Accounts Receivable Financing Overview

What is Accounts Receivable financing?

Accounts receivable financing (A/R financing), which is also known as factoring, is the conversion of a company's business (or gov't) accounts receivable (invoices) into immediate cash by selling those invoices at a discount. A/R financing is not a loan. There is no interest or any principal to repay. No liability will appear on a company's balance sheet -- thus, it's called "off-balance sheet" financing -- because the business is simply selling one of its assets (accounts receivable) to obtain a more liquid asset (cash). This evens out cash flow -- eliminating cash crunches -- allowing you to take on new and larger customer orders, purchase more supplies/inventory/ equipment, and, in essence, help your business grow. It turns a "dead" asset (your invoices) into a "live" asset (immediate cash) that you can use now.

How does A/R financing strengthen your business?

<u>Growth or survival</u>

- Stimulates cash flow and offers you immediate and dependable access to unlimited working capital. As your business and thus the amount of your invoices grow, the more access to capital you have. As you sell your invoices, you'll have access to funds within 24-48 hours (or less). There will be no more "money gaps" or "cash crunches" because you'll have consistent cash flow.
- With this dependable and consistent access to your working capital, you can accept more and larger customer orders, purchase more supplies and equipment, increase inventory, hire extra sales persons, increase your marketing efforts -- which all result in quicker and greater business growth.
- It can also enable you to meet payroll, pay taxes and any urgent monthly bills on time.
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<u>Cash discounts/better credit terms</u>

- You can accept new business customers giving them better credit terms knowing that this will not affect your cash flow. It makes it easier for your customers to buy from you because it gives you the ability to offer extended credit terms to your business customers while receiving funds consistently through A/R financing. You get the best of both worlds -- it's as if you were getting paid C.O.D. by your customers while offering them favorable payment terms.
- Makes it possible for you to obtain cash discounts for early payment to your vendors. And as your orders grow, you can get volume discounts as well. Early payment and volume discounts alone can already offset the cost of A/R financing.

- Credit screening/Accounts Receivable portfolio management
- Our funding companies can also provide complete accounts receivable portfolio management including independent credit screening of your present and future customers. We can alert you to any problems that may arise with your customers.
- This can save you time and money by allowing you to outsource your A/R management, which can free you up to focus on what you do best -- running and growing your business instead of chasing invoices, monitoring credit, and taking care of administrative duties.

- Strengthens your credit
- A/R financing creates no debt. So, unlike a loan, it will not show up on your balance sheet as a liability -- thus, it's "off-balance sheet" financing. You'll increase cash and decrease accounts receivable thus strengthening your financial statements.
- As you pay your bills on time, your D&B business credit rating will improve.
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  A/R financing vs. bank financing
- A/R financing is based only on your accounts receivable and thus on the financial strength and stability of your business customers, not the credit worthiness of your own business. So even if you're a new business or you have a less-than-stellar business credit rating, you can still be eligible for A/R financing, which can't be said for bank financing. A/R funding sources (or Factors) often welcome clients that banks turn away.
- It offers a dependable, continuing source of cash without the necessity of making separate loan applications. It provides continual cash flow without the requirement of periodic payments or interim payoffs for bank financing.
- Saves the business owner precious time waiting for a loan board to grant or deny his or her loan. Loan boards' decisions are influenced by many considerations, and the outcome is often unpredictable. With A/R financing, periodic delays and negotiations are eliminated allowing the business owner to do what he or she does best -- run the business.
- Gives a business increased access to cash as sales and receivables increase. There is no ceiling beyond which the factor must stop providing cash. The more sales a business makes, the more cash it can draw. The factor does not concentrate on the business' debt-to-equity ratio to provide funds as banks do.
- And as A/R financing strengthens the credit of your business, you may then be eligible for bank loans and credit lines in the future.
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  A/R financing vs. Equity financing
- You do not need to give up any equity and thus ownership in your business by seeking outside investments. You retain full control over your business.
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  Flexibility and speed
- A/R funding is accessible and gets quick results with reasonable fees and no minimum contracts you must sign. There's a simple, streamlined application and a quick approval process. Unlike bank loans that can take weeks, even months, to process and require volumes of paperwork, A/R funding can occur within 10-12 business days after receiving the pertinent documentation.
- A/R funding is flexible: short and long-term payment arrangements. In addition, we can provide you with financial management/accounting/collection services to further maximize your company's ability to reach and surpass its bottom line potential.