

INVOICE DISCOUNTING AND FACTORING

The discounting and factoring process can be broken up into two parts—the initial account setup and ongoing funding. Setting up a factoring account typically takes one to two weeks and involves submitting an application, a list of clients, an accounts receivable ageing report and a sample invoice. The approval process involves detailed underwriting, during which time the factoring company can ask for additional documents, such as: documents of incorporation, financials, banks statements, etc. If approved, the business will be setup with a maximum credit line from which they can draw from.

In the case of notification factoring, the arrangement is not confidential and approval is contingent upon successful notification; a process by which factoring companies send the business's client or account debtor a Notice of Assignment. The Notice of Assignment serves to: (1) inform debtors that a factoring company is managing all of the business's receivables, (2) stake a claim on the financial rights for the receivables factored, and (3) update the payment address – usually a bank lock box. Once the account is set up, the business is ready to start funding invoices.

Invoices are still approved on an individual basis, but most invoices can be funded in a business day or two, as long as they meet the factor's criteria. Receivables are funded in two part. The first part is the "advance" and covers 80% to 85% of the invoice value. This is deposited directly to the business's bank account. The remaining 15% to 20% is rebated, less the factoring fees, as soon as the invoice is paid in full to the factoring company.