

Title:

How Buying Invoices Works

Word Count:

621

Summary:

If you have a problem with cash flow, you might consider finding a company that engages in buying invoices to get you on the right track again. Often, through no fault of their own, small and large companies find themselves in a bind because they don't have enough cash to meet debt payments, to pay employees, or to invest in needed materials and manpower in order to bid on lucrative, time-sensitive contracts. In these cases and some others, companies buying invoices from you ...

Keywords:

Factoring Services, Invoice Factoring, Invoice Discounting, Factoring, Accounts Receivable Factoring

Article Body:

If you have a problem with cash flow, you might consider finding a company that engages in buying invoices to get you on the right track again. Often, through no fault of their own, small and large companies find themselves in a bind because they don't have enough cash to meet debt payments, to pay employees, or to invest in needed materials and manpower in order to bid on lucrative, time-sensitive contracts. In these cases and some others, companies buying invoices from you may be able to help.

Buying invoices is also called factoring. A company, or factor, engages in buying invoices from another company at a discount, taking on the responsibility of collecting payments due. Through this process, the company selling the invoice gets immediate cash flow, and the company buying invoices stands to make a profit.

Most invoices are factored at fees starting at around 1.67% of the total principle for each ten days left in the payment due terms. For instance, if you have invoices that come due in thirty days, the factoring company would buy them from you at a 5% discount, and thus make a 5% profit for a thirty-day investment. Fees are predicated on the creditworthiness of your debtor, not you; thus, a company with a very good record of paying its debts on time and otherwise appearing sound would get you the best terms. If you have a company

without strong credit that owes you money, you may find their invoices factored at rates of more like 8% to 10%. Generally, companies that buy invoices will limit the total amount of invoices they hold from you to no more than \$100,000, but have no minimum amount.

If you have an invoice in the amount of \$200,000, this does not mean you will not be able to find a factoring company that can help you. Instead, the company buying invoices may advance your company a hundred thousand dollars, but when they collect the debt, they will then pay to you the entire advanced amount you qualify for. In other words, you can factor a portion of an invoice if you don't need to factor the whole thing.

When companies are buying invoices, you can count on at least three parties being involved. The first is the seller of the invoice which is your company. The second is the payor of the invoice which is the company you have done business with that owes you money. The third is the broker/funder buying invoices. This third party may be a separate broker and funder, or it may be one company or individual acting as both. The broker would arrange the transaction, and facilitate your receipt of the funds advanced in a timely manner. The funder is the party actually buying invoices; they would use a broker to find appropriate invoices to buy. Brokers who arrange the transaction but who don't fund the transaction generally earn a commission on the transaction.

Typically, the funder buying invoices is the chief risk taker in the transaction, and receives the largest share of your factoring fee. The broker arranging the transaction would receive around ten percent of the fee charged for buying invoices.

When you've found a company buying invoices to work with, it's generally a good idea to maintain the relationship with them. If you find yourself needing cash flow in the future, these companies are much more willing to work with those they've funded successfully in the past, and may even offer you more favorable terms.

Companies buying invoices are generally those with large cash on hand totals, like insurance companies and federally-insured banks. You may also be able to find companies buying invoices overseas, particularly in resource-rich companies like those in the Middle East.