

Finance by Invoice Discounting

The Basics

Our finance product is provided to you either on the basis of invoice discounting or factoring. In both cases, we agree to purchase your debts (apart from excluded debts) and will, subject to the terms of the purchase set out in our agreement with you, make a prepayment available to you of a percentage of the value of the debt (typically 80-90%). The remaining balance is available to you after we have received the payment from your customer.

The availability of this funding improves your cash flow as you will not have to wait for your invoices to be paid and have cash available to reinvest in your business. Fees and charges apply which are payable by you.

Factoring is a disclosed facility. By this we mean that your customers will be aware that we have purchased the debt and that the customer has to pay us to settle the debt. This is typically disclosed on each and every invoice that you submit to your customers. We will speak to your customers and chase your debts as part of our credit management product which forms part of the factoring arrangement.

Invoice discounting is an undisclosed facility. The customers are not ordinarily aware of our involvement under this arrangement and will continue to pay you, although payments will be made in to a designated account. You are our collection agent for the debts we have purchased from you under this arrangement.

This guide concentrates on invoice discounting.

How it works

- You notify debts (evidenced by your invoices) and credit notes to us.
- Every time debts and any credit notes are notified to us, payments are received by us and you draw against your availability, we will update your funding available to you to withdraw against.
- The funding we make available to you will take into account relevant amounts we retain and charges and fees due to us under the agreement which are payable by you.
- As you are collecting the debts as our agent and therefore retaining control of your sales ledger, we will need you to provide a monthly reconciliation and aged debtor report in a form agreed with us, after which monthly adjustments to availability will be made by us to take account of this.
- We will need to conduct audits to ensure that the facility is running satisfactorily and to ensure the data we are receiving in respect of your debts is accurate and complete. This may include a need for one of our auditors to visit you.
- When you provide details of customers, we will need the following information from you: correct trading style name, full legal entity name (company, partnership or sole trader), full address and landline telephone number.
- It is important that you notify debts invoiced and any credit notes promptly to us and ensure that the data you provide is accurate. We can explain the electronic processes available to you to enable you to achieve this.
- If a debt is significantly overdue and remains unpaid, due to a dispute or non-payment, we will disclose our interest to your customer and take such legal action as we consider appropriate (low value debts may be considered uneconomic to pursue formal legal action on) and/or we may agree with you to reassign the debt to you and adjust the funds available to you. We will usually let you know before we start any formal legal action to recover a debt. Once legal action starts, we will update you on progress. You are liable for any legal costs we do not collect from the customer, although this liability may be limited if you have credit protection and the debt is successfully proven.
- We aim to communicate with you openly and transparently, and you will have telephone contact points within our business and access to our internet platform to send and receive relevant messages.

What you need to know

- Certain types of debt are excluded from our agreement with you and should not be notified. Excluded debts are defined in the agreement between you and us but broadly relate to countries or customers subject to sanctions by HM Treasury or the US Treasury's Office.
- Certain types of debt are non-notifiable debts meaning that, whilst we purchase these debts under the agreement, these should not be notified to us unless we tell you to. This is defined in the agreement with you but includes (amongst others) debts payable by a customer: that you are closely associated with (e.g. same or similar ownership), that you owe debts to, in cash, where you deliver direct to a customer's end customer and the customer you trade with is located abroad, on sale or return terms etc.
- You will need to retain relevant records to prove the debts and make these available to us if requested. This typically includes relevant contractual terms, purchase orders and acknowledgements, invoices, signed delivery notes or time sheets and other documents which evidence the debt due.
- You must inform us promptly if you become aware of any dispute or query in relation to a debt you have notified to us.
- The monthly reconciliation process and aged debtor reporting will mean an element of administration is required by you.
- Changes to availability may be delayed if we have queries that need to be resolved.
- We may need to apply retentions to limit availability in certain circumstances. This will include, but is not limited to, (a) debts that are disputed (until such dispute is resolved or determined in our favour by a court) as they will be ineligible for prepayment whilst disputed, and (b) materially overdue debts (usually 60 days past due) unless you have credit protection and the relevant debt is protected.
- Your availability may be reduced or withdrawn altogether in certain circumstances which will include a breach by you of the agreement between us.
- Security is often required and may include one or more of the following:
 - personal guarantee and indemnity from director(s)/ principal(s);
 - company guarantee from your parent and/or associated companies;
 - personal indemnity against breach of the agreement between you and us (usually given by director(s));
 - fixed charge over debts which fail to be effectively transferred to us as required in our agreement.
 - floating charge over all assets.

- If we need to, we can exercise our right under the agreement to disclose our ownership of a debt to a customer and require that debt is paid direct to us, or we can cancel your agency to collect debts on our behalf.
- We will set specific funding limits for your customers which may limit the funds available to you if you have outstanding debts due from a customer in excess of that limit at any time. We will provide a funding limit unless we are aware of adverse information about a customer but may by notice change the funding limit.
- We will also set an overall facility limit.
- It is important that you read and understand the agreement between us including what constitutes a termination event and the potential consequences of a termination event arising.

What does it really cost?

- There are no hidden costs.
- For certain types of security that may be required, it might be necessary for you to consider taking independent legal advice at your own cost.
- Every other fee or charge relevant to your agreement with us will be clearly set out in your agreement with us and will usually be debited against the funds available to you.
- If things go wrong and we have to collect out the debts following a termination of the agreement between us and/or you becoming insolvent, we will not charge you a collect out fee but we may seek to recover from you identifiable costs of recovery.
- If you request a variation to the agreement (eg an increase in the overall facility limit), that an overpayment is made to you (ie that we extend additional availability to you in excess of what you are otherwise entitled to under the agreement) or that we agree to an early termination of the agreement during the minimum term, any agreement to do so may be subject to agreeing a fee for providing such variation or overpayment or agreeing to early exit.
- Our service charge is calculated taking account of predicted annual turnover. The service charge may be subject to a minimum annual charge.

Reference materials

- A Guide to Managing your Invoice Discounting Account
- Accounting for your Invoice Finance Service
- Aide Memoire for Clients who Export
- Collection Form
- Guidance on frequently used payment methods
- How to Read Your Monthly Statement
- Instruction for Collection
- International Litigation
- Invoice Discounting User Guide
- Sales Ledger Notification
- Sending Your Invoices to us Electronically
- Statement Reconciliation Guide
- Statement Reconciliation Template
- Understanding Our Legal Process

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