

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, it is primarily a 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 primarily analyzes the customer's credit. This means Hamilton 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 interface with their customer accounts and operational functions to ensure smooth transactions.

WHAT IS NON-RECOURSE?

Hamilton maintains a modified non-recourse structure, which means Hamilton often elects to assume most of the risk in the case that the client's customer defaults on payment because of insolvency.

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 Sara Lee* use factoring as a form of financing.

*According to 2001 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

(over)

- 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 suggest 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 payment 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 modify 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.

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