BY DON D'AMBROSIO

The New Funding Supply and Demand

Over the last several years, it seems that competition among factoring companies has increased dramatically. The supply and demand between invoice factoring companies and qualified prospects has tipped to the point where too many funders are chasing too few deals. Just look around at some of the social media boards where a broker posts a potential lead and ten different factoring companies respond to it. Economics 101 teaches us that a perfectly competitive market structure is one where there are many buyers and sellers, homogeneous products, and relatively free entry and exit in the marketplace. I will be the first to go on record to say that I believe that competition is the cornerstone of our economy, which makes us the great country for others to follow.

Unfortunately, when competition is fierce in a particular industry, what may be good on one side of the equation may not be beneficial on the other. For example, let's travel back just a few short years ago to the mortgage crisis that crippled our economy and created a global financial meltdown, the likes of which we have not seen since the great depression of the 1930's. This was a classic example where well capitalized lenders with cheap funds created a demand for borrowers looking for new mortgages, either through new purchases or refinances. As the number of lenders increased, so did the demand for mortgages, which led banks and mortgage lenders to loosen their underwriting guidelines by originating loans to people with less than perfect credit. Many of these loans became foreclosures and underwater mortgages, which led to the great recession of 2008. This is not to suggest we are not in an asset based bubble; however, the comparison is that we are now seeing many new factors and asset based lenders entering the marketplace, competing for qualified prospects. You'll hear terms like .50% fee, 100% advance rates, and no verification required. As a former numbers geek, I can tell you that many of these too good to be true deals are usually just that. Usually, there are hidden costs, teaser rates, and other junk fees that are buried in the agreement. I can tell you from personal experience, where we've had competitors call our clients inquiring about our rates and advances, and then offer them a cheaper discount rate or higher advance. Fortunately for us, our clients realize that value is more than just having the lowest price. I'm sure that many of my colleagues will agree that a superior invoice factoring company is one that values the client, understands their business model, and finds solutions to meet their cash flow needs. In other words, not all factors put their clients in a one size fits all program.

Although factoring companies are getting more aggressive in trying to find new deals, I believe there are many good reasons why this industry will continue to thrive for years to come. First, and most importantly, factors and asset based lenders conduct business with other businesses. Unlike a mortgage or credit card, it is not a consumer driven market. Experience has taught us that, before we fund any new client , there is a cause and effect discussion. Most often, the business has a need for cash flow for the purpose of expanding their operations. In order to increase sales, they will utilize the services of a factoring company and receive immediate cash for their invoices. If the client has a sufficient profit margin to absorb the cost of factoring and increase their sales by accelerating their cash flow, the concept works. Many people who are unfamiliar with invoice factoring often assume that our clients are on the lowest end of the credit spectrum and utilize factors as a last resort for their failing business.

While factoring can help problem businesses, it is a primary source of financing for many new and rapidly growing businesses. For example, we had a client several years ago that

Don D'Ambrosio is the president of Oxygen Funding, Inc., an invoice factoring company located in Lake Forest, California. Don has over 25 years experience working in the commercial and residential finance industries. He previously served as Controller of a commercial insurance agency and as Chief Financial Officer of a publicly traded mortgage company. He can be reached by phone at 949-305-9300 or by email at don.dambrosio@oxygenfunding.com.

worked in the tech industry for a large Silicon Valley firm. He ventured out on his own and was quite successful in getting new contracts with household name account debtors. Since he had only been in business for a few months, the bank would not consider financing his new operation. The bank considered him a high risk, not because he had bad credit or any derogatory issues; it was just that he had no real history with his new company and insufficient collateral to back a loan. Our advantage was that we were able to get past his company file and concentrate on the clients he was doing business with. The contracts, purchase orders, and invoices were properly verified, which allowed us to set up a factoring line of credit that enabled his business to hire more employees and take on some larger clients, which took his company to another level of profitability. To this day, we have funded several million dollars with this small business startup and consider him one of our true factoring success stories.

However, before the first funding, before the due diligence or even the application, it started with a meeting. From there, a mutually beneficial relationship was formed, and the rest is history. When a factoring company starts doing business with a new client, it is a constantly evolving relationship. In other financing industries, it's basically a one and done type situation. When a mortgage company closes a loan, they are on to the next deal. The same is usually true in any other type of financing arrangement. Invoice factoring is different. Unlike traditional loans, factoring companies are constantly interacting with their clients. Whether it's funding a new invoice, rebating receipts or adjusting escrow accounts, there will always be activity between the client and factor. The client may add new customers to fund, their financial condition may change or they may require some additional type of financing. A good factor will continually monitor all aspects of the client and the account debtors, not just for their own protection, but for all parties involved in the factoring transactions. Yes, the asset-based lending market will experience the compression of margins brought on by a new array of lenders. However, the strongest will survive not just by offering the cheapest deals, but providing the best values for their clients. •

FactorFox®

FactorFox Cirrus Is Here!

Cloud-Based Software for Factors and Their Clients

Cirrus Includes:

- Sleek new interface
- *Numerous* new features
- Upgrade included with subscription - no extra $

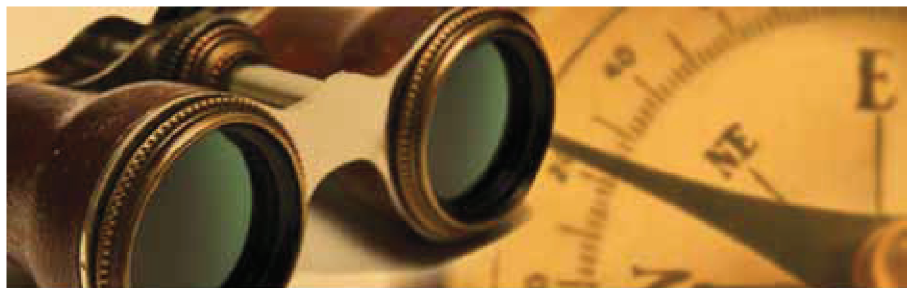
COMPLETELY WEB-BASED:
- Nothing to install - just log in and start
- Accessible from any computer with web access
- You give staff, clients, brokers, lenders log in privileges
- Web-native - nothing to upload to the net

SAVE TIME:
- 24/7 online schedule entry by factor or clients
- 24/7 online reports for factor, clients, brokers, others
- Exporting to QuickBooks included

SAVE MONEY:
- Affordable for any size factor
- Free online training
- No charge for web access, upgrades, document sharing
- No charge for support via ticketing system & online chat
- Recurring payments via credit card; no checks to send

FREE TRIAL & GUARANTEE:
- Free live demos
- Free 30-day trial of full data base - 90 days for IFA members!
- No-risk guarantee

www.FactorFox.com
866 432 2409



VENDOR LOCATOR SERVICE
OFFERED BY THE IFA

The IFA's Vendor Locator Service lists vendors of interest to the Receivable Finance & Factoring industries, including attorneys, UCC search firms, funding sources, and many more.

The Vendor area is searchable by:
CATEGORY
STATE/PROVINCE
COUNTRY
KEYWORD

In addition to providing a list of qualified Vendors, you will also see IFA Preferred Vendors. These Vendors offer discounts or superior services to IFA members.

INTERNATIONAL FACTORING ASSOCIATION
VISIT - WWW.FACTORING.ORG - AND CLICK ON VENDOR SERVICES PAGE
For more information call us at : 800-563-1895 or 805-773-0011