

# 5 Tips to Choose the Factoring Company that Works for You



# introduction

Do your homework when searching for a factoring company; never settle for the first factoring company you see in a Google search or an online article.

Finding the right factoring company for your business requires diligence, but it's time well spent, and it can save you a lot of headaches and trouble. As you'll see in this article, a variety of factors such as customer service, factoring costs, and contract terms will influence your decision.



## Tip no. 1

# Find good customer service

Accounts receivable factoring is a service as much as it is a financing tool, so you need to make sure you find a factoring company that offers good customer service.

Gauge the attitude, helpfulness and transparency of the factoring company representative. When talking to the company rep, ask yourself the following questions:

Is the sales person really interested in my business?

Can he or she answer my questions knowledgeably and clearly? Will I get a designated account manager to handle my invoices?



Jot down your initial impressions about the company during your conversation. Later, you can review your notes if you can't clearly remember the discussion.

## Tip no. 2

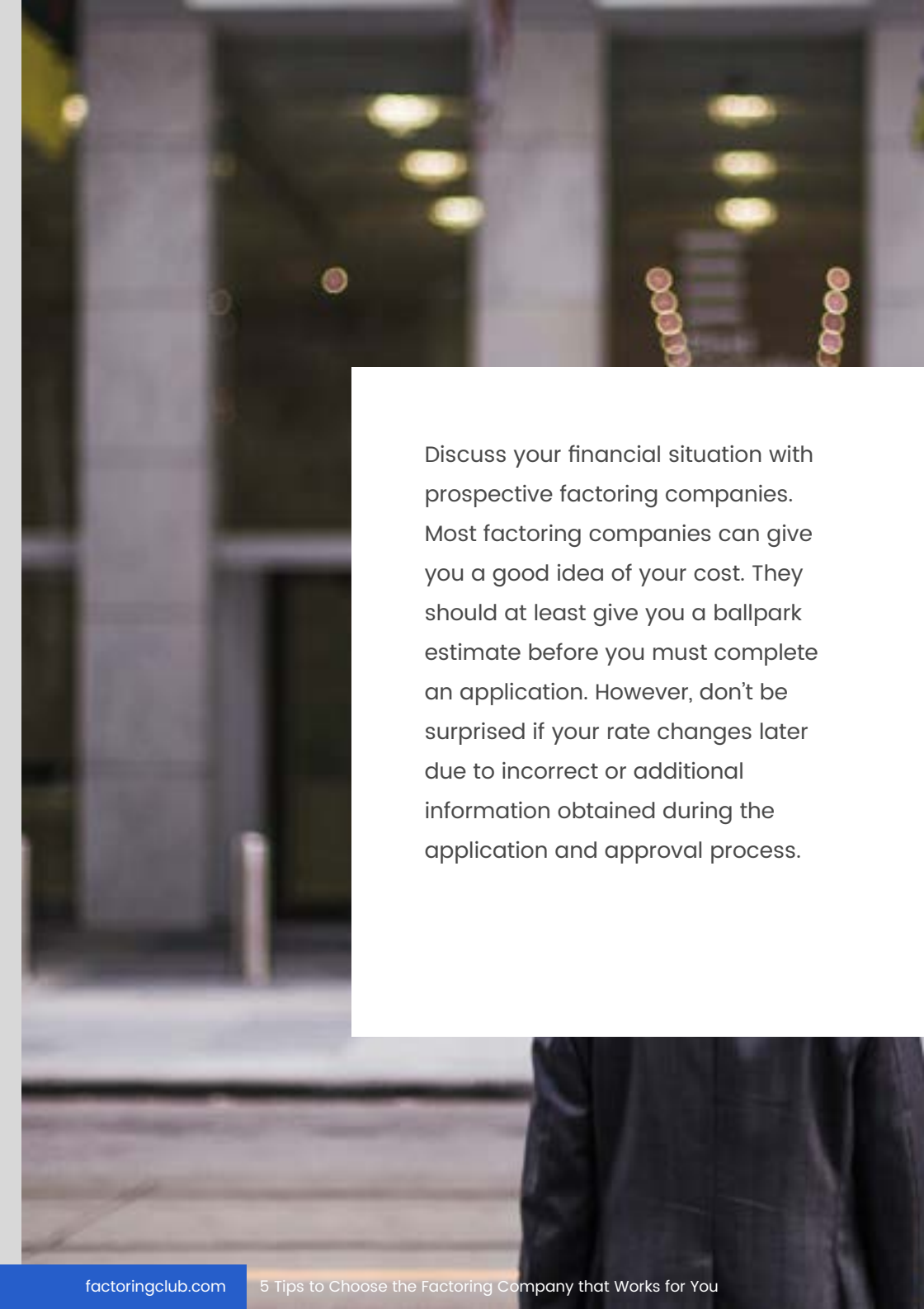
# Focus on factoring rates

Don't let anyone fool you - invoice factoring is expensive, and factoring costs significantly impact your bottom line.



The difference in a single percentage point can translate into thousands of dollars cost per year. Factoring companies should give you a rough estimate of your cost based on the following criteria:

- Amount of invoice factoring volume each month.
- Number and complexity of invoices you factor each month.
- Number of days it takes to collect your accounts receivables.



Discuss your financial situation with prospective factoring companies. Most factoring companies can give you a good idea of your cost. They should at least give you a ballpark estimate before you must complete an application. However, don't be surprised if your rate changes later due to incorrect or additional information obtained during the application and approval process.

# Factoring rate structures

Some factoring companies calculate factoring costs on a monthly, weekly or even daily basis. Others charge a flat one-time fee, no matter the number of collection days outstanding. Flat fees are usually best if your invoices are outstanding for a relatively long period of time. Weekly or daily rates get increasingly expensive as your collections days increase.

Compare these factoring scenarios with an invoice amount of \$100,000 and collections days of 60 days.

\* The factoring rates should be transparent and easy to understand. Rates are usually negotiable so don't be afraid to ask for a lower rate.

Rate Type	Rate	Cost	Best Used for
Flat Rate	4.5% flat rate	\$4500	Flat rates are best used when your collections days are high.
Adjustable rate (not pro-rated)	0.7% per week	\$6300	Adjustable rates are best used when your collections days are low.
Adjustable rate (pro-rated daily)	0.7% per week	\$6000	Pro-rated rates are the best type of adjustable rates because you only pay for actual collection days.

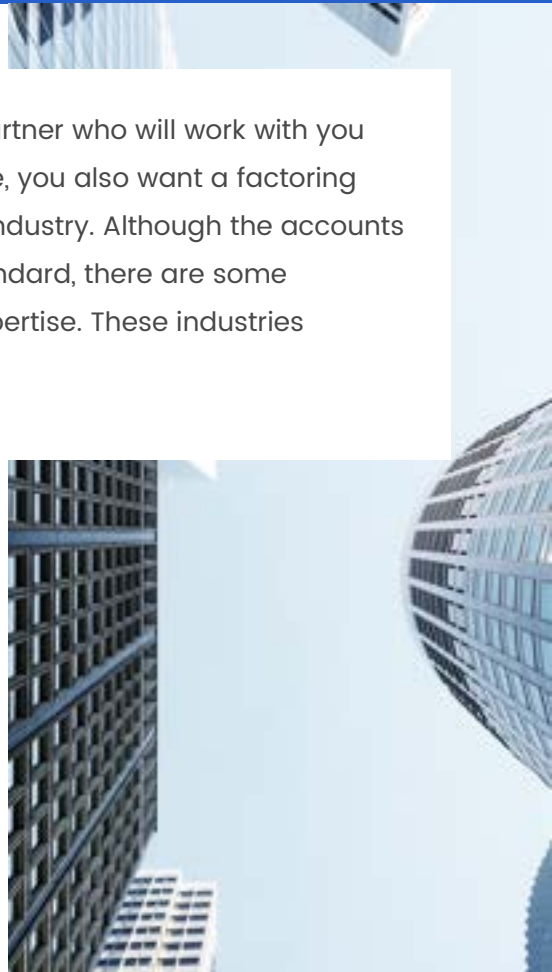
## Tip no. 3

# Look in your industry and location

In addition to finding a factoring partner who will work with you and provide good customer service, you also want a factoring company that's familiar with your industry. Although the accounts receivable financing process is standard, there are some industries that require factoring expertise. These industries include:

- Construction
- Healthcare
- Government
- Trucking

If you operate in one of these industries, then find a factoring company with experience in your industry.







## Local factoring companies

You may want to work with a factoring company in your area. Most states and major cities are home to multiple factoring companies. FactoringClub makes the search process very simple and quick.

With an online directory of more than 100 factoring companies, you can quickly find a factoring company in your industry and city or state. For example, if your business is in Texas, you can quickly search and find all the factoring companies in Texas, as well as Austin, Dallas, Fort Worth and Houston.

## Tip no. 4

# Examine contract terms and conditions

## 1. Contract length and cancellation fees

All factoring companies have contract terms regarding term length, termination and cancellation fees. Some factoring companies only require 30 days' notice with "month-to-month" contracts, while others require a year or more contract terms. Avoid long-term contracts requiring more than one year's term. Check the cancellation fee policy to make sure you don't get stuck with hefty fees and costs should you need to cancel the contract. You may be able to negotiate terms.

## 2. Monthly minimum fees

Ask the factoring company if they require a monthly factoring minimum. Some factoring companies charge a fee if you don't meet a minimum invoice amount each month. This is especially common if you negotiated a low factoring rate based on an expected volume; otherwise, you should avoid monthly minimum fees, especially if your sales are seasonal or sporadic.



## 3. Personal Guarantee

A personal guarantee gives the factoring company the right to pursue your personal belongings if you default on your financial obligations under the factoring agreement. Often, factoring companies like you to have some “skin in the game” so it’s a common practice. As with any contract, you should consult your attorney if you have any questions or concerns.

## Tip no. 5

# Consider using a factoring broker

Factoring brokers help businesses find a factoring company. Brokers know the invoice factoring business and match business that need factoring to a factoring company. Their services are usually free to the business seeking factoring services. They get paid a referral fee from the factoring company to whom they send the referral.

Factoring brokers typically work with only a few factoring companies. A broker that refers many deals to the same factoring company is very similar to an outside sales representative.

FactoringClub provides factoring broker services in addition to its online directory. With over 100 factoring companies, FactoringClub has the largest network of factoring companies available in the United States and Canada. We have referral agreements with all our sponsor factoring companies and we're familiar with their standard terms, industries served, and financial requirements.



## About Factoring Club

FactoringClub is the premier source of information for invoice factoring companies in the United States and Canada. Search over 100 factoring company listings at **[factoringclub.com](https://www.factoringclub.com)** or call our factoring experts at **(866) 748-7111**.