

## Short-term financing available to businesses via factoring

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Phoenix Business Journal - by Lynn Ducey

As a small-business man and entrepreneur, Claude Garrett needed money to continue running his maintenance and repair service. His business, Desert Pros, repairs broken flooring, ceiling tiles, bathroom fixtures and similar items in heavily trafficked fast-food restaurants Valleywide.

While Garrett had the clientele, he was in a cash crunch. Most clients took 30 to 45 days to pay him for work done.

Garrett wasn't concerned about being paid; he just wanted a quicker turnaround so he could pursue additional clients.

"That net-30 and net-45 was a stumbling block," he said of the lag in payment time. He needed the money sooner so he could pay his overhead costs, buy more materials and grow his business.

Garrett tapped into **Factors Southwest**, a Scottsdale-based firm that uses a method called factoring to lend money based on a company's receivables.

"We are looking at the creditworthiness of our customer's customers," said Robyn Barrett, owner of **Factors Southwest**.

Such methods of financing appeal to small businesses, even as loans continue to be available through the U.S. Small Business Administration and banks.

"Money is being borrowed, and money is available. Last year, the SBA in Arizona alone guaranteed nearly \$1 billion," said Stephen Hart, spokesman for the SBA in Arizona.

Still, SBA figures show the number of loans made in fiscal 2008 was down 27 percent from fiscal 2007, and the total value of those loans dropped by 32 percent.

A total of 2,022 loans valued at \$880 million were made during fiscal 2008, which ended Sept. 30. In fiscal 2007, 2,960 loans were made, totaling \$1.2 billion.

Sonoma Bank President Keith Charles said he's seeing increased loan queries and applications in the second half of this calendar year, as small-business owners look to secure funds for everything from equipment and capital to property. He said his bank's lending requirements always have been conservative, and he's seeing more activity in the medical and industrial fields.

Charles said he has two loans in process: One is for a company looking to purchase additional equipment, and the other likely will be used for a property purchase. Citing confidentiality, he declined to name the companies seeking the money, but he said both have solid financials, a down payment, good credit and collateral, which could be cash flow or capital.

"There is money to loan, but you have to qualify for it," said Hart.

Entrepreneurs often use their homes as collateral, but they have dropped in value along with the real estate market. Because of that, many small businesses are postponing taking on new debt.

"Businesses are also seeing revenue go down as customers and consumers spend less, so these factors and the overall psychology about the economy are contributing to a real business decision," Hart said.

The desire to avoid long-term debt played into Jim Boniface's decision to use factoring for his machinery tooling business, Boniface Enterprises.

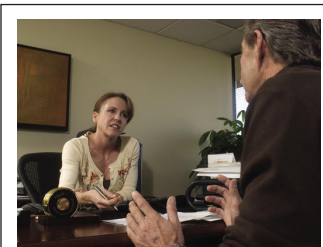
"I am much happier factoring invoices as I need, and factoring helps keep my cash flow even," he said.

Garrett said he didn't have to worry about making a loan payment every month, especially in this uncertain economy.

"This is basically getting money from work that's already done, so I can grow without really borrowing," he said.

Plus, Garrett said he didn't want to sign up for a large, flat loan and then suddenly be flush with cash.

"We're not that huge, and I don't want to grow that fast because you can't keep your hands around it," he said.



Jim Poulin/Phoenix Business Journal

Robyn Barrett of Factors Southwest discusses business financing options with Claude Garrett, owner of Valley repair service Desert Pros.

### Get Connected

Boniface Enterprises: [www.sage-manufacturing.com](http://www.sage-manufacturing.com)

Factors Southwest: [www.factors-southwest.com](http://www.factors-southwest.com)

Small Business Administration-Arizona: [www.sba.gov/localresources/district/az/index.html](http://www.sba.gov/localresources/district/az/index.html)

Sonoma Bank: [www.snbank.com](http://www.snbank.com)

### By Definition

Factoring: Short-term, nonbank financing of accounts receivable, whereby a firm loans a business cash based on a set of invoices due to that firm. The factoring firm takes an amount off the top of payments made to the company, according to the terms of the loan agreement.

Source: [www.businessdictionary.com](http://www.businessdictionary.com)