

# Cash-flow facilitators

## Factors buy accounts and collect, for a fee

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STAFF WRITER

American Wholesale Service of North Arlington, which delivers groceries to about 150 group homes for those with disabilities in the New York metropolitan area, is one of the rare small businesses creating jobs in New Jersey, despite the slow economic recovery.

Partners Kirk Snevily of Bedminster, a former Navy officer, and Ian Kansky of Marlboro, an ex-bond broker, have added about a dozen workers the past few years while increasing more than tenfold the number of group homes they serve since they bought the business in 2006. Their goal is to add 50 more homes in the metropolitan area this year. But they have been unable to get enough bank financing to fund the expansion because of a lack of collateral. So they've had to turn to a high-cost alternative called factoring, which involves selling their customers' IOUs.

The distributor sells accounts receivable to a non-bank lender in Fort Lee, Prestige Capital Corp., which initially pays the company 75 percent of the face value of the receivables and pays the rest, minus a fee, later after the customer pays. Factoring gives the company the ability to front more cash to buy groceries for new



KEVIN R. WEXLER/ STAFF PHOTOGRAPHER

American Wholesale Service relies on a factor service to collect from its customers.

customers that rely on government funding and often take two or three months to pay, Snevily said.

"Cash flow was a nightmare, so factoring has been a saving grace for us," Snevily said.

Fees range from about 2.5 percent of the receivables for 30-day advances to 3.5 percent for longer periods, Snevily said. On an annualized basis, the cost would be more than the highest-priced credit cards, but Snevily says it makes sense, at least for

now. Ultimately, the goal is to retain enough earnings to eliminate the need to sell receivables, he said.

"Banks' reluctance to lend has been to our benefit," said Stuart Rosenthal, executive vice president of Prestige Capital. "In 2010, we closed 39 transactions and roughly half of them were referred by banks that said no to the clients," Rosenthal said.

That was up from 33 transactions in 2009, and this year Prestige Capital says it has 45 transactions. See **FACTOR** Page L-8

### How it works

■ A factor is a third party that buys a firm's accounts receivable at a discount.

■ This gives the firm immediate access to working capital to address a cash-flow problem.

■ The factor assumes the credit risk.

Source: Farlex Financial Dictionary

## Factor: Help with cash flow

From Page L-7

Prestige Capital's factoring volume is running at about the same pace as 2010, according to Rosenthal, a former sales manager for CIT Group Inc., the country's largest factor finance provider, which recently reported a 4 percent increase in its second-quarter U.S. factoring volume.

"If we weren't able to factor, we

wouldn't be able to grow like we have," Snevily said.

Tom Hall of Kearny, a former security guard, is a beneficiary of the expansion. He was hired by American Wholesale Service in December after being out of work for a year. His last employer, a small security company, had gone out of business.

"I was happy just to get a job.

and it ended up being a good job," Hall said while making a recent delivery to Potomac Homes, a group home for Alzheimer's and dementia patients in Paramus.

"They take care of us," he said of his employers. "The work itself is rewarding."

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