

Invoice Discounting and Factoring

Data Sheet 1, Issue 1

Date: August 2008

What is Invoice Finance?

Invoice Discounting and Factoring are reliable sources of working capital that grow as your business grows. In essence you raise an invoice to one of your clients and instead of waiting for 60 to 90 days for payment an invoice finance provider will pay you almost immediately, minus their charges.

It is a good way of alleviating the difficulties of clients paying you late. It is flexible finance linked directly to your sales.

Are there many different types?

There are many different types of invoice discounting and factoring. There are two main products and each has various sub-categories. Invoice Discounting is where you keep control of collecting your own debts and factoring is where the factor collects the debts for you.

You can have disclosed invoice discounting and confidential invoice discounting so that your clients need never know that you are using this type of funding.

With factoring it is normal for your clients to know that you are using the services of a factor. Most providers, however, will also offer a facility that is described as Agency Factoring, where confidentiality is retained and you still collect your own debts.

How do I get charged for this Finance?

There are two main charges: The first is the charge for borrowing the money, this is called the discount rate and is expressed as a percentage above base rate; the second is a service charge for providing the facility and is expressed as a percentage of turnover. The service charge for factoring is higher than that for invoice discounting as the factor is performing your credit control and doing more work.

You must also be aware of additional charges. There is often a commitment fee that is usually returned to you once you have started to draw down funds. There is normally a take on fee for up loading your ledger in the first place, which is the same as the service charge mentioned above. There is always a documentation fee of approximately £250 to £500. If you are factoring there is always a re-factoring fee if any of the debts go over the 90 day limit. Some providers, but not all, will also charge you for credit notes.

In addition there will be termination charges if you terminate the agreement early.

What are the pitfalls?

If you are not used to negotiating such a facility then many mistakes can be made. The biggest mistake is going to your own bank for this additional funding. You really do not want all your financial eggs in one basket and also the banks are too large and too rigid to offer the flexible service that you need.

Make certain that you sign up for no more than a 12 month agreement and that the termination period is 3 months or less. Get the termination charges spelled out in writing before you sign any agreement.

You want the pre-payment level to be as high as possible. The normal is between 80% and 85% with some providers offering up to 90%. This is the level of pre-payment that they will advance against the invoices you raise.

If you have one client that represents a large percentage of your ledger then you need a concentration level that will cover this client. The concentration level is the value allowed for a single client as a percentage of your total ledger. Most providers will automatically set a concentration level of 10% which is not acceptable if a single client makes up 30% of your aged debtors. 30% to 40% concentration levels can easily be negotiated and we have one client where we negotiated a 100% concentration level.

Be careful of minimum service fees. This is the minimum level of service fees that will be charged each month and can be painful as you are ramping up the facility or planning to wind down.

Personal guarantees can often be negotiated out and if not they can usually be restricted so that they are unsupported and cover only a small percentage of the facility level.

Why Use Pegasus Funding Resources?

Our Services to you are **FREE of CHARGE**. We have over 33 different invoice discounters and factors on our panel. We know how to create competition between them to provide you not only the cheapest rates but also the best terms and conditions. We know which ones have experience in your industry; which ones are good for the smaller company and which specialise in larger companies; which give the best service; which will only cover the UK; or UK and Europe; or UK and the rest of the World; which offer trade finance for your imports, or Small Firms Loan Guarantees for your growth needs. Above all we know what can and what cannot be negotiated to improve the offer.

Let us take the strain and find you the best deal while you create revenue for your business.

www.pegasusfunding.co.uk

Office Locations: Shepperton, Hampton, Trowbridge, Preston and Hope Valley.

Pegasus Funding Resources

4 St Nicholas Drive

Shepperton

Middx

TW17 9LD

01932 244810

07778 670 236

peter.kelly@pegasusfunding.co.uk



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