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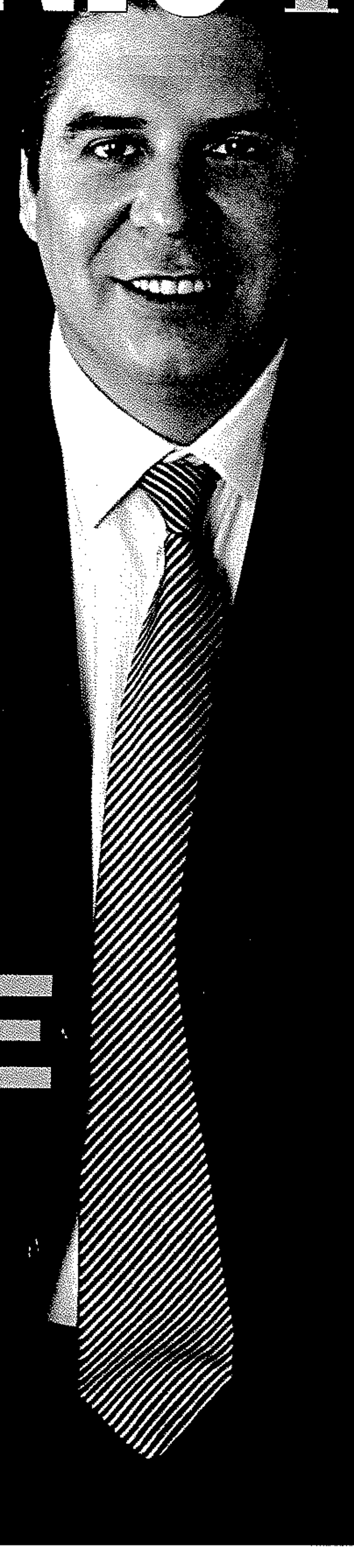

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FAST-FORWARD your Finances

UNLIKE BANKS, FACTORING FIRMS DON'T ASK FOR AUDITED STATEMENTS, YEARLY FINANCIALS OR OTHER PROOF OF SOLVENCY.

By BRIDGET McCREA

You're coming down to the wire, and the thought of not being able to make this month's payroll lurks in the back of your mind. Business is brisk, but your accounts receivables just aren't pouring in as planned—and pressuring customers to cough up isn't your style. After all, you know that within 30 to 60 days they will fulfill their commitments and come back to place more orders with your firm.

But that goodwill isn't going to help you meet the $15,000 payroll obligation to your own employees next week. What's a small-business owner to do?

Some find the answer in a financing option known as factoring, through which receivables are basically "sold off" to a third party known as the "factor," who in turn assumes the obligation of collecting the unpaid bills.

The factor either assumes all liability for the invoice and, if he can't collect it, that's his bad luck—or, under the terms of the agreement, he can bring back any uncollectible invoices for reimbursement from the small-business owner.

So you've got the money upfront—and someone else has the job of collecting the debt. So far so good.

TAILOR-MADE FOR FAST-GROWING START-UPS

At Capital Solutions and Factoring of Fort Myers, Florida, Carlos Weil often works with small-business owners who find themselves strapped for working capital.

"As the economy becomes more service-oriented and less focused on the manufacturing and industrial side of things," says Weil, "companies find it harder and harder to locate traditional financial avenues-such as banks-to lend them money."

He adds that Hispanic business owners may find access to capital further hampered by language barriers and communication issues. The good news is that, unlike banks, factoring firms don't ask for audited statements, yearly financials or other such proof of solvency. From which it follows that even the firm that has struggled financially over the last 12 months will probably not be denied funding.

"We don't rely on financial information to give our clients money," Weil says.

At Houston-based investment banking firm G.A. Herrera & Co., LLC, President Gilbert A. Herrera says that as the number of minority-owned companies grows, the need for alternative financing avenues grows right along with it. Like Weil, he sees the surge in service businesses—unfortunately off-limits for many banks and other traditional lending sources—as another big reason why companies can find factoring a lifesaver.

This, Herrera says, is a great source of needed capital for fast-growing companies and for those that have extended considerable credit to their customers.

"Many companies are not realistic bank borrowers, and for them factoring is a convenient, readily accessible source of financing," he says.

EASY BUT NOT FREE

According to corporate and commercial finance firm The London Manhattan Company of Mount Pleasant, South Carolina, factors can mobilize quickly to get funds to a business—but tend to be among the most expensive kinds of financing around.

Most factors initially pay the small-business owner 70 to 90 percent of the receivables amount, followed by an additional payment when they collect the invoice.

At The Invoice Bankers, a factoring company in Greenwood Village, Colorado, the company typically advances clients 70 to 85 percent of their receivables immediately, and the balance—less the factor's fees—when the invoices are actually paid. The company that has, for example, $100,000 in accounts receivable on the books would receive $85,000 in working capital immediately. Factors' fees can be 2 to 5 percent of the total or more.

But that's not all the small-business owner will have to pay, explains Robert Martucci, vice president at New York-based factoring and finance firm Rosenthal & Rosenthal Inc. After factors advance their clients 80 percent or so of the total invoice amount, interest is charged against the outstanding cash advances.

The amount of interest varies, he says, according to the client's financial condition and volume of business expected over the length of the factoring contract, but is typically from 1.5 to 2.9 percent per month, or 18 to 35 percent annually.

"Most factoring contracts run for one or two years, and automatically renew from year to year thereafter," says Martucci. "Collections are made by the factor and remittances are made directly to a lockbox that the factor controls."

Clients normally receive the cash within a few days of submitting the invoices—a particularly attractive circumstance for business owners in a financial bind.

What companies must realize is that factoring is not a substitute for a collection agency or attorney, since factors will only take on "current" account receivables that are due within the next 30 to 90 days.

"Factoring can often be expensive, especially in the long run. It also doesn't allow a company to build traditional credit."

—Nathalie Bernal,
VP of lending and
marketing, ACCION