

UPDATE:

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CASH FLOW MANAGEMENT

Factoring: A Financing Form That Has Come Of Age

One of the "facts" about factoring is that it is a financing form that has come of age.

As the reins on public sector monies tighten with approved city, state and Federal budgets, the need for factoring has never been greater.

As a result of these trends, factoring is becoming a more attractive financing alternative.

Factoring should not be compared with the cost of a bank loan. The true cost of factoring varies according to the individual circumstances of each situation. It can only be computed by analyzing the impact of each and

every one of the benefits factoring can provide.

Many of the benefits will have a tangible, direct impact on a company's bottom line. Some of the benefits may be less tangible, but make no mistake, they may be equally as important.

To properly measure the true cost of factoring for your business, you must thoroughly understand all of the benefits of factoring and how they impact on your business.

Factoring's primary benefits include:

- Reduction of bad debt. A non-recourse factor will assume the risk of bad debt, thus

eliminating this expense from the client's income statement.

- Professional collections. A good factor will handle collections more productively than the client. The client can then eliminate the overhead cost associated with having someone handle collections.

- Invoice processing. Factors handle much of the work associated with processing invoices. This includes mailing them to customers (addressing envelopes, stuffing them, and paying for the postage); posting invoices to a computer system; depositing checks; entering

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payments on the computer, and producing regular reports. With the factor providing all of these services, the overhead cost of invoice processing is greatly reduced.

- Provide credit terms to your customers. Factoring will allow you to provide new or extended credit terms to your customers without having a negative impact on your cash flow. This makes it easier for your customers to buy from you.

- Meet increasing demand. Factoring is the only source of financing that grows with the client's revenues. As revenues increase, more money becomes immediately available to the client. This allows him to constantly be able to meet increasing demand.

- Take advantage of earlier payment discounts. Factoring may allow clients to take advantage of early payment terms offered by their suppliers. If a client can save two percent on raw material cost because he has the cash to pay the bills within 10 days, this significantly reduces the true cost of factoring.

- With factoring, there may not be a need to take on any partners or to give up equity in your company as you would with venture capital.

- Don't incur any debt. Factoring is not a loan, and therefore no debt is incurred. This keeps your balance sheet looking good, thereby making it easier to attain other types of financing or to ultimately sell the company.

- Factoring helps build credit. Once you begin to use factoring to provide an adequate cash flow, you can begin to pay your bills on time and start to establish or improve your credit. This also improves your chances of obtaining credit terms from suppliers and improves the chances to obtain conventional financing in the future.

Factoring can be easy and fast. An application to establish a factoring relationship is much more simple than any other form of financing. No tax returns are needed; no personal financial statements, no business plan, no projections, etc. And financing usually occurs within 24 hours of receipt of contracts. How many banks do you know that operate that quickly?

Factoring will allow you to leverage off your customers' credit. You do not have to be profitable, in business or at least three years, or need to meet other assorted credit criteria required by banks and other commercial lenders. A company that has credit-worthy customers can get financing through a factor.

There are no personal guarantees needed with factor. A company's principals do not have to personally guarantee the repayment of the funding. They do have to guarantee against fraud or disputes, but not against customers' inability to pay. Banks not only require personal guarantees, they may require liens or personal assets, such as residences.

Factoring also allows you to concentrate or market to grow your business. It offers a financial and business advantage that can provide an edge over the competition.

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