Title:
Tips On Choosing A Factoring Company

Word Count:
990

Summary:
Factoring, what is this financial tool you are looking into that will hopefully fuel your business with the capital it needs to prosper? Each person and business is different, so how do you know which factor is the right choice for your company.

Some things you need to know before you choose a factor!

Term Contracts!

Do they require a term contract?
There are pros and cons to a term contract:

Some Cons:

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Keywords:

Article Body:
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Term Contracts!

Do they require a term contract?
There are pros and cons to a term contract:

Some Cons:

* You are not happy with the factor due to the way they service your account.

* They may treat your customers poorly, jeopardizing them as your customer.
* They may have poor reporting.
* You need to make sure they do not have a hefty termination fee, lets say for what ever reason you may need to terminate the relationship, what will it cost you.

Pros:

* You may get a better fee structure due to locking in on a term contract

When choosing a factor here are several questions to ask them before you sign up:

* Do they bulk your receivables; in other words, when you sell them your receivables, do they release your reserves as each invoice is paid, or do they wait for all the receivables to collect from a given schedule before they release your reserve.

As an example, you sell a factor 100k in receivables on one schedule which consist of four different customers at 25k each, two of your customers pay the invoice within 30 days and the other two pay in 45 and 60 days. That would mean you would have to wait until the last customer pays at 60 days before you get your reserve, this is not good, try to avoid signing up with a factor that does this.
* Ask about additional fees, do they have a service charge or any fees on top of the discount. This is not uncommon if you are set up on a prime plus rate, yet it still needs to be accounted for when choosing between factors. You may get some smoke and mirrors from conversations and proposals. When you receive the contract that will spell it all out, take the time to add up all fees to accurately and compare proposals, the one that seems to be the highest at first may not be that far
off.

Ask about up front fees.

* Some factors charge a due diligence fee, this can range from $250.00 to $500.00 dollars, even higher for construction. Stay away from application fees, they are not necessary. A due diligence fee is okay and understandable since the factor does have cost associated with opening an account, however some factors do not even charge any up front fees.

* Ask how long they have been in business, some factors are larger than others and you want to make sure they are capable of handling your company's growth.

* Some factors are small and do not have adequate funding backing them, it has been known of some factors running out of money and were not able to fund their clients.

Working with consultants / brokers

You certainly do not need a broker to get set up with a factor, but it can be to your best advantage. Here are some pros and cons:

Cons:

* The broker has not been in business very long and does not really understand factoring to it fullest yet themselves, ask them how long they have been in business and how much business they have done.

* The training they received was not adequate and they do not know how to pre qualify and may end up wasting your time filling out an application and sending in documentation when certain questions could have been ask that may point out obvious reasons that would prohibit you from qualifying.

* They over shop deals; some brokers will send out your application to as many factors as they can., this can be a bad reflection on you. Just like having too many inquiries on your credit is a red flag to banks, when a factor sees your application from several different brokers it may raise a red flag. Keep this in mind, shopping rates to a certain point is healthy, however rates only go so low, choosing the right factor sometimes means the rate is a touch higher. Customer service is very important.

* Some brokers are part time, which means they are not established.

Pros:

* Nothing can be better than a in depth consultation, a seasoned consultant / broker can asked you questions and explain things in a way you may not have thought, plus when you are dealing directly with a factor, you are not getting a third person perspective.

* An experienced consultant / broker should be dealing with trustworthy and reputable factors. Plus they make sure factoring is the right financial choice for your company.

* Shares advice on how to utilize factoring to its fullest. This is a very

powerful form of finance that provides many advantages when properly used.

* Using a seasoned consultant / broker helps you get prompt attention from the factors they use. Established brokers mean that the factors pay attention to the clients they refer because this is repeat business for them since the broker sends numerous clients for them to fund.

* You get straightforward answers, no smoke and mirrors. A Consultant / Broker can help you cut through the decision making process without pressure. You have at times too much information coming at you, especially from the Internet.

* A Consultant / Broker can let you know what kind of fees and advance to expect, in other words, you see low advertised rates, which most will not qualify for. You can have it explained to you what the factors are looking for and how you qualify. If you already have a written proposal a Consultant / Broker can help you make sure you have a fair deal.

So as you can see, using a Consultant / Broker is to your advantage, either way you are the one that needs to be satisfied.

Thanks for reading!