front, so our diligence questions were highly efficient. To her delight, our underwriting process was also efficient and transparent. We approved the terms she selected for a \$1.5 million lease line. Even though we do not expect our prospects to be this easy to work with every time, it is possible.

#### **Proposal Engine Limits**

Having the service available does not mean that we don't need to negotiate and customize proposals — we do. Referencing the risk pricing table we established as the backbone of our online service does enable us to generate our customer proposals more quickly and confidently. However, the service does not mean we do not talk about deals with our partners or prospects. We still discuss deals fully, and we never pressure anyone to use the online service. The service simply enables our conversations to lead to faster conclusions with hard terms.

Instant Proposal does not mean instant funding. We do not wire money based on the system's output. We don't even issue a commitment based on the system. We issue proposals and maintain our due diligence or documentation.

Fountain Partners invented the Instant Proposal service to deliver to our partners what they told us they really wanted: an initial indication of interest and related pricing. We hope to continue to improve the service, and we welcome industry feedback. ■

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**TOM CARTER** is the founder of Fountain Partners, headquartered in San Francisco. His company is a direct funding source focused on non-investment grade leases ranging from \$250,000 to \$5 million. For more information, visit [www.fountainpartners.com](http://www.fountainpartners.com).