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# Get Your Hands on No-Loan Business Cash

**If you've never heard of factoring, here's what you need to know to take advantage of a hidden asset.**

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Looking for a form of financing that can improve your company's cash flow without going into debt? That doesn't require giving up ownership or control of your business? That's readily available even if your business is new or has no collateral? That grows as fast as your sales? By this point, I know you're doubtful, but this type of financing really exists. It's called factoring.

Factoring is the buying of invoices (accounts receivable) at a discount. It's been around since ancient times. And in some industries, it's long been the preferred form of financing.

Here's how it works: Your company sells a product or service to a customer and issues an invoice. It typically takes between 30 and 60 days for the customer to pay you. In order to have immediate use of most of that money, you sell the invoice to a factor.

Before the factor buys an invoice, he'll verify two things:

1. The customer has the means to pay.
2. The customer received the product or service, is satisfied and plans to pay.

The factor then pays you an advance, which is a percentage of the face value of the invoice, and waits to be paid by the customer. When the customer pays him, the factor will deduct his fees and refund the balance of the invoice to you.

**The Benefits**

*Factoring is quick*. Once a relationship's been established, you'll often get funding within 36 hours. Having access to immediate cash can allow you to take on business you'd otherwise have to turn away and can let you take advantage of trade and material discounts from your suppliers.

*Factoring is available to most businesses*. With most factors, your company doesn't have to have a minimum track record or good credit. What's important are your customers' ability and willingness to pay.

*Factoring is simpler and easier than applying for a loan*. The criteria are simple, so the forms are simpler and the process is easier.

*Factoring is a sale, not a loan, so you'll incur no debt*. This improves your company's bottom line instead of detracting from it.

*You don't give up ownership or control of your company*. Most other forms of financing require some say in how the money is handled. With factoring, the money is yours to do with as you see fit.

*Factoring is the only form of financing that grows with sales*. As your company issues more invoices, more cash is immediately available.

*Factoring is flexible*. Because factors use their own money, they're very flexible when it comes to dealing with problems. Most factors require only that you have valid invoices and your customers have good credit and a willingness to pay. Back taxes and prior debts aren't usually a big problem for a factor, as long as they're disclosed up front. (Factors don't like surprises.)

*Factors keep track of accounts receivable and collections*. This can save a lot of time and money for a small business.

*Factors provide quality assurance*. When verifying the validity of an invoice, the factor gauges customer satisfaction with the product or service. This can help you do a better job of meeting your customers' needs.

*Factors can help pre-screen new customers*. When you're considering a new customer, you can ask about factoring their invoices. If their credit isn't good enough for the factor, you might want to reconsider doing business with them.

*Factoring can speed up a customer's payments*. Because they know that most small companies won't report them to commercial credit agencies, some large businesses routinely take a long time to pay. But they'll frequently speed up their payments when a factor is involved, because they know that if they pay slowly, it'll be reported.

Before jumping in feet first with a factor, here are a few things to consider:

*Banks and factors are not competitors*. They each meet different needs that the other one can't. Often, a company will thrive on factoring and later qualify for a bank loan to pay off the factor.

*No one factor will meet all your business needs*. Factors come in all sizes and flavors. Some won't touch deals of less than $100,000 per month; others won't do more than $50,000 per month. Most won't factor certain industries, such as construction or medicine.

For most business owners, the primary objection to factoring is its cost. Before we get into numbers, let's make sure we're comparing apples to apples. There are three points to consider.

1. Factoring offers a better combination of availability, speed, flexibility and services than any other form of financing. It creates opportunities for a level of growth that isn't otherwise possible.

2. The large majority of factoring is non-recourse. That means there's nothing to pay back later--unless there's evidence of fraud--even if the customer never pays the factor. The advance is yours to keep.

3. Most companies offer a 2 percent discount for payment in 10 days or less. This cost is not annualized because it's never more than the discount. Likewise, factoring fees aren't annualized because they don't exceed the difference between the advanced amount and the invoice face value.

So now that we're comparing apples to apples, the final word on what factoring will cost you is: It depends. It depends on the industry--some types of invoices such as those involving construction, medical goods or services, and perishable goods require specialized knowledge and have higher risks than most.

It also depends on the customer and their credit. And it depends on the volume and size of the invoices. The costs of due diligence on many small invoices sent to a large number of customers are higher than the costs associated with a few large invoices to a few customers.

In most cases, the monthly fees you'll pay the factor will be about 5 percent of the total of the invoices you give them to collect on, although depending on the factor you use, fees can be significantly higher or lower. Advances can also be significantly higher or lower--the current typical advance is about 75 percent.

The benefits of factoring are many and usually more than offset the cost. And what you've got to consider is how much you get to keep. If spending a little makes you a lot, doesn't it make sense?

To see if factoring would work for you, contact a cash flow consultant. A cash flow consultant has access to a large number of funding sources and will get you the best match between your needs and the factor's. The good news? You don't pay the consultant's fees--the factor does, because for them, it's more productive than advertising.

*Michael Curtin is a cash flow consultant and owner of MSC Funding in Redlands, California. He has access to more than 150 different sources of funding, arranging the purchase of invoices and other types of cash flow. He can be reached at mscfunding@aol.com.*