

Title:

Do You Qualify For Factoring?

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1095

Summary:

I have created this article to give you straight forward content hoping to provide information into some of the things that factors are looking for when qualifying a prospect before entering into a financial relationship with them.

Lets face it, your time is very valuable and you do not need to waste it filling out applications or talking on the phone when you may be able to identify issues in this article that would prohibit you from being able to enter into a factoring r...

Keywords:

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Article Body:

I have created this article to give you straight forward content hoping to provide information into some of the things that factors are looking for when qualifying a prospect before entering into a financial relationship with them.

Lets face it, your time is very valuable and you do not need to waste it filling out applications or talking on the phone when you may be able to identify issues in this article that would prohibit you from being able to enter into a factoring relationship.

I also created this article because we want your business; however we want to earn it.

So if you find out that this information is helpful in your process of seeking out a financial solution for your company, we would love the chance to set you up with one of our highly recommended factoring companies. Even if you find out you do not qualify for factoring right now, you may be able to clear up the issues and qualify at a later time. We would love to be your choice then as well to help resolve your working capital issues.

Some of this information will be basic and you may already be familiar with it, however some may not. Just read through the article and I am sure you will find

some helpful information.

We want to thank you up front for giving us a chance to serve your company. Lets get started.

Lets take a look at what factoring is:

Factoring is a form of financing where a business sells its creditworthy commercial accounts receivable to a financier known as a factor.

This is a good starting point; you need to be invoicing creditworthy businesses for your product or service. Your product must be delivered and your services rendered (no pre-bills). If they are not creditworthy and you are already having collection problems, a factoring company will not be interested in purchasing those receivables. You may need a collections service.

How much do you invoice each month:

If you are invoicing under \$10,000 a month this will limit the number of factoring companies that will enter into a relationship with you. If you are speaking with a factor, let them know up front what your monthly volume is and find out if they are willing to work with companies of your size. This could save you from filling out an application and wasting your time with that particular factor.

How many customers do you invoice:

Factoring companies prefer to fund companies with more than one customer; this helps them lower their risk. If you have just one customer, the factoring will have a concentration issue, meaning if something happens to your customer they do not have any other receivables from other customers to recoup their money. Let the factoring company know this up front as well. Some factors will not work with you if you only have one customer. (If your one customer is large and stable this will help).

Do you have any financing currently in place:

If you have an existing loan or line of credit you need to find out up front if the bank has a UCC-1 against your receivables. The factoring company must have 1st position on your receivables to be able to enter into a financing relationship with your company.

I would suggest if you have a current loan or line of credit to double check and

make sure of this.

I have had many businesses tell me that the bank did not have their receivables as collateral and then proceed through the application process and return the contract.

The factoring company would begin due diligence and the lien search would return a current UCC-1 on the receivables. Many times the customer does not realize the bank placed a blanket lien on their company covering all assets, including the accounts receivable.

If this is the case, you still may qualify for factoring. If your loan or line of credit is small enough, the factor may be able to pay off your loan or line of credit out of your 1st advance and the bank has no choice but to subordinate (release) the receivables. If not, they may have enough collateral that they will allow the factoring company to have 1st position on the receivables and allow you to get the needed capital for your company.

So if you have current financing, check on this issue. You may find out the bank will step up to the plate and allow you access to more funds when they realize you are about to leave.

This has happened many times.

Also be aware that our factoring companies can help negotiate a subordination, so discuss this with us if you need more clarification on this topic.

Your aging report:

Your aging report is very important to a factoring company; this is the pulse on your cash flow. An accurate detailed accounts receivable aging report should be aged from invoice date and not due date. Some companies accounting software is set up to age the receivables from due date, this will reflect an inaccurate report to the factoring company.

If you have an unhealthy aging report you will have a hard time qualifying for factoring. Plus the fees you pay to a factor increase as the days outstanding increase.

Make sure you have a cash flow issue and not a collections issue.

Remember, creditworthy customers are the key.

Outstanding taxes, liens, judgments, litigations, felony convictions or

bankruptcy:

If you have any of these issues, it does not mean you cant qualify for factoring, you just need to be forthcoming at the beginning and find out if the issues are too complex for the factoring company to work through. This may save you some time.

Are you incorporated:

Some factors will not work with Sole Proprietors, others will, we have some that do. Find out at the beginning of the conversation.

Financial Statements:

Some factors will require financial statements and others will not.

Providing financial is usually where you will find the most aggressive rates available.

If you do not want to deal with providing financial statements, ask up front if they are required. We have programs available that requires no financials.

Personal Credit

Even though your customers are the primary focus, your personal credit is taken into consideration. If your personal credit has taken some severe hits recently, discuss this up front with the factor to find out how much it will be taken into consideration.

This covers some of the basic, I hope it helps!

Thanks for reading.