



Factoring Account Receivables

Factoring account receivables is when a third party exchanges cash for a business' uncollected invoices. The third party (called a factor) pays a percentage of the invoice's face value up-front, allowing the business owner to spend the money rather than wait for it.

Factoring account receivables is a relatively simple process of financing with relatively easy qualifications. It can often be arranged in days rather than weeks, increasing the flexibility and opportunity of the small business. Collecting on the invoice can be handled in a number of different ways depending on the needs of the business and the terms and conditions of the factor.

There is recourse factoring or non-recourse factoring. In recourse factoring the seller buys back the account if it has not been paid in 90 days. Non-recourse factoring occurs when the factor takes the full risk on the account. This type of deal usually costs more, and the buying companies may often seek low-risk accounts. There is also confidential (or invoice) factoring, where the small business collects on the invoice and pays the factor.

One additional benefit of factoring account receivables is that it usually puts significantly less emphasis on the individual's personal assets and credit history. Since the account receivable is the asset used for the financing, even individuals with very low credit scores might be able to take advantage of factoring account receivables.

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