



Contractor Funding Options

When Your Banker Can't Help You

Electrical contractors regularly face late payment problems from construction companies and governmental entities. While some state and local governments have attempted to remedy this problem with legislation and regulation, late payment abuses have reached epidemic proportions in the construction industry.

By Howard Chernin, vice president, Quantum Corporate Funding Inc.

There are a number of funding options available to contractors but to understand how these options work we must first explore why payment delays have become such a serious problem and why this, in part, has led banks to move away from doing business with electrical contractors.

MORE THAN 60 DAYS

Numerous articles on the subject of late payment have been written and most contractors can attest to these abuses from personal experience. While some progress is being made, there is little doubt in the minds of contractors, bankers and constructing funding finance companies that these abuses will continue and probably get even worse. As a matter of fact, in a recent article titled "Other People's Money," which appeared in *Engineering News-Record*, the average delay in contractor's payments has increased to an unbelievable 69 days.

What makes this problem even worse is that the banking industry has begun to move away from funding contractors and their projects even when they are bonded. There may be no specific

reason why banks are leaving contractors to wither on the vine, starving for needed cash inflows. But, some industry experts believe that many bankers do not approve of, or clearly understand, the concept of progress payments. In addition banks require loans to be paid on a timely and regularly scheduled basis.

COMPLEX ANSWERS

What does this late payment problem translate into for the average contractor? The answer is complex. Contractors have begun to self-finance construction projects, a risky endeavor. Contractors deplete their lines of credit with nowhere to go. Without funds contractors have difficulty paying suppliers and are forced to reduce the number of employees they have working on projects. And finally, contractors are having difficulty meeting their weekly payroll because they have not been paid for the work they've already done. Each of these problems alone can be the cause of stress, project slow downs and potentially, the loss of a contract.

Enough for the bad news, lets now look to the positive side of the industry and the opportunities

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available to meet challenges head on. To understand how funding options can assist a contractor let us examine a recent real life case.

THE REAL THING

Earlier this year, a large electrical contractor in New York City was facing a shortfall in meeting his weekly payroll. Like many contractors today, the project involved a significant number of employees working two shifts, which translated into a weekly payroll of almost a \$300,000. With his finances virtually tapped out, the contractor looked to his bank for options. His line of credit was depleted and with the long approval process required to get additional funding from his bank, he was unable to secure the needed funds. Unaware of all of his options, the contractor sought the assistance and advice of his accountant. After a brief meeting the contractor learned about several funding options and was rec-

ommended to Quantum Corporate Funding.

Quantum headquartered in New York City, a recognized national leader in the area of construction financing, arranged to meet the contractor early on a Wednesday morning. After a meeting and information exchange, Quantum was able to provide the contractor with the \$300,000 he needed two days later.

FACTORING RESULTS

How was Quantum able to provide these funds and how could they provide them to the contractor in less than three days? These are very important questions and the answer is simple, factoring. Factoring, while not a new concept, is now being applied to industries and business models that were once considered too large or too risky.

Factoring, when it is examined closely, allows a company or con-

tractor to secure funds based on accounts receivable. As a matter of fact, funds provided through factoring are not considered a loan at all, and because of this, funds can be secured quickly without having to deal with an inordinate amount of red tape.

ASSET-BASED LENDING

In addition to factoring, other options exist for contractors in need of cash. Asset-based lending is another program provided by funding companies like Quantum, in which contractors both bonded and non-bonded, can receive loans based on assets including real estate, accounts receivable, and machinery and equipment.

Funding options do not end with factoring and asset-based lending. Some of the nation's leading construction finance companies offer new and unique approaches to meeting contractor's funding requirements for payroll and material purchases.

BONDED IS BETTER

For example, Quantum Corporate Funding offers a program where bonded contractors can receive more than 95 percent of funds required for the purchase of building materials. Funding companies can also provide bonded contractors more than 100 percent of payroll requirements. Each of these services charges a reasonable rate.

With these options, the stress and problems associated with meeting financial obligations can be significantly reduced or eliminated. Contractors can rely on funding companies with available resources and fool-proof methods of lending to provide the extra dollars needed to complete projects. Having access to these funds also frees up contractor's resources to find new business opportunities or bid on new construction projects.

Funding companies also have fewer constraints than banks and offer flexibility that other lenders cannot.

Lastly, in a marketplace where bankers and their institutions are becoming more difficult to find, funding companies such as Quantum are providing needed resources and personalized creative service options. For more information, contact Quantum Corporate Funding Ltd. at www.quantumfunding.com.

Editor's Note: This article has been provided by Howard Chernin, senior vice president of Quantum Corporate Funding Ltd. Chernin is an authority in the field of factoring, asset-based lending and construction financing. He has been senior vice president with Quantum since joining the firm in 1993.



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