

What is Factoring? Alternative Financing for Small Businesses

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With lending restrictions still tight, many business owners in the Inland Empire remain unable to qualify for traditional bank loans. They may lack collateral, or they may not have the documentation required by the bank in order to show profitability. To generate the capital they need, those businesses are increasingly looking to alternative financing providers instead.



According to the New York Times, alternative financing lenders generally approve over 60% of applicants; however, one of the most popular alternative financing methods being utilized by small business owners is not lending-based at all. That method is factoring.

Factoring is a means of alternative financing that can immediately provide cash flow for a company to expand or maintain their current operations. Instead of lending money to business owners, factoring companies provide businesses with working capital by purchasing their outstanding invoices.

According to alternative financing expert Don D'Ambrosio, a factoring company will buy these accounts in bulk for less than the amount of each invoice – thereby giving the business owner much-needed cash without the burden of financing charges. His firm, Oxygen Funding, can typically advance up to 80 percent of an invoice.

D'Ambrosio offers a specific example. "Take a company who is expecting a \$10,000 invoice to come in 30 days later," he said. "We give the business \$8,000 for that account." Once the account is paid off by the debtor, the business pays a marginal 2 to 4 percent fee.

Unlike the factoring companies in large urban centers that only purchase six-figure invoices, Oxygen Funding specializes in working with local businesses that need smaller amounts of capital. "Many of our clients fit into the category of small to mid-sized businesses that are in a growth mode, but do not qualify for a traditional bank loan," D'Ambrosio said. "Usually, the client has been in business for an insufficient amount of time or they do not have enough collateral to secure a loan."

He points out that factoring may also be a good option for businesses that qualify for small loans where the amount is insufficient to meet their cash flow needs. Factoring can supplement the loan so that all the necessary capital can be quickly acquired. "We feel that if we can help our clients grow to the point where they can raise additional capital, then we have fulfilled a much needed void," D'Ambrosio said. "Remember, it's not just about the money."

If you are a business owner in need of capital for your operating expenses, factoring may be a great solution. Call Don D'Ambrosio at (800) 790-3419 for more information.

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