

Title:

Factoring Basics

Word Count:

380

Summary:

Do you need working capital? Learn how factoring may provide you with all the working capital your company needs.

Keywords:

factoring, invoice factoring, accounts receivable factoring

Article Body:

Most sales to commercial clients usually carry 30 to 60 day payment terms. This means that as a supplier, you must deliver your products or services now. However, your client has between 30 to 60 days to pay you.

This creates a significant challenge for owners of small and midsize businesses. The problem is simple. Your clients want to pay you in 30 to 60 days, but you must pay rent, payroll and your suppliers now. As you can see, the math does not work. Unless you have a substantial bank account, this leads to an almost impossible situation.

If you are in this situation, it is also very likely that the bank will not be able to help you. As you well know, banks only lend to businesses that have three years of profitable operations and significant hard collateral. If you do not qualify for bank financing, your best bet may be to consider factoring.

Factoring is a business financing tool that helps business owners who cannot afford to wait 30 to 60 days to get paid by their commercial customers. Factoring provides you with the necessary funds to meet payroll, make rent and pay your suppliers on time.

As opposed to bank financing, factoring is easy to qualify for. The main requirements are that you have a profitable business with a strong roster of commercial clients. For the factoring company, your best collateral is the invoices from your strong customers.

Factoring is also easy to use. It enables you receive a substantial portion of your billings within a day of invoicing. It reduces the time you wait to get

paid from 60 days to 2 days. The transaction is usually structured as a two installment sale of an invoice. The first installment, called the advance, is paid to you immediately. The advance can be anywhere between 70% and 90% of the gross value of the invoice. The remaining portion (10% - 30%) is held as a reserve to cover disputes and charge backs. The reserve is rebated as soon as the invoice is paid in full. The factoring company will charge a small fee for this service.

Factoring financing is an ideal tool for companies that are growing and that cannot afford to wait to get paid by the clients. It helps you to stabilize your financial situation and positions you for growth.