

THE COMPLETE

COMPLIANCE GUIDE FOR FREIGHT BROKERS



LICENSING & COSTS

RENEWALS

TRAINING & TIPS

ONGOING COMPLIANCE



LANCE SURETY
BOND ASSOCIATES, INC.

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INTRODUCTION

Compliance is at the center of any freight brokerage business. Knowing how to comply with the rules and regulations that apply to being a freight broker means avoiding costly procedures– such as surety bond claims, late renewal penalties, or consumer complaints– that can drain time and money.

All of this is especially important as the freight broker industry rebounds and grows anew. Consistently, since 2014, the number of licensed U.S. freight brokers has risen by a rate of about a 1,000 newly registered brokers each year. At the beginning of 2015 there were a total of 15,023 licensed brokers, a year later that figure had jumped to 16,045 and by January 2017 there were 17,012 licensed brokers in the country.

The industry's steady growth is due to the increase in freight volumes, both inside the country as well as through imports and exports. All of this calls for more hands on the job, to help move the ever-increasing volume of freight.

If you wish to start your career as a broker, you'll need to fulfill a number of legal requirements– most importantly, getting licensed and bonded. Beyond that, most beginning brokers should complete training and seek first-hand experience in the industry. You should also seek to understand how you can best set up your business, and what responsibilities you have to always remain compliant.

WHAT'S IN THIS E-BOOK?

This e-book will take new and aspiring brokers through all the steps towards getting licensed and bonded. We'll provide a comprehensive breakdown of the initial costs of starting out, and operating as a freight broker. We'll also go over the types of training that are available to brokers, as well as other tips and tricks that can help you find the top shippers and carriers to work with. Last but not least, the e-book will go into some of the legal requirements that you'll need to comply with as a broker, in order to stay on the right side of the law.



LICENSING

The licensing process for freight brokers goes through two places. Brokers first need to register their business in the state they are based in. In addition, they must apply at the [Federal Motor Carrier Safety Administration](#) (FMCSA) to get their license. Here's what you need to do to cover each of these requirements.

1. BUSINESS REGISTRATION



Business registration procedures differ from state to state. Your Secretary of State's office is typically the place you should start when getting registered. You may also be required to pass by your local Department of Revenue for your business tax registration. If you plan on also having trucks and offering carrier services (some brokers do), you will also need to visit your local transportation regulatory agency.

When getting registered, you'll need to determine the structure of your business. Your brokerage may be a:

- Corporation
- Partnership
- Sole proprietorship
- Limited liability company (LLC)

There is no right or wrong choice here– it strictly depends on your particular situation, and whether you're doing business alone or with someone else. If you're not sure what you need, consult an attorney to figure out what would be best for you.

2. FREIGHT BROKER LICENSE APPLICATION



Previously, brokers had to apply for their license at the FMCSA by filling in a number of forms and submitting them, either online or in the mail. As of December 12, 2015, the old licensing procedure changed. Since then, new applicants for freight broker licenses are been required to use the Unified Registration System (URS). The URS combines all the forms required by brokers into one streamlined licensing process.

TIP:

If you're having trouble figuring the registration process out, the FMCSA offers [free training for the URS system](#). The training will take you through the licensing process and explain what you need to do at each step.

Start your freight broker license application at the URS here!

APPLY NOW

2.1. APPLY FOR YOUR OPERATING AUTHORITY

The first thing you will be asked to do during the licensing process is to apply for your [operating authority](#), also known as an MC number. Your operating authority is exactly what it sounds like: your authority to operate as a freight broker.

There are two types of operating authority for brokers, depending on the type of goods you will be arranging transportation for. These are:

- **Authority for brokers of property**
- **Authority for brokers of household goods**

You can also apply for both types of authority, if you plan on brokering both categories. Keep in mind, though, that you will have to pay for each authority separately. For each type of authority, you will need to pay a \$300 fee.

When completing your operating authority application, you will be asked to provide:



If you plan on acting as a motor carrier, you will also need to obtain a USDOT number during this step of your application.

TIP:

If you decide at a later date that you want to change your operating authority, or that you want to obtain an additional authority, you can do so at the FMCSA. You'll still need to pay a regular fee for the addition or change, though.

2.2. RECEIVE YOUR MC/FF NUMBER AND GRANT LETTER

Once you apply, you will receive your MC/FF number. This number is important because it will be used by your insurers when they file necessary documents to the FMCSA on your behalf. Keep in mind that at this point you still won't have received your operating authority. You must complete the next steps to finish your application.

After you receive your MC/FF number online, you will also get an official grant letter by mail, certifying that you have received this number. At the same time your grant letter is sent to you, your application for operating authority will be published in the FMCSA Register. This initiates the 10-day protest period, during which your application for operating authority can be challenged by anyone who thinks your company should not be granted authority.

2.3. OBTAIN YOUR FREIGHT BROKER SURETY BOND OR TRUST FUND

You don't need to wait for the protest period to finish to get in touch with a surety bond company and obtain your freight broker bond. The \$75,000 freight broker bond— also called the BMC-84 bond— is a type of financial protection for your customers. It guarantees that if a broker does not comply with federal laws and regulations, and causes damages or loses, a claim can be filed against their bond to compensate affected parties.

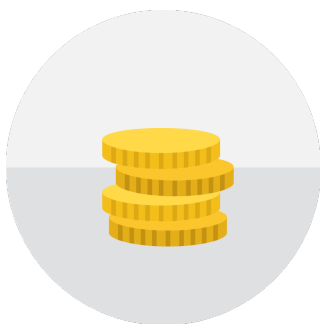
Freight broker bonds are obtained through surety bond agencies like [Lance Surety Bonds](#). These agencies work with the bond companies that issue and back the bonds financially. When you apply for your bond, you'll be offered a bond quote– the cost at which you can obtain your bond. Your personal credit score– along with other financial indicators– strongly influences the rate of your bond. Typically, applicants with a good credit score are offered a rate that ranges between 1% and 5% of the total freight broker bond amount. To find out more about freight broker bonds, see this [detailed bonding guide for freight brokers](#).

Once you obtain your bond, your surety bond company will file the relevant information to the FMCSA.

You have a maximum of 90 days to obtain your bond, once your application has been published in the FMCSA Register.

Applicants for a broker license are also given the option of making a Trust Fund Agreement, instead of obtaining a surety bond. This option, though, requires you to place the full \$75,000 into a trust fund. This is usually difficult for new brokers, and it also freezes a large amount of money which you could otherwise use to grow your business.

FREIGHT BROKER BOND



TRUST FUND



Apply for a **FREE** freight broker bond quote today and lock your rate for 90 days!

APPLY NOW

TIP:

When you're looking for a bond agency to apply for your bond with, always make sure that your agency works with A-rated and T-listed bond companies. This means that these companies are reliable, financially stable, and guaranteed to back your bond in case of a claim.

2.4. GET FREIGHT BROKER INSURANCE

By law, freight brokers are not required to obtain insurance, if they only operate as brokers. If you plan on obtaining carrier or forwarder authority, you will need to get some type of insurance, such as cargo insurance or liability insurance. But even though it's not legally required, it's often recommended that brokers get contingent cargo insurance, and even general liability and property insurance. While brokers don't personally handle freight, if something is lost or damaged, they may end up being held responsible. This could happen if the carrier doesn't cover for the damages caused to the shipment. For this reason, shippers and carriers will often inquire or even request that a broker have contingent cargo insurance.

If you have more than two employees, you will also have to obtain workers' compensation insurance. This type of insurance is required in all states and for all employers, regardless of their type of business.

TIP:

Always check if your carriers have workers' compensation insurance. There have been cases of brokers successfully being pursued for workers' compensation benefits by carriers' employees, even though they did not employ these people. If your carrier is exempt by state regulations from having workers' compensation insurance, request that they provide you with a written statement of them being exempt.

2.5. DESIGNATE YOUR PROCESS AGENTS

Once you get your FF/MC number, you can also designate your process agents. Process agents must be designated for every state you plan on having an office in, or where you establish contracts. You can be your own process agent for the state in which you are based, and where you have a physical office.

2.6. WAIT FOR YOUR LICENSE APPLICATION REVIEW AND APPROVAL

If there have been no protests against your application during the protest period, and you have complied with all of the above licensing requirements, the FMCSA will issue your operating authority (freight broker license).



...NOW WHAT?

In the next section you'll find a breakdown of some of the costs you can expect when getting licensed.

3. THE COST OF BECOMING A BROKER



For your initial registration as a freight broker, and at the beginning of your brokering operations, you will have to cover a number of costs. These include:

- **Business registration**
- **Operating authority**
- **Freight broker bond**
- **Insurance policies**
- **Business equipment and location**
- **Broker training**

None of these are fixed and easy to predict, but here's a plausible breakdown of how much all of this may cost you.

3.1. BUSINESS REGISTRATION

The cost of starting a business depends on the requirements in the state you live in. The [Small Business Administration](#) can provide you with details about what you need to know when starting a business in any state.

On average, though, you can expect to have to pay between \$150 and \$300 to get your business registered.

3.2. OPERATING AUTHORITY

Getting operating authority will cost you \$300 for every type of authority you want to obtain or change.

3.3. FREIGHT BROKER BOND COST

Bond Premium

The [cost of the freight broker bond](#) is determined on a case-by-case basis. Annual premiums are based on credit score, experience, financial strength, as well as the bond agency you choose to work with. Experienced freight brokers with excellent credit currently can expect to see prices ranging between **\$900 and \$3,000** annually. Those with damaged credit or lacking relevant industry experience will likely see higher prices.

	Excellent Credit Significant Experience Strong Financials	Good Credit Some Experience	Bad Credit Lack of Experience
FREIGHT BROKER BOND RATE	1.2% - 3%	3% - 5%	5% - 10% <small>OR MORE</small>
ESTIMATED ANNUAL COST	\$900 - \$2,250	\$2,250 - \$3,750	\$3,750 - \$7,500+

NOTE: This table offers ballpark estimates. Bond pricing is constantly changing and rates vary substantially. These figures are only intended to provide rough estimates of the current market for planning purposes.

It's important to understand that prices offered by bond companies are constantly changing due to market conditions, competition and losses incurred. Your best chance at obtaining the lowest market rate is by working with an agency that represents multiple surety bond companies, as they can compare rates for you. Lance Surety has strong relationships with all of the top bond companies currently writing the Freight Broker Bond. As such, we're able to shop around for our clients to ensure the lowest available price is obtained at all times, for all credit ranges!

TIP:

Even if you have bad credit, you can still get bonded! Though your rate will probably be higher due to the increased risk, you can still move forward with your brokering business.

Fill out our online application form and get an exact quote for your freight broker bond. It's **FREE!**

APPLY NOW

The Potential Cost of Claims

Bond premiums are not the only costs to consider. The true cost of a freight broker bond consists of not just annual premium but the total liability that could result from claims placed against their bond. If claims are paid out against your bond, you will be liable to pay the bond company back, which in most severe cases could be up to the \$75,000 bond amount plus legal fees. It's critical for freight brokers to partner with the right type of bond agency, one that takes claims against your bond seriously and is prepared to serve as your advocate in the event of a claim. While most bond agencies are involved only through the point of sale, Lance Surety prides itself on supporting our clients throughout the entire bonding process, to include any potential claims. In fact, **Lance Surety is one of the only agencies in the nation with our own Claims Manager.**

3.4. INSURANCE POLICIES

Since insurance policies are not mandatory for freight brokers (who only operate as brokers), getting insurance is optional– but strongly recommended.

If you do decide to get insurance, your contingent cargo insurance will likely cost you somewhere between \$1,200 and \$1,500 annually.

If you also have to get workers' compensation insurance, or decide to get general liability insurance, your annual insurance costs may be as high as \$3,000.

These costs are among the hardest to predict, since they will depend on how you want to set up your brokerage. You can save costs initially by working from home, and using your home computer and telephone. From the outset, it's a good idea to invest in professional broker software.

A Transport Management System (TMS) may cost you between \$600 and \$1,200 a year, but will provide good return on investment in the long run.

3.6. BROKER TRAINING

Broker training is not mandatory, but it can benefit you greatly and provide you with an edge compared to brokers who haven't completed any training.

Training courses can range between as little as \$100 to as much as \$2,500, depending on the complexity and length of the courses.

Courses on the high end even offer possibilities to match you with a freight brokerage, where you'll put in hourly work to get started initially. There are also some free training opportunities available.

The next section offers a list of the various training possibilities that are available. It also offers a range of options for you to connect with other brokers, and suggests some handy tools you can use to check the carriers you're considering working with.

4. TRAINING AND TIPS



4.1. FREIGHT BROKER TRAINING OPPORTUNITIES

There are a handful of reputable and well-known freight broker training schools which you can easily find online. These offer different courses for freight brokers (both in-class and online), as well as training packages and materials to help you in your practice. There are also a number of free training opportunities that can provide you with some of the basics for starting your freight brokering career.

If you're interested in the free opportunities that are out there, consider some of the following resources:

- [Introduction to Transportation Systems](#) - free course at MIT
- [Logistics Systems](#) - free course at MIT
- [Import and Export Training Videos](#) - U.S. Census Bureau
- [Export Tutorials](#) - globalEDGE - Michigan State University

For more training options, including paid ones, have a look at this list of [Top 5 Freight Broker Training Schools in the US](#).

4.2. FREIGHT BROKER COMMUNITIES

If you want to jump straight into the action, get to know your fellow brokers, and exchange opinions and experience, check out social media offerings for freight brokers. Here are a few good opportunities for you to start networking and building connections.

- [Freight Brokers Group](#) (Facebook; 4,400+ members)
- [Freight Brokers, Shippers, Carriers & Truckers Group](#) (Facebook; 2,900+ members)
- [Freight Broker Tips and Resources](#) (LinkedIn; 700+ members)
- [Transport & Logistics & Supply Chain](#) (Google+; 4,700+ members)
- [Truckers Report's Freight Broker Forum](#)
(Online Forum with thousands of participants and hundreds of different topics being discussed)

Even if you don't participate regularly in these communities, it's a great idea to keep an eye on them. Believe it or not, social networks will be one of the first places to notify you of important changes that concern your legal compliance as a freight broker. They're also a good source of best practices and advice on how to tackle various challenges that will arise in the course of your practice.

4.3. CHECKING YOUR CARRIERS

The FMCSA offers [a range of tools](#) that brokers can use to find out more about the carriers they work with. These tools, such as the Safety and Fitness Electronic Records (SAFER) System, the Safety Measurement System (SMS) or the QCMobile App, among others, can provide you with information regarding a carrier's:

- **Size**
- **Cargo**
- **Safety rating and performance**
- **Crash data**
- **Inspections**
- **and more...**

It is very important that freight brokers carefully pick their partnerships and find good carriers to work with. As we mentioned in the Licensing section, making sure that your carriers have a good record and all the necessary insurance is essential for the success of your own operations.



RENEWAL

There are two types of renewal you need to pay attention to in order to remain compliant. The first type entails updating your information with the FMCSA, while the second type requires renewing your freight broker bond.

1. UPDATING YOUR FMCSA REGISTRATION OR AUTHORITY



The FMCSA requires all entities that are registered with it to update their record every time there is some change to their operations. For brokers this includes:

- Business registration
- Insurance policies
- Operating authority
- Business equipment and location

If you're operating as a carrier as well as a freight broker, you also need to update your USDOT records. Moreover, all entities are required to perform a routine update every two years, even if there has been no change to their information. This also includes brokers and carriers who have since stopped operating but have not notified the FMCSA.

There are penalties for not complying with this requirement. The FMCSA will usually send out a notice at least 30 days in advance of the biennial update deadline, so you don't need to worry about remembering the date!

2. RENEWING YOUR FREIGHT BROKER BOND



You will also need to renew your freight broker bond annually. These bonds are issued for one year, and are valid from the date you obtain them from your surety.

If you fail to renew your freight broker bond, you will be violating the compliance requirements set by the FMCSA which may lead to your license being revoked or suspended.

You should renew your bond no later than 30 days before it expires.

According to FMCSA requirements, bond companies need to notify the Administration that a bond is about to expire and be canceled 30 days in advance.

If you renew your bond before the expiry date, but after the 30-day deadline, you may end up having to deal with FMCSA procedures that have been set in motion as a result of the surety notifying them of the approaching deadline. Your surety will typically notify you as early as 90 days before the deadline, and then at regular 30-day intervals (or less) from that point onward.

TIP:

By improving your personal credit score, you can significantly reduce your bond rate from one bond renewal to the next. Consult your surety provider about the different ways you can get a lower rate. If you are given a low rate, that means the surety considers you a low-risk applicant. Being a low-risk applicant is good for both you and the surety!

**Want to renew your freight broker bond?
Get a **FREE** quote here!**

APPLY NOW



COMPLIANCE

To be compliant, you also need to be mindful of the various federal rules that are in place for freight brokers. You will most likely hear about this if you decide to complete some kind of freight broker training. For a detailed understanding of the regulations you must comply with, you can also review [‘Title 49 - Subtitle B - Chapter III - Subchapter B - Part 371 Brokers of Property’](#) of the Code of Federal Regulations (CFR).

Below we have rounded up the most important regulations that pertain to freight brokers.

1. GENERAL REQUIREMENTS FOR BROKERS



There are three general requirements for all types of freight brokers in the CFR. These are:

- **Keeping records**
- **Understanding and avoiding misrepresentation**
- **Proper accounting**

According to 49 CFR §371.3, brokers must keep records of all transactions and shipments for which they arrange some form of transportation for a period of three (3) years. Brokers have the freedom to organize these records in master lists, as long as the records themselves are exhaustive.

They must include:

- **The names of the parties involved**
- **USDOT number of the carrier**
- **Charges collected by you**
- **The freight bill number or bill of lading**
- **A description of any non-broker services you performed and the compensation you received**

According to §371.7, brokers may not do business or advertise in any other name than the one stated on their registration or operating authority. Brokers must also be clear about not presenting themselves as motor carriers.

Finally, according to §371.13, brokers who have other businesses, must make sure to keep the financial records of these businesses separate. If the brokerage business and other businesses share expenses, it must be clear which of these expenses belong to the brokerage.

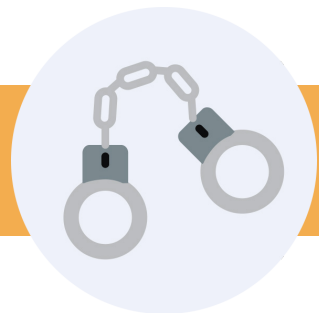
2. HOUSEHOLD GOODS BROKERS REQUIREMENTS



Subpart B of §371 is concerned with a series of rules that concern household goods brokers in particular. They specify the requirements for the motor carriers that these brokers must work with, the types of information that these brokers must include in advertisement, and all the information that brokers must provide to individual shippers when conducting business with them.

These rules should be studied carefully, so we suggest that you have a look at the respective section in the CFR.

3. CONSEQUENCES OF NON-COMPLIANCE



There are various possible consequences for not complying with the rules and regulations for freight brokers.

One such consequence is a freight broker bond claim. Here is why freight broker bond claims occur, and what you can do to avoid them.

3.1. WHAT IS A FREIGHT BROKER BOND CLAIM?

There are various possible consequences for not complying with the rules and regulations for freight brokers. One such consequence is a freight broker bond claim. Here is why freight broker bond claims occur, and what you can do to avoid them.

3.2. HOW DO FREIGHT BROKER CLAIMS OCCUR?

A shipper may file a claim against a broker's bond if their shipment has been lost, damaged, or delayed. A carrier may file a claim against a bond if the contract they have with the broker has been breached— for example, if the broker has not paid them on time.

When a claim is made, claimants will have to provide evidence of the cause for a claim. This will require them to include information regarding the state of the shipment before it was shipped, and after it was received, as well as the monetary value of the shipment.

They will also need to provide the bill of lading, an original invoice, and the rate confirmation sheet as well as additional documents depending on the individual situation. These documents will assure that a valid contract exists between the parties and identify the value of the goods. If any of this information is missing, the surety may decline to investigate the claim.

3.3. HOW CAN BROKERS STAY COMPLIANT AND AVOID CLAIMS?

If there is good cause for a surety bond claim to be made, your best bet is to try to reach a settlement instead. If a claim is made successfully, this can end up being more costly than a settlement, and create financial difficulties to your company, as well as hurt your reputation.

If you cannot avoid the claim, it is advised that you communicate with your surety, and provide them with all the information you have so as to assist the process of resolving the situation. Share any documentation about the case which you have on record, including correspondence. This can greatly help the surety in investigating the claim and assessing whether there is good cause for the claim.

Finally, the best way to avoid claims is by always complying with all freight broker rules and regulations, as well as with the conditions of your contracts.

CONCLUSION

To become a freight broker, you only need to get licensed and bonded. But to be a successful broker, you need to do more than that. Walking the extra mile by getting training or insurance, and by perfecting your own operations is the key to distinguishing yourself as a reliable and professional broker.

This guide provides you with all the information you need to start your brokering business. By making a few upfront investments of your time and resources, you will be able to remain consistently compliant with all the requirements for brokers outlined above. This will help you stay focused on doing business, instead of having to deal with costly and unneeded legal issues that can come up for those who do not make these investments.

In a market where new opportunities are opening up on a daily basis, it is those who are compliant and diligent that will benefit the most.

ABOUT THE AUTHOR:



Victor Lance is the founder and president of Lance Surety Bond Associates, Inc. He began his career as an officer in the U.S. Marine Corps, serving two combat tours. As president of Lance Surety, he now focuses on educating and assisting small businesses throughout the country with various license and bond requirements.

ABOUT LANCE SURETY BONDS



Lance Surety Bonds is a Pennsylvania-based bonding agency, working with both new and experienced freight brokers.

We hope you found this e-book useful and informative. If you still have any questions about the process of getting licensed or bonded, do not hesitate to contact us and we'll do our best to help.

[CONTACT US](#)