



Invoice Factoring: Everything to Know Before Investing



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Today's Agenda

- ❖ Who is the IFA?
- ❖ Profile of a factoring client
- ❖ What is factoring?
- ❖ Deal structuring
- ❖ How does it work?
- ❖ Risks of factoring
- ❖ Protections
- ❖ What to look for in a factor
- ❖ How it works in an IRA





Meet *Your Host*



Bill Neville



13 Years at Entrust



Educates investors and professionals on tax-preferred retirement accounts



B.S. in Finance from Penn State University



About Entrust



Self-Directed IRA Administrators



Knowledgeable Staff with
CISP Certifications



Monthly Educational Webinars





About Entrust



\$5B

Assets Under
Administration



45k

Investors
Empowered



40

Years of
Service



1

Point of
Contact



INTERNATIONAL FACTORING
ASSOCIATION

Factoring 101

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Agenda

1. Who is the IFA
2. Profile of a factoring client
3. What is factoring
4. Deal structuring
5. How does it work
6. Risks of factoring
7. Protections
8. What to look for in a factor

International Factoring Association

- Only association dedicated to the factoring industry
- Established in 1999
- Over 450 corporate members
- Training, advocacy, education, networking
- Code of Ethics
- \$2 trillion worldwide industry



Factoring Client Profile

- Small to medium size businesses who need cash flow
- Larger businesses looking for off balance sheet financing
- Must have business to business receivables
- Start up
- Credit challenged
- Growth mode
- Bank exit
- Factorable industries include transportation, staffing, manufacturing, etc.



What is Factoring

- Not a loan
- Sale of accounts receivable at a discount
- No debt, no equity
- No financial covenants
- Recourse vs Non-recourse
- Factor bases credit and funding decisions on the credit quality of the factoring client's account debtors
- Factor owns receivable and collects payment direct from account debtors
- Yields are typically between 18-24%

Deal Structuring

- Dilution drives advance rate
- Debtor Credit
- Concentration risk
- Aging performance
- Contra accounts
- Invoicing process
- Guarantors
- Rates
 - Flat rate
 - Periodic rate
 - Rebate rate
 - Interest
- Fees
 - Due diligence
 - Minimums
 - Processing fees
 - Misdirected payment fees
 - Early termination fees

How does it work

- Factor client sells a product or performs a service for another business
- Cannot wait 30, 60, 90+ days to get paid
- Factor client submits account debtor for credit approval
- Factor client submits invoices and supporting back up documentation to factor
- Factor audits back up documentation and confirms validity of invoice with account debtor
- Factor buys the invoice, pays a % of the invoice value to the client up front
 - Average advance rate is between 80-90%
- Factor maintains a reserve account to help cover dilution
- Factor manages collection of the receivable
- Once the invoice pays to factor, factor keeps the amount it advanced, deducts fee, and remits remaining balance to client



Risks

- Fraudulent invoices
- Misdirected payments
- Dilution
- Collusion
- Account debtor insolvency
- Identity theft
- Concentration risk
- Industry challenges

Protections

- All asset UCC filing
 - Article 9 protection
- Perfected priority security interest
- Purchase and Security Agreement
- Personal or validity guarantees
- Cash Reserves
- Notice of Assignment
- Verifications
- Collections
- Dominion of cash



What to look for in a Factor

- IFA member
- Proven history of success
- Industry concentration
- Average write offs
- Experience of management
- Strong legal documents
- Abides by industry best practices
- Ability to manage finance facilities

THANK YOU



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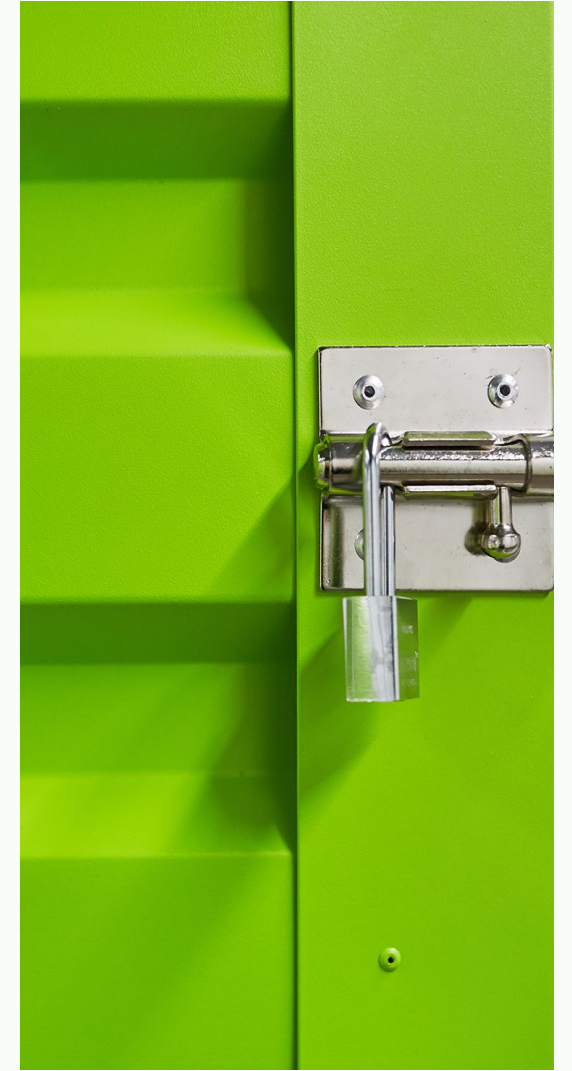
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How it Works in an IRA



What is a Self-Directed IRA?

A retirement account in which the individual is in charge of making all investment decisions



What is a Self-Directed IRA?

Greater opportunity for
asset diversification outside
of traditional stocks, bonds,
and mutual funds



What is a Self-Directed IRA?

All securities and investments are held in a retirement account administered by a regulated custodian or trustee, following Internal Revenue Codes



Tax Preferred Accounts: Funding vs Earnings



Tax-Deferred Funding

With Traditional IRAs, you can invest with pre-tax income, allowing you to defer taxes until you withdraw earnings



Tax Preferred Accounts: Funding vs Earnings



Tax-Free Earnings

With Roth IRAs, you can invest with taxed income, allowing your investment earnings to grow tax free



How The **Process Works**

Created to help you save for retirement, IRA establishment begins with:

- ❖ Finding the right custodian
- ❖ Choosing account type & open your account
- ❖ Funding your account
- ❖ Directing your custodian to purchase assets on the IRA's behalf



What Happens to Income and Expenses?

It must flow into and out of the IRA

You **cannot** use personal funds to pay for expenses incurred by the asset within your retirement account because it is prohibited under IRS Code 4975



Let's Wrap Up





What's Next?

Have feedback or new topic requests?

Please let us know in the brief survey as you leave

Need more information on SDIRAs?

Visit our website and Learning Center





Question & Answer Session



Stay Connected



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