
# COMMERCIAL LOANS GLOSSARY: FACTORING

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**Asset-based loan**
Asset-based loans are loans involving assets as security for the lender. In this scenario, if the borrower fails to pay the lender, the assets are relinquished to the lender.

See also: asset-based lending

**Debt factoring**
Debt factoring is a small business financing method involving three parties: the small business (sometimes called the "seller"), the factoring company (also called a "factor"), and the small business' customer (referred to as the "debtor"). The factor (Fast A/R Funding is a factor) purchases the seller's accounts receivable, providing immediate funding on those invoices. The small business' customer then remits payment directly to the factoring company.

**Bad debt**
A bad debt is a delinquent account receivable or debt that has been written off as uncollectible.

**Balance Sheet**
A balance sheet is one of the most basic elements in financial reporting. It demonstrates the financial state of a business at a set point in time and encompasses aspects of the company's finances such as assets, equity and liabilities in detail.

**Bill of Lading**
A bill of lading is a shipping document providing specifications to a transport company.

**Bill of Sale**
A bill of sale is a business document used in the transfer of title of specific goods from a seller to a buyer.

**Broker**
Brokers match clients in need of funding with appropriate finance providers such as accounts receivable factoring companies.

**Cash flow**
Cash flow is a measurement of an entity's (business or project) influx and output of money, generally measured over a set period of time.

**Charge back**
When small business use accounts receivable factoring services, occasionally those factored invoices become uncollectible. If a factored invoice is deemed uncollectible, the client who factored the invoices is "charged back" a set amount of money based on an agreed-upon debtor non-payment clause in the original invoice factoring contract.

**Collateral**
Collateral is the asset used as security in asset-based lending. The borrower forfeits the collateral to the lender, should s/he default on the loan.

**Collectability**
Collectability is the ability of a factoring company to collect on purchased accounts receivable.

**Credit**
1. Credit is the agreement that payment for goods or services will be received at a later date. For example, a small business provides goods to a customer on 30-, 60- or 90-day terms, which is a form of credit.

2. Credit is also the amount available to a given person, business, or other entity to borrow at a given time.

3. Credit is the educated evaluation of an individual or business' ability to pay monies owed.

**Credit analysis**
Credit analysis is a process through which a business' financial records and history are analyzed to determine its creditworthiness.

See also: factor's verification

**Customer concentration**
Customer concentration is an amount, measured in percentage value, demonstrating the portion of a company's outstanding receivables due from a given customer.

**Dilution**
Dilution is the quantity of risk related to collection of accounts receivable. It includes but is not limited to returns, trade allowances, bad debts, slow pays, concentrations, charge-backs and other detected risks.

**Due diligence**
Due diligence is the research undertaken by the factoring company to determine whether to extend accounts receivable factoring services to an applicant company.

**Equity**
Equity is defined as the interest or value, above and beyond any debt owed, held by an owner in relation to a property.

**Face value**
For the purposes of accounts receivable factoring, "face value" refers to the actual amount of money owed on a given invoice. That is, if a service costs $400, and the invoice lists that amount, the face value of the invoice is $400.

**Factor**
A factor is a company offering accounts receivable factoring services for small business financing.

See also: accounts receivable factoring, factoring

**Factoring**
Factoring is a method of small business financing involving three parties: the small business (sometimes called the "seller"), the factoring company (also called a "factor"), and the small business' customer (referred to as the "debtor"). The factor (Fast A/R Funding is a factor) purchases the seller's accounts receivable (invoices), providing immediate funding on those invoices. The small business' customer (or debtor) then remits payment directly to the factoring company.

See also: accounts receivable factoring, accounts receivable financing, invoice factoring, invoice financing

**Factoring company**
A factoring company offers accounts receivable factoring services for small business financing. Fast A/R Funding is a factoring company.

See also: factor, accounts receivable factoring

**Factor's advance**
When funding a client through accounts receivable factoring services, the amount of money the factor issues to its client upon verification of the invoices is known as the factor's advance. It is measured in dollars and is determined by multiplying the invoice's face value by the advance rate.

See also: advance rate

**Factor's verification**
Prior to sending an advance to the client, the factoring company must confirm that the client did provide the specified goods or services to his/her customer and that the customer received those goods or services and intends to remit payment for the amount of the invoice. This process is called factor's verification.

**Fictitious name**
When companies or other entities operate under names other than their official corporate name, they must file a fictitious name document with the state.

**Franchise business**
Small business owners choose franchising as a way of benefiting from the name recognition and buying power associated with larger companies while maintaining an affordable investment. A franchise business is one for which the franchisor has sold the rights to rent his/her method of business and trademarks with the end result being that all franchisees (franchise owners) operate their specific businesses in a uniform manner. For example, McDonald's restaurants, TrueValue hardware stores, Subway restaurants and Dunkin' Donuts are all franchises. Accounts receivable factoring is an excellent small business financing tool for non-retail franchisees selling to businesses.

**Holdback**
In invoice factoring, a holdback is also known as a reserve. This is the amount that the factoring company literally holds back from its client until an invoice has been paid. It is typically listed as a percentage of the invoice's face value.

See also: reserve

**Hypothecation**
Through hypothecation, a borrower accepts funds from a lender, and then invests those funds in a debt instrument. The borrower then provides collateral by giving the lender a security interest in the debt instrument.

**Income statement**
Income statements are financial documents demonstrating the income and expenses of a given company during a set time period.

**Institutional lenders**
Institutional lenders are such entities as local and regional banks, commercial lenders, savings and loan associations, mortgage companies and finance companies.

**Intangible personal property**
Trademarks, patents, trade secrets and copyrights are all intangible personal properties. They are valued, intangible assets.

See also: tangible personal property

**Invoice**
Also called a contract of sale or bill of sale, an invoice is a non-negotiable commercial instrument generated by a seller, provided to a buyer. This document identifies both parties and details the items sold or services provided. If applicable, it denotes the shipment date and method. Also listed are the price(s), any applicable discounts, and the terms of delivery and payment. In some instances, particularly when the invoice is signed by the seller (or an agent thereof), it may serve as a demand for payment and, when paid in full, serve as a title document. There are many types of invoices, some of which are listed here: commercial, consular, customs and pro forma.

Regarding invoice factoring services, the factor purchases a company's invoices, providing immediate funding to that company. Then, the company's customers (debtors) remit payment on those invoices to the factor.

See also: factor, factoring company, invoice factoring

**Invoice factoring**
Invoice factoring is a method of small business financing whereby a factoring company (or "factor") purchases a business' invoices, providing immediate funding to that company. Subsequently, the small business' customers remit payment for those invoices directly to the factoring company.

See also: invoice, factor, factoring company

**Invoice financing**
"Invoice financing" is a term often used interchangeably with "invoice factoring." It refers to the use of invoice factoring services as a form of small business financing.

See also: accounts receivable factoring, accounts receivable financing, invoice factoring

**Leverage**
Leverage is a term used to describe the ratio of debt to total assets.

**Loan-to-value ratio**
A loan-to-value ratio measures how heavily a property is mortgaged and estimates the likelihood of owner default.

**Notification letter**
When companies choose accounts receivable factoring for small business financing, their customers receive notification letters explaining that the small business has sold its accounts receivable to the factor.

**Partnership**
In business terminology, a partnership is a type of mutual ownership of a given business entity.

**Payee**
In business transactions, the payee (also called the client or seller) is the entity holding the right to receive payment(s).

See also: payor

**Payor**
The entity responsible for making payment to a payee is called the payor.

See also: payee

**Personal guarantee**
A personal guarantee is a contract between a seller and a funding provider (such as an accounts receivable factoring company) through which the seller accepts liability and personal responsibility for financial obligations.

**Profit**
Profit is defined as the positive yield, after accounting for all costs, generated by a business or investment.

**Purchase order**
A contractual agreement listing such items as terms of payment and freight/shipping, delivery dates, items sold (description and quantity), and any/all other conditions or obligations related to a contractual obligation between a buyer and a seller/supplier is called a purchase order.

**Real property**
Also known as real estate.

**Rebate**
A rebate is a bonus, paid back to the small business whose invoices are being factored, given as a result of prompt payment of receivables to the factor by that company's customer(s).

**Replevin**
When property (excluding real estate) that served as collateral must be seized due to non-payment by a borrower, the necessary legal action is called replevin. This legal remedy is sometimes known as "claim and delivery."

**Reserve**
A reserve is an amount of money, held by the factor and not immediately paid to the factor's client when the client's invoices are submitted for factoring. The reserve is transferred to the factor's client (less the discount fee) once the factor receives payment for the invoices. Simply put: Advance rate + Reserve = 100% of invoice's face value.

See also: holdback

**Security interest**
Provided as security for an obligation, such as a debt, a security interest is an interest in property other than real estate.

See also: hypothecation

**Small business**
A small business is a sole proprietorship, corporation or partnership that is owned and operated privately, has few employees and has comparatively low sales volume. In the U.S., industry standards for the definition of "small business" are set by the Small Business Administration (SBA) and vary by industry. SBA's website, www.sba.gov, offers the following as the general rule for defining small business: "500 employees for most manufacturing and mining industries, and $7 million in average annual receipts for most nonmanufacturing industries. While there are many exceptions, these are the primary size standards by industry."

**Sole proprietorship**
When a business is independently owned and operated by one individual, it is a sole proprietorship.

See also: small business

**Subordination**
Subordination is a process through which the debt owed to a creditor is given lower payment priority and decreed as inferior to the debt the same debtor owes to another creditor.

**Tangible personal property**
With the exclusion of real estate, tangible personal property is personal property owned by an individual (i.e.: vehicles, jewelry).

See also: intangible personal property

**UCC-1**
A Form UCC-1 (short for Uniform Commercial Code 1), also called a Financing Statement, is a form filed by a creditor, stating that the creditor holds an interest in the property of a non-paying debtor.

See also: Uniform Commercial Code (UCC)

**Uniform Commercial Code (UCC)**
The Uniform Commercial Code, first published in 1952, is a set of standardized legal guidelines defining how sales and commercial transactions are to be carried out in the U.S.

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