



# Factoring: The Fastest Growing Financing Option Today

## How can I get the working capital that I need when the bank says no?

*Joy Ann Venverloh, President, Lexx Funding, Inc.*

Today's economy is having a negative effect on business. It is straining the availability of working capital and is causing a general slowdown in customer payments. Most of all, there is tightening of bank financing. So, how can a company create positive cash flow? Let's explore some financial options.

1. **Self-Finance** – use relatives, credit cards. This is quick. No financials are required, no limitless paperwork – but a big disadvantage, capped credit limit.

2. **Commercial Banking** – It is relatively inexpensive. Can provide you with charge accounts, savings accounts, insurance, and investment tools. But, there are many disadvantages. Your credit line is based on your strength. You have to supply business and personal collateral. You have to have a strong credit history and have a minimum of two years in business. You have to be profitable with no history of bankruptcies, tax liens, or judgments. Besides that, your credit line is capped, you have restricted use of funds, you must go through a lengthy approval process with high administrative fees. This form of financing puts debt on your balance sheet.

3. **Asset/Based Lending** – A/B loans go from 1 M to 10 M. The A/B finance company is looking at Accounts Receivables and Inventory. You can get a revolving line of credit up to 85% of Accounts Receivables and up to 50% on Inventory. Your A/R and inventory has to be large enough to take out your existing bank loan. This is a form of limited fixed asset financing. A/B loans are great when used for target transactions, such as refinancing, leveraged buyouts, restructured loans, and high growth companies. There are disadvantages as A/B lending requires a full personal guarantee and strong financials. Audit fees, upfront costs, application fees are expensive. A/B lending results in debt on your balance sheet, and multi-year commitments with corresponding penalties.

4. **Accounts/Receivable Funding** -- A/R funding has become the business financial tool of choice. It is not a loan. It is a sale to a Factor, of a non-performing asset (invoice) at a discount for the purpose of getting the money immediately instead of waiting 30, 45, or even 60 or more days to receive it. It is business to business or business to government. The A/R funding depends on the credit worthiness of your customers and the length of time it takes to pay. How can Factors give you money when the banks can't? Banks depend on the strength of the borrower, you. A/R funding depends on the strength of your customers. So, A/R funders can take on bank turn downs, customers that banks cannot help or do not want.

**How does A/R Funding work?** There are two key disbursements.

A. **The Advance** – The client receives up to 80% of face value of the invoice when the invoice is purchased.

B. **The Reserve** – The A/R client receives the balance of the invoice amount, minus the discount fee, as soon as the customer has paid for the invoice.

Invoice	\$ 1000.00
Advance 80%	800.00
Reserve 20%	200.00
Fee	30.00
(Inv. is pd. in 30 days. Avg. fee is 3-4%)	
Total reserve paid to client	170.00
<u>Total amt. client receives</u>	<u>\$ 970.00</u>

This is money to take on new contracts, pay payroll on time, buy supplies at a discount, pay taxes. Is it worth it? It is for most companies.

A/R Funding can improve the efficiency of your business. Provides predictable and continuous cash flow in order to:

- Increase Sales
- Funds growth & expansion
- Meet payroll & payroll taxes
- Maintain a good credit rating
- Supplier discounts
- Obtain cash without debt (fee is written off as business expense)
- Credit line increases as sales increase
- No long term contract
- Unrestricted use of funds
- Start ups are eligible
- Ideal for non bankable business
- Does not require strong financials
- Little or no due diligence fee

The A/R funding process is simple and usually takes about 5-7 days to set up the file. Then you receive advances within 24 hours. Factors can also help you make good credit decisions.

If you can get bank financing based on your personal and business history, then do it.

If you need financials that are able to grow when your company grows, then you need A/R Funding.

*Joy Ann Venverloh is the owner/CEO of Lexx Funding, Inc., a factoring and financial consulting company. She can be reached at [joyann@lexxfunding.com](mailto:joyann@lexxfunding.com) or (636) 458-2612.*