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What Are the Qualifications for Factoring? By Fred Leder

Five basic qualifications for factoring are a) the applicant must be doing business to business, business to government or for a healthcare provider, billing traditional medical insurance companies b) the applicant must have a need that will be mitigated by increased cash flow factoring produces, c) the applicant must be invoicing (or billing in healthcare) and providing term to his customers, d) the receivables must be performing and paying within industry standards and e) the applicant's business must be profitable.

In past articles we addressed this topic with a strong emphasis on item "b" the need for factoring. However for this Take a Break article we want to focus now on item "e" the profitability of the applicant.

Brokers and applicants sometimes mistake the relatively flexible underwriting done by factors for a loose, slipshod approach to the approval of an applicant. Actually nothing can be further from the truth. Yes, we are not banks and we are not necessarily looking at the typical bank-underwriting ratios, formulas and financial strengths, however practicality must prevail. A significant amount of weight is put on the quality and factors and brokers but the applicant's advertise creditworthiness of the debtor, as business must be at least right side up, and generating enough "bottom line" to sustain the cost of factoring. Unfortunately the businesses applying for factoring quite often have no financials, financials that are inaccurate or accurate financials that show a very weak business with a poor prognosis. The simple facts are that if a business is weak and needs a cash infusion, it needs "new" money to survive or grow and not an acceleration of their own money which factoring supplies. Factoring will facilitate growth and even support it if the business is making enough money. The business must however be able to a) sustain the cost of factoring and b) grow internally to support the increased business volume.

A business applying for a factoring facility that has \$12MM in annual sales and shows a \$50K loss at the end of the year will NOT be helped by factoring. So, when marketing and talking to your prospects, please ascertain if the fifth qualification for this strategy is evident - that is the financial position of their company.



Never make the decision on your own however, when in doubt always send in the application. But if you see an ugly P&L with an even uglier Balance Sheet, don't start spending the commission for that applicant yet!

"The tragedy of life doesn't lie in not reaching your goal. The tragedy lies in having no goals to reach."

Benjamin Mays

Golf: Jack Nicklaus has the most Masters Tournament wins, with six. Nicklaus became the oldest player to win a Masters Tournament, at 46 years, 2 months and 23 days - in 1986.

At Xynergy we look forward to building a mutually beneficial working relationship with you and helping your clients overcome the current economic slow down. Remember for funding we are just a phone call away. There is no fee to have us review an application and send a proposal.