

What is Accounts Receivable Factoring?

Factoring is the selling of invoices or accounts receivables by the business holding them at a discount in order to obtain cash payment on the invoices before their actual due date.

Factoring is designed for businesses that want to improve their cash flow by not waiting 30, 45, 60 days for a customer to pay. Widely accepted as an alternative financing source, accounts receivable funding is used in almost every industry that sells business-to-business or business-to-government.

Factoring is not a loan and differs from borrowing in that the accounts receivable are sold at a discount rather than merely offered as collateral.

It is the same concept as offering a cash discount on your invoices for early payment or accepting a credit card purchase. If you accept credit cards, you know that you pay between a 2 - 3% discount fee to the merchant card processing company for that immediate cash deposit into your bank account.

And you may have experienced frustration with offering a discount on your invoices because your customers take the discount and *still* pay in 30 or more days!

Who can use Factoring?

- Businesses that want to expand and need faster cash flow.
- Businesses growing faster than their current credit line.
- Young businesses with little or no credit history.
- Businesses that don't qualify for conventional financing.
- Businesses with financials statements that do not reflect their potential.
- Businesses with tax liens, and even those working through Chapter 11.

Factoring allows you to leverage your invoices to gain immediate access to cash. If you have \$100,000 in equity, but are a rapidly growing company, you could have \$700,00 in receivables that you can't tap from a traditional lender. Fast growth creates an inordinate need for working capital. If you're growing fast, chances are that your receivables are growing faster than your cash flow and, until growth levels off, you can never catch up.

Advantages of Factoring

- No new debt is created - "Off Balance Sheet" financing
- It is based on your customer's creditworthiness - not yours.
- Fast & Easy - Initial set up time from quote to funding can be done in as little as 7-10 business days.
- After initial setup, invoice fundings can be completed in 24 - 48 hours.
- No long-term contracts are required.
- Avoids giving up equity or control of your company.
- Flexible -- You are free to choose which invoices you offer for sale.... and within limits, when.
- You can receive credit reports on prospective customers,
- Continuous monitoring of the credit status of current customers.
- Unlimited source of operating cash - it grows as your sales grow.

How are fees & advance rates determined?

Discount Fees will vary because they are determined by a combination of factors such as your customer's creditworthiness, invoice sizes, factoring volume and the average payment cycle. The submission of this application along with your A/R aging report will determine your discount rate and the percentage of your invoices that will be advanced immediately (advance rate). Other normal charges may be credit checks to set up clients (\$30-35) and wire transfers into your bank (\$18-\$25).

How does the funding process work?

Basically there are 7 simple steps:

1. Submit a simple 2-page application, current A/R aging report and articles of incorporation or fictitious name filing. In some cases, a sample invoice & P.O may be requested.
2. A quote for the Discount rate and Advance rate is prepared for your review (usually 48 hours).
3. If you wish to proceed - Agreements are sent to you to be finalized.
4. A due diligence fee is submitted for searches that are performed. These include credit reports, state & county UUCs, judgments & pending litigations, tax liens, and criminal searches. Searches take between 5 - 7 business days. Due diligence fees usually run between \$350 - \$1000 depending on the filing state and funding source (construction factoring being the highest).
5. After account is set up, a copy of your invoice(s) for products or services rendered is submitted.
6. The invoice is verified and funds are advanced based upon agreed advance rate (between 70 - 85%)
7. When the invoice is paid - the balance of funds (reserves) are remitted minus the discount fee.

Okay - so what's the downside?

Although factoring is much less expensive than equity or venture capital financing (if you can even acquire these), it is going to be more expensive than traditional bank or SBA financing. However, if you can't qualify for traditional bank loans or they can't provide enough working capital because you are in a growth mode, this can be a brilliant solution.

Consider this:

Many companies are stymied at a given sales level because of their inability to carry the additional receivables that come with increased sales. The most profitable sales are generally those that have not yet been made. This is because fixed expenses such as rent, basic office salaries, telephone, etc. are being paid out of the first sales made. Therefore, the profit margin on the additional sales is generally much higher. If a company can make those additional sales and/or take advantage of better buying power, these can often outweigh the cost of factoring.

Financing is never without cost; the goal would be for it to fund additional growth and better buying power. We wouldn't advise using factoring if you are working on razor thin gross profit margins. You may not be able to afford a discount of say 4% on your invoices. You might want to rethink your business strategy anyway.

Anything else I should understand?

You have flexibility in how much financing you use. For example, you do not have to factor all your invoices or all your clients - you choose. And you do not have to sell your invoices right away...if you have a 60-day payer; you may want to turn their invoice after the first 20 days. Or you may only want to factor your fast payers to better survive the slow payers and keep the financing cost lower. This flexibility is just like a line of credit- you use what you need when you need it.

There are two ways an agreement can be structured; Recourse or Non-Recourse. Non-recourse factoring is typically more difficult to be approved for and is more expensive because the factoring company takes on all the risk if a customer cannot pay because of credit issues. (The factor does not, however, assume credit risk if the debtor does not pay because of a dispute). Not only is it more expensive, but factors will be more selective in the invoices/debtors they choose to fund for you - so it could limit your growth options.

Frequently Asked Questions

Q. Why would a company sell their receivables?

A. Companies that encounter a recurring cash flow problem often can't afford to have cash tied up in receivables for 30-60-90 days. They need the cash to meet immediate present financial demands of their business. Their current bank loan may not be adequate enough to fund growth. Or they may not qualify for a bank loan, which has many limiting FDIC requirements that must be met.

Q. Is Factoring a type of loan?

A. No. Factoring is defined as the purchase of a company's receivables as opposed to a loan using the receivables as collateral.

Q. Can we qualify if we have a poor credit history or are just starting in business with no credit history?

A. It is the creditworthiness of the company's customer that really matters. As long as the customers are going to pay their invoices, the factoring transaction can be completed.

Q. Can I factor my A/R if my company has a loan or line of credit with a bank?

A. Sometimes. We have funding sources that can compliment and work with your existing lenders, if they agree, to enable you access to larger amounts of funding.

Q. What is the minimum amount of A/R invoices I can sell?

A. You decide. We match your needs with factoring companies that handle from \$2,000 to \$3 million per month. Terms of contracts vary from none to 2 years, depending on the program selected.

Q. Do my customers have to be contacted?

A. It depends; most factoring is done on a notification basis. You can be assured that factors are very experienced in handling this. In communications with your customers we refer to this service as receivables management in conjunction with the credit line you have received. In some cases, a company may qualify for a "non-notification" relationship.

We will also be happy to speak with your CPA or Accountant if they have any questions we have not addressed here.



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This Application can either be filled out on screen or printed out. Tab between fields to fill out on screen.

Legal Name of Company: _____

DBA: _____

Check One: Corporation or S-Corp Partnership/Limited Liability Co. Sole Proprietorship

Federal Tax Identification #: _____ Date Business Started: _____

Primary Business Address: _____

City: _____ State: _____ Zip: _____

Phone: (____) - _____ Fax: (____) - _____ Alternate Phone: (____) - _____

Email address: _____ Website: _____

Business Description (types of products and/or services): _____

Normal Terms of Sale: Due upon receipt Net 7-29 days Net 30 Net 60 Other: _____
 Consignment Avg. Discounts / Returns: _____%

Number of active customers _____ Gross Sales for 2002 \$ _____

Number of invoices per month _____

Average Invoice Amount \$ _____ Projected for 2003 \$ _____

What is the gross (\$) amount of invoices that you intend to factor each month? \$ _____

Have you ever factored your Accounts Receivable before? No Yes, with whom? _____

Principal / Majority Owner Information:

<u>Name:</u>	<u>Home Address</u>	<u>State</u>	<u>Zip</u>	<u>SS#</u>	<u>Ownership %</u>

Is your company required to be bonded or insured for any of its services?..... Yes No N/A
 Are your Payroll Taxes current?..... Yes No
 Are Federal / State Taxes current?..... Yes No
 Has any of the owners/officers filed for bankruptcy, have judgments, tax liens or pending lawsuits? Yes No

Does your company have any commercial loans? No Yes – if yes, then complete the following:

Name of Bank or Lender: _____ Phone: (____) - _____

Loan(s) Balances: _____ Nature or purpose of loan(s): _____

Please list up to 10 current or future customers you wish to factor—your customers will never be contacted without your permission.

1	Company Name Address/City	Phone () - State Zip
2	Company Name Address/City	Phone () - State Zip
3	Company Name Address/City	Phone () - State Zip
4	Company Name Address/City	Phone () - State Zip
5	Company Name Address/City	Phone () - State Zip
6	Company Name Address/City	Phone () - State Zip
7	Company Name Address/City	Phone () - State Zip
8	Company Name Address/City	Phone () - State Zip
9	Company Name Address/City	Phone () - State Zip
10	Company Name Address/City	Phone () - State Zip

The foregoing information is true and correct to the best of my knowledge and is given to Fountainhead Funding to induce Fountainhead Funding to consider entering into a factoring agreement with this company, or have this information assigned to another creditor. I/We have been expressly authorized to grant Fountainhead Funding or its agents to verify and investigate any and all the foregoing statements, including but not limited to my/our current creditworthiness and financial responsibility, in any way Fountainhead Funding chooses. I/We grant Fountainhead Funding or its agents the right to procure any and all credit reports pertaining to any party affiliated with the corporate applicant, including all principals of the applicant company.

Signature: _____ Title: _____

Print Name: _____ Date: _____
(President, Owner, or Authorized Agent)

Please provide with this application:

➤ **Current Accounts Receivable Aging Report**

➤ **Sample Invoice and corresponding P.O. agreement & Articles of Incorporation and/or Fictitious Name filing**



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From: Diane Homa, CCFC
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To facilitate the quote process, please return the following:

- Completed 2-page application**
- Current Accounts Receivable aging report**
- Articles of incorporation
- Registered DBA or fictitious name, if applicable
- Copy of a current invoice
- Copy of purchase order or contract

***** These are the minimum items required to receive a rate quote;
the other items may be additionally required.***