

Factoring firms gaining ground as credit contracts

BY TAMARIND PHINISEE

As commercial lenders tighten standards for gaining access to capital, another sector of the financial market is stepping forward to fill the void.

Factoring company owners say they have seen an increase in customers in the past few months.

Many of these customers are small and medium-sized companies that are turning to factoring as a way to fulfill contracts and meet payroll demands.

In a factoring arrangement, a company sells its accounts receivable at a discount to a factoring company for immediate cash. The factoring company earns its fee after outstanding receivables have been collected.

David DiPiero, president and CEO of global commercial finance firm FGI Finance, says the extremely cautious lending arena is moving slowly in providing additional credit to its existing clients, which is leaving room for factoring companies.



DiPiero

"More often the case, we see existing lines being reduced and advance rates against assets deteriorating," DiPiero says.

But even in the current economic downturn, there are companies with opportunities to grow their business, DiPiero says, and they need financing to move forward. To support the increased need for working capital, these companies are turning to

alternatives in the commercial finance industry, including factoring.

"Factoring, asset-based lending and purchase-order financing companies are seeing an increase in demand as commercial banks retract from the market ..." DiPiero says.

Expanding need

Thomas Moldenhauer, president of San Antonio-based TJM Funding Group, says he has noticed an increase in the use of factoring nationwide. Small and new businesses, he says, are looking at this source of financing because they usually don't have enough credit history yet to secure traditional bank lending.

Wayne Coker, president of Houston-based Advantage Business Capital, says his company also has seen an increase in prospective customers.

"We're seeing an increase in the number of businesses looking for alternative financing because traditional bank lines of credit are being tightened," Coker says.

Meanwhile, Jeffrey Jauer, president of locally based factoring company PFI Capital, says it has been business as usual for his company and he doesn't believe there is a correlation between the economy and the amount of business he has in the pipeline. But, he

admits, it's still a little early to tell.

"The credit crunch has only been going on two or three months and the full effects haven't impacted small businesses yet. But they may indeed in the future," Jauer says.



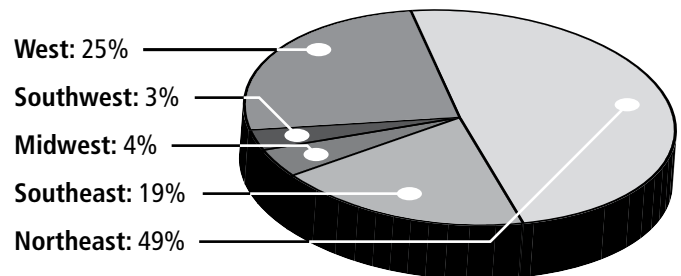
Bartlett

Marty Bartlett, president and CEO of locally based Pivotal Funding Group Inc., says his company sees the tumult in the financial markets as an opportunity for companies like his because it drives more business his way and gives companies access to the capital they need to continue to grow.

Typically, Bartlett says, a factoring company pays a client 80 percent to 90 percent of the value of invoices being purchased up front. When the invoices are paid off, the factoring company keeps about 3 percent or 4 percent for its fee.

This, he says, allows a company to grow and still handle its cash flow needs.

Factoring by region 2007



Note: "Southwest" includes AR, CO, LA, NM, OK, TX
Source: Commercial Finance Association