SMALL BUSINESS SOLUTIONS

What Are Your Commercial Financing Options?

>>>*Small businesses have alternative avenues to take when obtaining loans.*

By Harvey Kaminski

In large measure, many banks are not to blame for the obstacles small business owners face in obtaining loans. Rather, government regulators review bank lending practices, and, therefore, standards have tightened in recent years. There are, however, several commercial finance alternatives for business owners and entrepreneurs. These traditionally consist of factoring, purchase order financing and asset-based lending.

So-called "factors" purchase the legal right to invoices generated by the business by advancing a significant percentage of funds when an invoice is created. This injection of working capital results in improved cash flow for ongoing needs. Debtors make payment directly to the factor. The difference between the total amount of the invoice paid, less the funds originally advanced, plus a fee paid to the factor, are remitted to the business owner. Factors will consider monthly invoice volume of between $5,000 and many millions of dollars per month.

Purchase order (PO) financing is another alternative that works hand-in-hand with factoring. The PO firm advances funds based on a purchase order from a business's debtor (customer), and relies on the inventory as collateral, along with the assurance that a factor will be in place to pay off their funding when the product is shipped (invoice created). The PO firm often guarantees payment to the company's vendor via a "letter of credit" upon delivery of goods.

The funds provided by the PO firm can only be used to purchase the inventory associated with the specific purchase order. Generally, a small business selling to retailers, or selling "finished goods" to end-user entities (with a minimum 30 percent profit), can benefit from purchase order financing. In the retail industry, terms may run from 30-120 days, which may dramatically impact cash flow. Purchase order funding ranges between $50,000 and $5 million; in some cases higher.

In asset-based lending, the lender establishes a valuation on receivables, inventory, machinery and equipment, real estate and other assets of the business. The valuation is traditionally established through the use of appraisals and collateral examinations. Funds are provided at a percentage of this valuation and the lender files a Uniform Commercial Code (UCC) form to protect their position in the assets. If the business owner fails to pay the lender based upon the negotiated contractual terms, the lender can liquidate the assets to recover what they are owed. Asset-based lending transactions range from $50,000 up to hundreds of millions of dollars.

According to the Commercial Finance Association, asset-based loans "outstanding" stood at $66.1 billion in 2010. Borrowers from the Northeast and Southeast regional markets represented 50 percent of this volume. Factoring activity for 2010 was $74.3 billion. The Northeast region alone accounted for 43 percent of this volume.

The Commercial Finance Association or the International Factoring Association, both established industry peer review organizations, have members who subscribe to ethical business practices and high-quality standards. NJB

About the Author.

Harvey Kaminski, president and CEO of Prestige Capital Corporation, Fort Lee, is an attorney who often writes and speaks about commercial finance for trade and business organizations.