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Uncertain Economy Creates Factoring Deal Flow Opportunities



By Joseph F. Ingrassia

If you're still wondering if there is room for factoring in your business model today, you may just be asking the wrong questions.

The financial crisis brought massive change to the financial services industry that created both challenges and opportunities for us all.

Pre-financial crisis, you may recall how easy it was to get a transaction funded whether it was a real estate, equipment leasing, purchase order financing or factoring transaction.

The financial transaction brokering industry saw growth due to the willingness of lenders to fund deals.

Today, as a direct result of the financial crisis and current economic conditions, there are fewer lenders willing to take on risk. Those that *are* taking risk are most likely privately held companies.

With the added regulatory component of Dodd-Frank, there are severe consequences for banks that engage in "risky" loans.

BROKERS NEED RELATIONSHIPS WITH FINANCIAL INSTITUTIONS THAT UNDERSTAND THE VALUE BROKERS BRING TO THE TABLE



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All told, small-to-medium sized companies still face immense challenges securing any financing in the current market.

This is where the opportunity can be found for transactional professionals like you.

Direct lender relationships: faster income

The opportunities lie in finding a bevy of direct lenders that specialize in a number of funding techniques that you can rely on day after day. These techniques can generate a steady flow of annuity income for brokers.

In today's business world, brokers need relationships with financial institutions that understand the value brokers bring to the table and allow them to focus on originating transaction after transaction while the institution handles the underwriting, due diligence and funding.

Through a "single invoice factoring program" some financial institutions purchase a single invoice or a batch of invoices when the client needs factoring services, allowing clients to typically grow on average of 15 percent per year.

How does this help you? Without a long-term contract to negotiate, each transaction is underwritten on a non-recourse basis and

can be funded more quickly than a typical factoring relationship takes to establish.

This translates into faster income generation through referral fees that the institution pays to you since the due diligence and underwriting period is compressed.

Industry focus: Construction

Factors that specialize in construction see massive opportunity in that area because of the vast market, lack of competition and opportunities for local deal generation across many regions. Their focus is on financing subcontractors on bonded jobs because the credit of the account debtor is shored up by the insurance carrier that has issued the payment and performance bond.

The initiation and success in the field of construction of a single invoice factoring program has a lot to do with the uncertainty of our current economy. Many clients do not want to be locked into multi-year agreements. If business falls off, they would have to pay a significant penalty for failing to meet volume commitments.

By implementing the single invoice factoring program locally, brokers can quickly build a book of business by financing the tradesmen that support the general contractors. For



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brokers, with correct marketing, you can provide factoring for all of the subcontractors on a given job. The general contractors are supporters of factoring because it insures that their counter-party, the subcontractor, can get the job completed on time while they get credit from the subcontractor until they are paid by the contractor.

Single invoice factoring in action

Electrical contractor: A firm in our portfolio has grown to revenue of over \$10,000,000 per annum. When the company began factoring with us nine months ago, it was barely reaching \$7,000,000 a year in sales. It has steadily increased its bidding on opportunities and has won more work at its targets gross margin. It recently was awarded an additional \$2,000,000 worth of work for the summer, which is not even included in the \$10,000,000 figure above.

Painting contractor: This firm began factoring with us three months ago. It was at \$2,000,000 in sales and as a result of our factoring its invoices, it has increased its business an additional \$1,000,000 year-to-date.

Factoring enables better cash management for clients

One of the reasons that our clients grow an average of 15 percent per year is that their supplier relationships strengthen and their credit availability grows because they can pay on time as a result of our factoring of the related invoices.

MOST CLIENTS, EVEN WITHOUT A CONTRACT, TYPICALLY CONTINUE TO FACTOR FOR TWO TO THREE YEARS

Factoring also gives clients more confidence to bid on additional projects because they can predict their cash flow. The firm is no longer dependent on waiting for the general contractor to pay it.

Factoring becomes a cash flow strategy by factoring an invoice to make timely supplier payments and payroll, rent or other operating expenses. Once business volume picks up, the company can reduce the number of invoices it factors or increase it based on the goals for their business. Most clients, even without a contract, typically continue to factor for two to three years.

By helping clients strengthen their businesses through factoring, you will grow your income proportionately as you help clients grow their businesses.



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Benefits of direct lenders and integration of other services

A direct lender relationship allows you to focus on three goals that are essential to the growth of your business:

- 1) Referrals from your existing customers because you placed them with the right funding source
- 2) Confidence that your valuable customer relationships will be honored by professional and courteous team members employed by the funding source

And finally,

- 3) Creating growing income that pays you month after month, year after year without interruption.

Joseph F. Ingrassia is managing member of Capstone Capital Group, LLC in New York, NY. Capstone is a private finance company that provides single invoice factoring, purchase order and trade financing that is vertically integrated into its factoring platform. Capstone also offers guidance for new brokers to help learn how to find clients, qualify them, and refer them to funders. For more information about Capstone and its services, visit www.capstonetrade.com.