

What is Invoice Factoring?

Invoice factoring is a type of business financing which involves the sale of a company's accounts receivables, at a discount, to Sterling Commercial Credit (SCC). SCC takes on the credit risk of a company's debtors and will be paid back when the debtors pays the full amount of the invoice.

Who is involved?

There are usually three parties involved in a receivable financing transaction:

- The Company that issued the invoice (Client)
 - The Customer who owes payment on the invoice (Debtor)
 - The financing company who can supply the cash, often referred to as the factor (SCC)
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Benefits from Invoice Factoring

- Improves cashflow, often within 24-48 hours of invoice date
 - Reduces time and resources spent collecting accounts receivable
 - Enables payment to suppliers quicker, taking advantage of early pay discounts
 - Allows companies to meet payment deadlines, such as payroll and fulfill new orders
 - Pre-screened credit limits for new customers
 - Offer better terms to large customers to help increase sales
 - Improves company credit rating
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Factoring in 5 Simple Steps:

1. You perform a service for your customer.
2. You send your invoice to a factoring company.
3. You receive a cash advance on your invoice from the factoring company.
4. The factoring company collects full payment from your customer.
5. The factoring company pays you the reserve, the discount fee.



How does Invoice Factoring work?

Debtor owes Client \$1,000



Client generates invoice for \$1,000



SCC verifies invoice



SCC advances 80% of invoice total



Payment received to SCC



SCC posts the \$1,000 payment

1. Debtor owes Client for shipping parts from Detroit, MI to Chicago, IL on 06/01

2. Client decides to improve their cashflow by FACTORING the invoice with SCC.

3. SCC verifies the service was performed via phone or email with Debtor. SCC confirms payment will be made 07/15 or net 45-day terms.

4. SCC advances (\$800) to Client's bank on 06/02.

5. Payment received directly to SCC's lockbox from Debtor on 07/15.

6. SCC posts \$1,000 payment

- SCC pays back the \$800 advance
- SCC collects a fee of 1% every ten days, \$40 in example
- SCC advances the balance of \$160 to Client on 07/18