What is Factoring?

Factoring is one of the fastest growing business financial services in the world today. A business owner who is looking to stabilize cash flow and generate instant liquidity may be able to use factoring to help his or her business tremendously. This is a complete guide to provide what you need to know to get started factoring your invoices.

Factoring is for business owners in need of cash to meet payroll, pay bills, meet tax obligations, purchase equipment, enhance marketing, take on new customers and/or larger orders, and numerous other business needs. In simple terms, factoring is the sale of invoices to a third party at a discount. By selling your receivables, your company can get cash in a day instead of waiting weeks or months for your customers to pay.

Factoring is NOT a Loan

Factoring is not a business loan, which generates debt that must be repaid over a fairly lengthy period of time; it is the sale of an asset, your receivables. It relies more on the creditworthiness of your customers, rather than the credit history of your company or you, the owner. This alone enables many business owners to qualify for factoring who are not eligible for bank loans, often because their own credit history is not strong, there is a bankruptcy in their history, and/or their business is new or young.

How Factoring Works?

When setting up a new account with a client, the factor typically underwrites both the client and their customers, ensuring the accuracy of the client information as well as the creditworthiness of the customers. Once the account is approved funding can commence. Customers are ordinarily notified of the factoring relationship and instructed to make all payments henceforth to the factor, who is purchasing the receivables.

When an invoice is submitted by the client, the factor typically verifies with the customer, before purchase, that the invoice is valid, there are no known problems with the product or service, and ensures the customer will pay the factor for the invoice.

With the invoice now approved, the factor provides an “advance” to his client, which is an agreed percentage of the invoice’s face value. A “discount” is charged for this service, also a percentage of the face value as well. Thus, the invoice is purchased “at a discount” off the invoice’s face value – it is not a “loan,” but the purchase of an asset.
Factoring Has Many Benefits

The client now has cash to meet payroll, pay bills, or whatever his/her needs may be. The factor now waits for the invoice to be paid by his client’s customer. Often the discount percentage increases with the passage of time, so the longer an invoice takes to pay, the higher the discount. The incremental increases can be any length of time: daily, weekly, 30 days, 60 or even sometimes 90…every arrangement may be different.

The factor tracks the receivables, and when payment is received, keeps the amount advanced plus the discount earned, and then pays the client a “rebate” for the difference remaining. The cycle can then repeat itself as often as the client wishes.

Advantages of Factoring

Businesses which are experiencing rapid growth and need to purchase materials, pay vendors and cover operating expenses can benefit from factoring. Here are a few of the benefits to factoring:

- You can obtain immediate cash for any business use without creating debt on your balance sheet.
- No need to give up equity.
- You can expand your business and take on more and/or larger accounts.
- Your “credit line” grows with your business.
- If you need to meet payroll consistently and without worry, factoring can relieve you of a lot of stress.
- Even startup businesses with no financial track record can quickly generate cash.
- Factoring can provide needed capital for businesses who experience seasonal or sporadic slowdowns.
- If you need to make tax payments, factoring can provide the cash to make this possible.
- Because of your improved cash flow, you may qualify for better terms and/or discounts for early payments with your suppliers.
- Receive free credit analysis on your customers and make more informed financial decisions.
- Pay no up front factoring fees or monthly payments.
- Work with an in-house Account Executive. Factoring companies provide you with a high level of personal care and customer service. Let the experts do what they do best!
- By having immediate cash, your company can take early payment discounts, pay bills, payroll and taxes, and use the funds in a variety of other ways to increase profit margins. It’s as if all your customers were on C.O.D. without the accompanying limitations.
- Free monthly accounts receivable reporting.
- Fund new marketing campaigns.
- Approval and funding within 24 hours.
Types of Factoring

In general, there are a various types of factoring services available, and not all factoring companies provide each of these services.

**Recourse Factoring:**
This is the most common type of factoring. Here, if your customer does not pay your factored invoices for any reason (typically within a “recourse period,” for example 90 days), you are responsible to make the factor whole. That is, you must (through any of various means) repay the factor for the advance you received plus the factoring discount owed on date of the “chargeback.” There is no debt protection under this type of service, and you must be sure to factor invoices only to customers who will dependably pay your invoices.

Most often these repayments are made from rebates you are owed, other reserves the factor may keep for your account, from new invoices you provide to replace the unpaid ones, and/or with simple cash payments.

**Non-Recourse Factoring:**

If your customer does not pay due to insolvency or bankruptcy – in other words, your customer can’t pay your invoices – the factor does not need to be made whole by you, since you are factoring “without recourse.” The factor simply absorbs the loss.

However, if there is a dispute or dissatisfaction with the product or service you provided – the customer won’t pay – you are still obligated to make factor whole, even if you factor without recourse. There is recourse with a non-recourse factor in this type of situation.

A factor who provides non-recourse factoring may obtain insurance on the receivables purchased, and your customers are underwritten with more stringent requirements to be approved. As a result, some of your customers who may be accepted for recourse factoring could be declined for non-recourse factoring.

**Non-Notification Factoring:**

With this method, your customer is not notified of the arrangement between you and the factor. Because more work is involved for the factor to keep the relationship confidential, a non-notification relationship commonly costs more than full notification factoring.

While some companies using a factor for the first time may think they’d prefer to factor on a non-notification basis, many find that it is not really necessary as most of their customers already are familiar with the practice and don’t care whether their invoices are factored or not.
Invoice Discounting:

With invoice discounting, you do not sell your invoices but rather use them as collateral for a loan, usually in bulk (using all your receivables, rather than selected invoices and/or customers). Typically, an agreed percent of your invoices’ face value is provided, and as your invoices are repaid by your customers, the factor providing the invoice discounting is repaid. The agreement is ordinarily confidential, as with non-notification factoring.

Maturity Factoring

Here, the factor takes over all credit and collection functions and ordinarily provides receivables insurance to the business owner. However, the advance is not provided until the date the invoices are due to be paid, or shortly thereafter. Payment to the seller may be done on a monthly basis, on the average due date of the invoices factored. In some cases the factor may grant the client’s customer an extension of payment terms (later than the Net terms), who is charged for this if accepted. This type of factoring is not commonly practiced, though some factors provide it.

Who Can Qualify?

Allegiant is much more concerned with the credit worthiness of your customers than with your current financial condition. If you have commercial customers and fit into one of the following categories, then factoring could be a great solution for you:

- A business that is highly seasonal
- An organization that is experiencing high growth
- A Start-up entity or one that has been in business for a short time
- Acquisition/buyout transactions
- Tax Liens (assuming the IRS will subordinate
- A company emerging from bankruptcy
- Unable to meet current loan or net worth financial ratios
- Loan workouts
- Insufficient collateral
- And MANY more!

Who Needs Factoring?

Any business that provides a product or service to creditworthy businesses or government customers can benefit from factoring.

Here are just a few industries that regularly profit from factoring:

- Manufacturers
- Wholesalers
- Distributors
- Service providers of all types, including janitorial and cleaning companies
• Staffing agencies
• Security Guard services
• Trucking companies
• Technology
• Courier services
• Consulting
• Private investigators
• Oilfield services
• IT consultants
• Landscaping
• Food service (commercial)
• Advertising
• And MANY more!

**Factoring Process**

1. Your company sells products/services and issues invoices
2. You send a copy of your invoice to Allegiant
3. We execute the purchase of your invoices and advance 90% of value of your account receivables within 24hrs
4. We verify the invoices and carry out a credit review of your customers
5. Your customers pay us
6. We return the remaining 10% minus the factoring fee
1. The prospective client completes an application and submits it to Allegiant with a copy of its accounts receivable aging schedule.
2. Allegiant gives preliminary approval and quotes terms subject to formal due diligence.
3. After the prospective client accepts the terms, Allegiant completes a formal credit review of client, client’s customers, and the principal’s personal credit.
4. Assuming both Allegiant and the client wish to proceed, client executes and sends Allegiant a Purchase and Sales Agreement with an Assignment and Notification Letter.
5. Allegiant executes Purchase and Sale Agreement thus purchasing the accounts receivable and advances the client up to 90% of the value of the invoices.
6. Your customers are notified of the new payment address.
7. When Allegiant collects the payment of the invoices, the balance of the invoice, called the reserves, less the factoring fee is remitted back to the client.
8. Allegiant provides you with regular statements of activity on the accounts. Future invoices are purchased within 24 hours of Allegiant receiving the invoices from the client.
9. We have 24/7 online access to multiple credit resources and databases. We use these sources to assist with reviewing and establishing credit limits for your client base.
10. Your dedicated Account Executive will work with your company by providing assistance with collection calls, invoice mailing and follow up, payment processing and credit monitoring.
11. With our 24/7 online access to your account with Allegiant Business Finance, you can go online and monitor your factored invoices and balances anytime you like. You can also set up online access for whomever you designate at your company. You will never be out of touch with your accounts receivable!

Call us at (866) 377-0800 to get the cash you need today by FACTORING with Allegiant Business Finance.