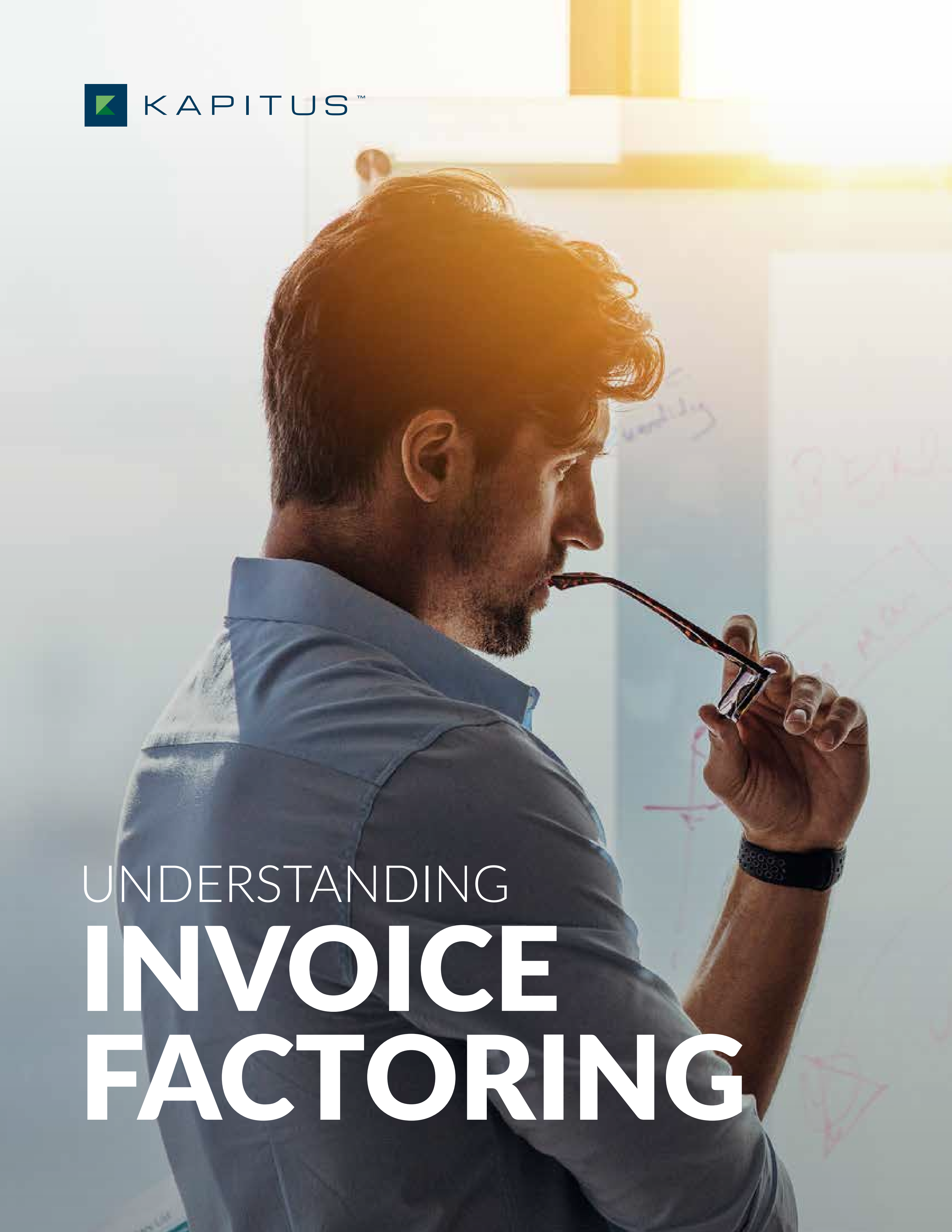
KAPITUS™



UNDERSTANDING INVOICE FACTORING

A METHOD OF BUSINESS FINANCING THAT WORKS DIFFERENTLY FROM THE USUAL OPTIONS.

If your business needs to get quick access to cash that won't add liabilities to your balance sheet, and if you're open to using a method of business financing that works differently from the usual options, then invoice factoring might be the right solution for you.

Unlike other financing options, factoring doesn't require you to make monthly loan payments or take on debt. And if you have the right qualifications for this method of financing, you might be able to get access to cash within 1-2 weeks.

Learn more about how invoice factoring can help your business!

WHAT IS INVOICE FACTORING?

Invoice factoring, also known as receivables financing or "factoring," is a way for businesses to convert their outstanding invoices into quick cash. If your business has accounts receivable, instead of waiting for your clients to pay (which might take 60-90 days depending on your payment terms), you can work with a factoring company or "factor" to get paid faster.

This method of financing is unique because, unlike other types of business financing where the business owner has to borrow money or sign up for a line of credit, factoring does not involve debt. Working with a factor does not require you to borrow money or make any monthly payments; instead, you essentially give your customers' unpaid invoices to a factor in exchange for an immediate cash payment – and then the factor is responsible for collecting payment from your customers.

Instead of collecting 100% of the amount that your customers owe, you agree to receive a smaller percentage of that total face value of the invoices from the factor – but you get paid immediately. This makes invoice factoring an ideal option, depending on your business needs, to boost cash flow or make up for cash flow shortfalls.

HOW IS INVOICE FACTORING DIFFERENT FROM A LOAN?

Factoring is a unique financing option because it is not the same as a loan, it is more like getting a "cash advance" from your own receivables.

Choosing to work with a factor does not require you to take on any additional debt or add to your available credit limits. Instead of borrowing money, you are essentially "loaning" your unpaid receivables to a factor, who gives you cash in advance, and then collects payment from your customers. Instead of taking on more debt for your business, factoring is a form of selling short-term debt to a 3rd party (the factor) for a large percentage of the face value of the debt.

Waiting to get paid by customers can be stressful for small business owners. Factoring lets you convert those unpaid debts into a quick influx of cash.

HOW MUCH CAN I BORROW WITH INVOICE FACTORING?

The exact amount of cash that you can qualify to receive depends on the amount of your invoices, the creditworthiness of your customers, and other specific details of your invoices.

However, factoring companies will generally be flexible in how much money they will advance to you, ranging from $20,000 to more than $1 million, depending on the size of your invoices.

Remember: this type of financing does not depend on your credit score or your eligibility to borrow; it all depends on how much money your customers owe to you, and how creditworthy your customers are. The amount of money you can finance depends mainly on the amount of your invoices, and other qualifying details.

PROS OF INVOICE FACTORING

There are a few advantages to this type of business financing, including:

- **No Collateral Requirement**

- **Quick Access to Cash** - If your invoices are found to be good quality, with creditworthy customers, you will often receive your cash within 1-2 weeks of applying. Instead of waiting 30-90 days to get paid by your customers, you can get cash faster.

- **No Need for Debt** - applying for invoice factoring does not require a credit check for your business, and you don't need to take out a loan or make monthly payments. Instead of borrowing money, this form of financing involves you agreeing to accept less than 100% of the expected value of your customers' invoices.

- **Flexible Options**- You can choose which invoices to factor, you can choose how often you want to use this financing option, and there are no long-term contracts or commitments.

- **Low Fees** - Traditionally, factoring was often thought of as a higher-priced option, but in recent years, fees have decreased significantly – and are now as low as 1.5%. (Fees will vary depending on the credit quality of your customers.)

CONS OF INVOICE FACTORING

This might not be the right financing solution for every situation. Pay attention to some of the possible disadvantages:

- **Complex Fees**
  Make sure you understand the full picture of the factor's fees. Ask if there are any upfront fees or processing fees. Ask if there are weekly fees or if it matters how quickly your customers pay their invoices; some factors might charge a weekly fee that can add up to a significant percentage of the total invoice amount. Depending on your overall cash flow and credit situation, it might be better for your business to borrow money or get a business line of credit than to work with a factor.

- **Confusion Over Who "Owns" the Debt**
  Some factors take over "ownership" of your customer's debt, meaning the factor will take over the responsibility for reminding the customer to pay their bill, and will possibly engage in collections actions if the customer does not pay on time. If you do not want your customers to be contacted by a 3rd party in this manner, make sure to clarify upfront with the factor as to who really "owns" the debt.

- **Communications Issues with Your Customers**
  If a factor is going to take over ownership and collection responsibilities for your customers' debt, you might want to communicate with your customers ahead of time to make sure they are aware of the change and to alert them to the possibility that they might get contacted by a factor. This should not be a major difficulty for your customers, but proactive communication will help to make it easier. Give them advance notice and help adjust any payment processes if necessary.

WHEN SHOULD I USE INVOICE FACTORING?

There are a few situations where this financing option might be a good solution for your business, such as:

- Resellers
- When you have a short-term cash flow shortfall
- If you do not want to take on more debt
- Times of recurring cash flow issues and you want a different option other than loans or a line of credit

WHAT IS REQUIRED TO GET INVOICE FACTORING?

To apply to work with a factor, you will need to prepare a few items:

Accounts Receivable /Payable Aging Report

Articles of Incorporation or Partnership Agreement for Your Business

Your Personal or Corporate Tax Return

Your Personal or Corporate Financial Statement

Also be prepared to check the credit of your commercial clients; your clients' creditworthiness is an important element of your application for invoice factoring and their credit must be in good standing.

HOW QUICKLY CAN I GET INVOICE FACTORING?

The application and underwriting processes will generally take between 5-10 days, and once you are approved, your cash will usually be provided within 24-48 hours. So a total of 1-2 weeks!

WHAT ARE THE TERMS OF INVOICE FACTORING?

Specific terms will depend on your customers' creditworthiness, the amount of invoices factored, the payment terms of your invoices, and other conditions; but in general, here is how factoring works:

1. You give the factor an invoice from one of your customers for a certain amount of money. For example, let's say that your customer owes you $100,000 and the invoice is payable within 60 days.

2. The factor will agree to advance you a certain percentage of the face value of that invoice. If your customer has good credit, the factor might advance you as much as 90% of the invoice amount, or $90,000. Now, instead of waiting 60 days to get paid $100,000, you have an immediate cash influx of $90,000.

3. The factor will hold the remaining $10,000 invoice amount in reserve.

4. When your customer pays their invoice for $100,000, the factor is now paid in full and will give you the remaining $10,000 reserve amount, minus the fees agreed upon in your contract with the factor.

5. For example, if your deal called for a 4% fee, the factor would subtract 4% (of the total invoice amount of $100,000, or $4,000) from the $10,000 reserve amount. This is the factor's fee that they receive as compensation for advancing you the money.
6. The factor will then give you the remaining amount of money – in this case, $6,000.
7. You have now received $96,000 out of the total $100,000 amount on the invoice – but you got most of that cash in advance, without having to wait 60 days (or more) to get paid by your customer.

NOTE: These terms and fees are only an example; the exact terms and fees will vary depending on your financial situation, your customers' creditworthiness, your invoice amount and payment terms, and what kind of deal a factor is willing to offer to you.

WHAT IS THE APR WITH INVOICE FACTORING?

The costs of factoring do not work in the same way as taking out a loan, because it is not the same as borrowing money. Instead, you pay a fee to the factor depending on the amount of money financed and other conditions.

HOW MUCH DOES INVOICE FACTORING COST?

Factoring fees have decreased significantly in recent years, to as low as 1.5% depending on invoice amounts and customer credit quality.

However, make sure you understand the full implications of signing up with a factor: make sure you understand the full range of fees, including any processing fees or weekly fees. Not every factor charges the same fees and some offer better deals than others, so be sure to shop around to find the right partner for you and your business.

HOW DO I KNOW IF INVOICE FACTORING IS RIGHT FOR ME?

If you have some customers who are reputable customers with good credit, but who are sometimes slow to pay their bills, or if you have 60-90 day payment terms with some of these customers, working with a factor might be a good solution to help you get quick cash when you need it, without waiting for payments to arrive.

This type of financing is often a good fit for companies with B2B (business-to-business) client relationships, especially when those clients are established companies with a strong history of making payments. If your customer base is mostly small businesses or startups with less-established credit history, working with a factor might not be a good option for you. Factors typically want to work with invoices payable by financially strong, creditworthy companies.

Check out the Kapitus Product Comparison Chart to evaluate your financing options and decide which type of financing is the right fit for your needs – whether it's factoring or a business loan, line of credit, or other solutions.

HOW DO I CHOOSE AN INVOICE FACTORING PROVIDER?

In general, you should look for a factor that offers:

- **Financial Strength** - Factors need to have financial strength to provide adequate financing to meet your needs. Many of these companies will share their total volume of financing provided, or will share other details to prove that they have the money to meet your needs.

- **Experience in the Business** - Look for a factor that has an established track record of providing financing to businesses like yours.

- **Knowledge of Your Industry** - Sometimes it helps to work with a factor that has specific industry expertise to understand the unique aspects of getting paid by your customer (although this is not always necessary).

- **Great Customer Reviews** - Hopefully your factor can be an on-going partner for your business. Check for previous customer reviews to make sure they have a good track record of client satisfaction.

THE BOTTOM LINE

Invoice factoring can be an ideal option to get cash on a short-term basis. Unlike other forms of financing, working with a factor does not require you to take on debt or sign up for ongoing monthly payments. Instead, it lets you use your unpaid invoices as a form of collateral to get an immediate "cash advance" in exchange for a percentage of the total invoice amount. This financing option can be flexible and fast, however it also requires you to understand the full picture of any fees and also be prepared to communicate with your customers if necessary to avoid confusion about payments and who owns the customer's debt.

About Kapitus

Founded in 2006 and headquartered in NYC, Kapitus is one of the most reliable and respected names in small business financing. As both a direct lender and a marketplace built with a trusted network of lending partners, Kapitus is able to provide small businesses the financing they need, when and how it is needed. With one application business owners can save time and money, while eliminating the stress that comes with applying to different lenders. At Kapitus, we believe that business owners should be able to focus on running their business, while we take care of the financing. To learn more, visit www.kapitus.com.

KAPITUS™

120 West 45th Street
New York, NY 10036

O. 212-354-1400
F. 212-354-1544

isopartners@kapitus.com
www.kapitus.com