

## *Factoring and Your Prospect*

### **WHERE TO FIND PROSPECTS AND REFERRAL SOURCES**

- Government and business vendor lists
- Local Chamber of Commerce member lists
- Internet financial databases (BusinessFinance.com, MoneyZone.com)
- Advertisers in business and trade publications
- Small business shows and trade shows
- Small Business Development Centers
- Accountants, attorneys, bankers, stock brokers and business consultants

### **INDUSTRIES IDEAL FOR FACTORING:**

Factoring can be a beneficial form of financing for most any industry, especially ones where accounts receivable realization does not match operational needs. In other words, industries where large proportions of invoices are not paid in time to meet payroll or other debt obligations. However, some industries, because of trade law, revenue to accounts receivable ratios, and accounts receivable turnovers, are more suitable for factoring. These industries are:

*Due to credit and trade laws, Hamilton does not factor third party medical or construction industries.*

*Manufacturers*

*Temporary Employment Services*

*Consulting*

*Import*

*Janitorial Services*

*Distribution*

*Defense Contractors*

*Transportation*

*Food*

*Communications*

*Computer Hardware/Software*

*Professional Services  
(Financial, Legal)*

### **BUSINESSES IDEAL FOR FACTORING:**

Simply, if a business makes or sells a product or delivers a service to a credit-worthy customer on trade terms, that business is a candidate for factoring. Hamilton's clientele share the following traits:

- The need for working capital to support operations required for revenue growth (e.g. marketing, product development, payroll, accounts payable).
- Periodic cash flow pressure due to seasonal demand or unexpected sales is experienced more than 2-3 times per year.
- For any number of reasons, do not possess or choose not to possess traditional bank credit lines to support operational growth.
- The need for accelerated receipt of outstanding invoices.
- The desire to take advantage of trade discounts or other long-term sensible financial investments.

However, Hamilton looks for certain criteria when evaluating a specific business for factoring. Whether a business satisfies all or one of these criteria, financing is ultimately a judgement of Hamilton.

- Business must be LLC, C Corp or S Corp (not D/B/As, sole proprietorships, or partnerships).
- Generate revenues of at least \$50,000 per year.
- Be profitable, or if not, possess a credible plan to achieve profitability within 1 year.
- Have a clean tax record or the ability to correct current deficiencies.
- Have no liens currently placed on accounts receivable. In other words, accounts receivable are not already pledged as collateral.
- Have invoices for potential financing with a minimum size of \$500.
- Possess strong customer relationships.

**The Hamilton Group**

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## *Fast Facts*

**PRICING:** Per Diem Fee or Block Time Fees available

**MINIMUM FEE\*:** 15 days – Per diem fee for 15 days.

**ADVANCE RANGE\*:** 70 – 80% of invoice amount

**FEE RANGE\*:** between 1 and 2 % monthly charged per diem or block time

**FEES START:** Day of funding

**FEES STOP:** Day Hamilton receives payment of invoice from customer| – Fees stop as soon as payment is received, not when the check clears.

**ADVANCE RANGE:** 70 – 80% of invoice amount

**OTHER FEES:** Application Processing Fee between \$ 200 and \$ 300

**RESERVE:** Generally None

Clients are most often not required to tie up their cash flow in collateral or escrow accounts.

**MINIMUM VOLUME:** None – No non-usage fees either. Clients can factor all their invoices in one month and none the next. This is helpful for those companies with seasonal demand or unpredictable cash flow.

**MAXIMUM VOLUME:** \$ 3,000,000 per client exposed at any one time.

**MINIMUM INVOICE:** \$500

**MINIMUM TIME COMMITMENT:** None – There are no obligations to enter restrictive, long-term agreements.

**SET-UP TIME FOR FIRST DEAL:** 7 to 10 days

**INVOICE TURNAROUND:** 24 hours – Once initial set-up is complete, all funding thereafter occurs within 24 hours.

**BALANCE PAYMENT TURNAROUND:** Next Day for funds received electronically: 3 business days for checks

**ACCOUNTING:** Per invoice – Each invoice stands alone and is reconciled individually. This means that balance payment occurs separately for each invoice.

*\*Determination of fee and advance rates is based on a number of variables.*

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## Common Questions Prospects Ask

### **WHAT IS FACTORING?**

Factoring is a type of financing where businesses sell their accounts receivable (invoices) to companies known as factors. As a financial tool, factoring helps businesses improve their cash flow. Factoring is neither a form of debt, nor is it equity financing. And, it is not, as some people assume, a loan.

### **ISN'T FACTORING JUST FOR FAILING COMPANIES?**

Factoring in the past had gained a reputation as a financial "last resort" for faltering businesses. While factoring can help problem businesses today, it is also a great source of financing for new or rapidly growing businesses. Factoring allows businesses to improve their cash flow and quicken their growth by shortening their receivable cycle. By selling their invoices, businesses can eliminate the 30, 60, up to 90 (or more) days wait for customers to pay on their accounts.

### **HOW MANY INVOICES AM I REQUIRED TO FACTOR?**

Hamilton does not require its clients to enter long-term, restrictive contracts or meet minimum monthly requirements. This flexibility allows companies to factor when, and how often, the need arises. A company can factor all its invoices one month, and none the next, depending on their cash flow needs.

This is especially beneficial to those companies who experience seasonal or unexpected sales changes.

### **DOES MY BUSINESS NEED GOOD CREDIT TO FACTOR?**

Businesses do not have to have an outstanding credit history to factor. Instead, Hamilton analyzes the customer's credit. This means Hamilton primarily looks at the credit-worthiness of its clients' customers and their ability to pay. This is beneficial to new companies that do not have an established credit history needed to secure loans or other financing.

### **HOW DOES FACTORING AFFECT MY CUSTOMERS?**

Hamilton goes to great lengths to remain in the background of its clients' customer relationships. Clients maintain primary control of their customer accounts and operational functions to ensure smooth transactions. Hamilton constructs a blind lock box for its clients so customer payments can be made out to the client, yet sent directly to Hamilton.

### **WHAT IS NON-RECOURSE?**

Hamilton maintains a non-recourse structure, which means Hamilton assumes only credit-risk in its agreement to factor. Hamilton incurs the loss if the reason for non-payment is due to credit failure or insolvency of its clients' customers.

### **DO OTHER BUSINESSES USE FACTORING?**

Although factoring is not common knowledge to all businesses, it is well used in the business world. Many companies, including Fortune 500 companies, such as Applied Materials, Bethlehem Steel, Xerox, and Lucent Technologies\* use factoring as a form of financing.

\*According to 2000 Annual Reports.

### **HOW CAN MY BUSINESS BENEFIT FROM FACTORING?**

- Focus on business operations instead of cash flow concerns
- Increase production and sales
- Take advantage of trade discounts, or those discounts offered by suppliers for early payment
- Meet payroll or payroll taxes
- Finance expansion without debt
- Fund marketing or e-commerce projects

- Pay off outstanding debt
- Improve credit rating with timely payments
- Improve balance sheet by increasing cash and decreasing A/R
- Eliminate need for outside investments, such as loans, credit cards
- Position business for outside investment, such as attracting bank financing or SBA loans

### **IS FACTORING MORE EXPENSIVE THAN OTHER SOURCES OF FINANCING?**

Some people may try to argue that factoring is more costly than other types of financing. However, utilized in the proper way, factoring can be quite cost-effective. Here are some options:

- Knowing the typical payback period of customers will allow a business to factor an invoice at the right time along its cycle, and thus reduce the cost to that business. For example, if a customer usually pays on the 40th day, a business might want to factor the invoice on the 20th day to limit the per diem fee charged.
- With the funds it receives from factoring, a business can take advantage of early payment discounts offered by their suppliers. For example, a business might be able to save 3% from its supplier if it pays within 15 days.
- Also, with more working capital, businesses have the capability to purchase higher volumes of supplies, thus making them eligible for volume discounts from suppliers.
- A business can stop offering its customers early payment discounts since it receives its funds immediately from factoring.
- A business could increase its prices to offset any fees incurred from factoring. It could also increase its prices by a percentage and offer an early payment discount at the same percentage to those customers who pay within a given period. This way, timely paying customers would pay the original prices, while late paying customers would offset any factoring fees.

### **WHAT MAKES HAMILTON DIFFERENT FROM ITS COMPETITION?**

Hamilton calls its program Factoring with a Twist. The twist is its flexibility. Over the years, Hamilton has worked hard to make its program the most flexible in the industry. It has eliminated the restrictive terms and high fees common in other factoring programs.

Unlike other factors, Hamilton charges either a per diem fee instead of a block-time fee. Hamilton does not require volume commitments or charge non-usage fees. This means clients can choose to factor as many receivables as they need. Should they choose, clients could factor all their receivables one month and none the next.

Also, Hamilton does not charge an application fee. Many of Hamilton's competitors charge up to \$2,500 for the cost of running UCC, Tax Lien, and other credit searches. Hamilton only charges a small fee to cover due-diligence expenses. Any application fee not spent is returned to the applicant.

Hamilton's customer service is unmatched. Clients have direct access to Hamilton's chief decision-makers where they can count on respectful and timely feedback.

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