The 411 on Factoring

For the majority of new businesses and for businesses looking to grow, the funding needed to jumpstart development is oftentimes unavailable. This leaves businesses with few options for financing.

Choosing the right financial solutions at the beginning stages of development are essential, this is especially true with today's technology companies.

Traditional bank loans are the more predominant type of financing, but another option is quickly becoming a popular choice in the technology industry: factoring.

What is Factoring?

Factoring, also known as "accounts receivable financing," is a financing solution used to help companies gain capital quicker and with more flexibility than a traditional bank loan.

It is a transaction between a business and a third-party financing company (factor). The factor purchases the business' customer invoices and provides a percentage cash advance. By doing this, a business can receive the cash needed to operate immediately, rather than waiting up-to 90 days for a customer's payment.
After collecting customers' invoices, the factor pays the reserve amount, minus any fees for assuming the collection risk.

To put it simply:
A business sells goods to its customer. They send that invoice to a private funding company. The funding company provides the business a cash advance on this invoice. The funding company collects full payment from your customer. The business receives the remaining invoice amount, minus the collection-risk fee.

Why Choose Factoring?

Many technology companies choose factoring over loan-based funding. One of its key benefits is the almost immediate capital provided. Factoring stabilizes a business' cash flow. Financial decisions and expenses can be made quicker, meaning a faster opportunity for growth.

Benefits include:

- Factoring is not a loan, meaning there is no debt to repay.
- As long as there are client invoices, funding is available.
- Funding is unlimited, whereas bank loans have set limits.
- Start-up companies have the opportunity to gain capital, where traditional bank loans are difficult to obtain.
- With unrestricted funds, a business has more flexibility with its capital.
- Perfect credit is not necessary for factoring –there is no need for review of financials, assets and liabilities.

- Factoring streamlines back-office operations by collecting capital, managing invoices and completing customer credit checks.

Recourse vs. Non-Recourse Factoring:

If factoring is the right option for your technology business, your funding company will need to explain if they provide recourse or non-resource factoring.

Recourse Factoring is an agreement between the factor and the business that says the business will purchase the invoice back if the invoice goes unpaid. The majority of factors use this method, as there is less risk involved for the lender. From a borrower's perspective, recourse factoring is more affordable due to the risk of absorbing uncollected payments.

Non-Recourse Factoring is when the factor takes full responsibility of the company's invoice, meaning it has full obligation of absorbing unpaid invoices. Since the factor assumes unpaid invoices, they are at higher risk for fraud. With the risk come higher fees for businesses, but credit insurance if one of their customers does not pay.

Factoring is a funding option for technology companies that are new or looking to grow, because there is no need to take on bank debt. Businesses are able to attain quick access to cash flow.

Thermo Credit's combined 100 years of experience and over $1 billion in communications accounts receivable purchased to date, ensures technology companies a reliable factoring partner.