Factoring Defined

- In the world of finance, factoring is a transaction in which a business sells its account receivables to a third party--called a "factor"--in return for immediate cash, generally working capital to expand the business. The accounts receivables are sold at a discount. Although commonly called a loan, factoring isn't a loan at all; it's the purchase of an asset. Factoring has been used by businesses for more than four centuries.

Why Do Businesses Engage in Factoring?

- Businesses engage in factoring because it's a simple way to get money without having to prove credit worthiness, which in tough economic times can be difficult. Factoring is easier and faster than getting a bank loan, with no requirements for a bank statement or a business plan. Factoring also lets business owners dispense with accounts receivables, which have long been among the biggest sources of frustration to many business executives. They sell someone a product or service but have to wait weeks or even months to get paid. And there's always the risk that the account won't pay.

A factor provides immediate cash. You take your receivables to the factor and get an advance payment of between 70 percent and 90 percent of the total. After charging a small fee--generally 2 percent or 3 percent--the factor releases the rest of the funds once the receivables have been fully paid. This helps a business with its cash flow and allows it to continue to make investments in its operations and, hopefully, grow.

As a general rule, the discount rate--the fee the business pays the factor--is in proportion to the age of the receivable. The lower the age, the lower the fee. Most factors won't accept accounts receivables older than 90 days.

The following are key reasons why a business would choose to go to a factor:

- Obtain a source of working capital
- Relief from responsibility for collection of no-pay and slow-pay clients
- Fill more orders
- Flexible funding program that increases as you increase your sales
- Ability to take advantage of vendor discounts
- To have funds for payroll and taxes
- Extend credit to customers on large orders
- Buy equipment or inventory on demand

The Potential Downside - Factoring isn't without its drawbacks. Among them is the fee and subsequent charges, which could over the long run add up to a lot more than the cost of a conventional bank loan or line of credit. The factor, too, faces a fair number of risks, including fraud (fake invoices) and bad debt from the purchased accounts receivables.
Q: What is factoring? How does it work?
A: Factoring is the purchase of accounts receivable for immediate cash. Once you have delivered a product or performed a service for a creditworthy corporation or institution, make contact with Factor prior to sending your invoice to your customer. Underwriters will confirm with your customer that the work has been completed or the goods delivered and accepted, you can be advanced up to 70% - 90% (up to 60% for the construction industry) of the face value of the invoice amount in cash. When your customer pays, you will receive the balance less the discount.

Q: Do I need accounts receivable financing?
A: Yes...if you are a new business. YES...if you are a business that can't get traditional financing, such as a small or medium size business or a minority or woman owned business. YES...if you need additional operating capital. YES...if you want to solve your cash flow problems.

Q: How do I qualify?
A: A credit decision is based on the strength of your customers, not you. It's easy to qualify if you meet the following criteria: Your customer must be another (creditworthy) business. Your invoice must be a valid one for goods sold and delivered or services rendered...to your customer’s satisfaction. Each invoice will be verified with your customer.

Q: What does it cost?
A: The discount fee ranges from 3 - 5% and is determined by the number of days that elapse from the day funds are advanced to you until the day invoice is paid back by your customer. And, the fee is earned only after the payment has been collected on an invoice..not before.

Q: How will I know which invoices are paid and which are not?
A: You will have your own account executive to work with, whom you can call at any time for updated information. Just request an "Aging Schedule" which will show you which invoices have been paid and which remain open.

Q: How fast can I get money?
A: In many states it takes as little as one week (or less) to get on-line. Once on-line, the you can be funded on your invoices within 24 hours (once in receipt of verification of your invoices).
Asset based lending techniques, such as factoring loans, give you the funds you need to expand your business with ease.

Imagine the peace of mind you’ll gain by eliminating your cash flow worries. MP Star Financial gives you access to the funds you need via invoice factoring (also known as asset based lending, factoring loans or receivables factoring).

There are many reasons to investigate receivables factoring. If your new business is growing rapidly, traditional banks offering $50,000 lines of credit don’t help when what you really need is $250,000. Asset based lending methods, like invoice factoring, fit into your business model by giving you the money you need to keep your business moving forward. With Factoring you’ll benefit from:

- **Immediate Cash**: Get quick cash from receivables factoring of your eligible accounts at any time.
- **Funding for New Companies**: We understand how small businesses can struggle financially. Factoring loans can be the ideal solution allowing you to leverage your customer’s credit to build your own business.
- **Unlimited growth**: When you choose invoice factoring, you’ll have access to the necessary cash flow to fund new business. Unlike traditional lines of credit, which place a value on your company based on today’s sales (and can stunt your business growth), factoring loans are designed to help with your continued business development.
- **Credit Extension**: It can be tough when customers continually find ways to extend payment beyond 30, 60 & 90 days. While you’re confident the invoices will be paid, your customers may be outsourcing their accounts payable departments to India, or mailing your checks to the other coast in order to mail them back to you to play the float. Invoice factoring enables you to extend your receivable terms to land the big accounts.
- **Collections Assistance**: Time is money- and chasing down unpaid invoices can be very time-consuming. With receivables factoring you’ll get regular reports about your accounts receivable, as well as problem solving assistance.
- **Early Payment Discounts**: Your customers are regularly taking advantage of the "two ten, net 30" terms that you offer. Why shouldn’t you? Receivables factoring gives you the cash you need to take those discounts and enhance the bottom line.
- **Build Your Credit**: With factoring loans and asset based lending your company will have the cash flow to pay its bills in a timely fashion-ultimately building its credit score, which allows you to leverage your suppliers for better terms.

Grow your business with the help of asset based lending methods, like factoring loans.

Many of today’s industry titans began with the help of asset based lending and factoring loans. Now you can too! Call it invoice factoring, factoring loans or receivables factoring, asset based lending is available to help you grow your business with ease.
Invoice Factoring Terminology

- An "account receivable" is an unsecured debt that is due and payable from a customer to the client. It usually is made up of an invoice and supporting documentation as proof of service, delivery and/or acceptance on the part of the customer.
- The 'accounts receivable' are multiple account receivable from many different customers to the client.
- An 'advance request', also referred to as an 'advance', is a group of invoice(s) and supporting documentation accompanied by an assignment that the client sends to the factor to be funded.
- An 'advance rate', also referred to as the 'advance percentage', is the percentage of the invoice that is actually advanced to the client on each invoice. For example, if the advance request is for $10,000 and the advance rate is 80% then the amount advanced would be $8000 less the initial fee.
- An 'assignment' is a form stating that the invoices and the supporting documentation making up an advance are for work that has been completed and the invoices are valid and will be paid in full to the factor.
- The 'factor' is the person or company that provides operating capital by purchasing eligible accounts receivable.
- The 'client', also referred to as the 'account creditor', is you - the provider of goods and/or services.
- The 'customer', also referred to as the 'account debtor', is the company that purchases the goods and/or services.
- The 'due diligence', is the process in which the Factor reviews your application and the supporting documentation in order to approve you as a client.
- The 'initial fee', also referred to as the 'discount fee', is the fee charged by the Factor on each invoice making up an advance. The initial fee is a fixed percent of each invoice for the initial fee period for which each invoice is outstanding.
- The 'initial fee period' is the length of time for which the initial fee is charged. Although it may vary the length of time corresponds with the terms of the receivable. If the terms are Net 30 days then the Initial Fee Period is 30 days.
- The 'invoice(s)' is the bill(s) documenting the goods and/or services provided to the customer. Combined with the proper supporting documentation it makes up an account receivable.
- The 'late fee' is the fee charged by the factor for each late period for which an account receivable is outstanding beyond the initial fee period.
- The 'late fee period', is the length of time or any portion thereof for which a late fee is charged. If the initial period is 30 days and the late fee period is 15 days and an accounts receivable goes unpaid for 60 days then the total fee will equal the initial fee plus two late fees.
- The 'lockbox', is a PO Box maintained by the factor at the factor’s bank to expedite the collection and processing of payments sent by customers to pay invoices. All payments of invoices are directed to the lockbox.
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- **recourse** is the amount of outstanding invoices that are older than the recourse period and must be repurchased by the client.
- The **recourse period**, the length of time in which factor will fund a purchased account receivable before the factor will return a non-performing or unpaid account receivable to the client.

- The **reserve** or the **reserve settlement** is the amount of the account receivable that is not advanced to the client and is held in escrow until the account receivable is paid in full. The balance on this account is paid to the client on a regular basis and represents collections on account(s) receivable.

**COLLECTIONS - ADVANCES - FEES - RECURSCE = RESERVE**

- The **supporting documentation** is the document(s) that make invoice(s) accounts receivable (i.e. proof of delivery, time cards, acceptance signature, etc..) In simple terms, the paperwork that the customer needs to pay the bill.

**How Invoice Factoring Works**

The following is an example of how factoring works. If you have questions about the terms used herein you can refer to Factoring Terminology. Rates will vary based upon the nature of the advance size and the customers. For actual rates please submit a business app with aging report of payables & receivables.

1. Factor will complete its due diligence on the client and the customers.
2. Factor and the client will enter into a Factoring and Security Agreement, as well as some additional documentation.
3. Factor will notify the customers of the change of address for remittance of payments.
4. The client will submit an advance request for $10,000 along with the invoices, the supporting documentation and assignment.
5. The factor will verify the advance to ensure that the invoices are complete and that the accounts receivable are due and payable.
6. Factor will multiply the advance request of $10,000 times the advance rate of 80% or $8,000 and subtract the initial fee of 3.5% or $350 for a total funding to the client of $7,650.
7. The invoices are then mailed to the customers.
8. When the customer sends payment to the lockbox in 30 days.
9. The factor will take from the payment the amount advanced and the initial fee. The factor would then remit to the client the balance left over when the reserve settlement is released.

In this example using an advance rate of 80% and an initial fee of 3.5% for an initial fee period of thirty days the factor will advance 80% of the $10,000 advance request or $8,000 less the initial fee of 3.5% or $350 for a total advance of $7,650 to the client.
In this case that would be $10,000 -- $7,650 -- $350 = $2,000.

To extent that some invoices are not paid in thirty days, then additional late fees are charged on only the invoices unpaid for each late fee period that an invoice is outstanding.

**Purchase Order/Contract Financing**

This program provides the ability to utilize an existing Purchase Order (PO) or Contract for financing Direct Labor Inventory, Raw Materials, Work-in-Process, Finished Goods, Direct Overhead, Buy-Outs-Components Parts and Sub Assemblies. PO’s can include companies outside of the US. Minimum transaction size is typically $25,000 and in some cases $300k up to $20m+.  A - D Credit.

- Focusing on the strength of the transaction not solely on our client's balance sheet.

The focus is not necessarily the balance sheet of the client company, but rather the underlying transaction and its economic and commercial viability. With Purchase Order Financing, clients are no longer hindered by the lack of working capital to get deals done.

**The Benefits of Purchase Order/Contract Finance:**

- The ability to grow sales without being limited by existing capital
- Allows companies to grow without increased bank debt or selling equity
- Helps ensure timely deliveries to customers
- Increase market share
- Allows companies to make larger profits by fulfilling larger orders
- Fast flexible funding
- Provides overseas manufacturers assurance to start production of goods
- Helps companies in a turnaround
- Helps when seasonal sales spikes strain cash flow

**We can help:**

- Solve cash flow problems
- Fund 100% of the cost of inventory
- Provide an alternative to over advances
- Provide transactional financing on PO's or Contracts from $25k/$300,000 - $20,000,000 and greater.

**Government Contract Finance**

We're able to provide financing to Government contractors in need of capital to fulfill or complete government contracts.
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Whether it is mobilization funding or funding to bridge the acquisition or manufacture of equipment or goods - we have a solution to allow government contractors to fill large contracts.

Underwriters have expertise in understanding the unique requirements of dealing with governmental agencies and can offer our years of incite and experience to enhance your contracting relationships.

We can assist with financing both domestic and international contract deliveries.

**CRITERIA**

We focus on your transaction and its financial viability. Unlike traditional finance sources, our unique entrepreneurial approach is not solely concerned with the balance sheet and income statement but the economics of the opportunity at hand.

- **Management Expertise**
  
  Able to assist companies with proven expertise in their field, even if they are a start-up.

- **Reliable Sourcing**
  
  Able to assist in funding transactions with suppliers/subcontractors and manufacturers that have a proven track record.

- **Valid Purchase Orders and Contracts**
  
  Financing is provided based upon firm valid purchase orders issued by creditworthy companies or governmental entities. Will not support consignment transactions.

- **Verifiable Repayment**
  
  We are able to bridge the capital needs to acquire or manufacture inventory to fulfill purchase orders and contracts. We understand the firm payment terms and upon delivery or completion we are typically taken out or repaid by a bank, factor, asset based lender, letter of credit or direct repayment by the ultimate end customer.