

Common Challenges with Factoring Invoices

Generally speaking, accounts receivable factoring is a relatively straight forward transaction that can be set up for many businesses and it provides tremendous value. However, there are some challenges that can be experienced when trying to factor and we highlight the most common ones below.

Invoice Debtor Credit Worthiness Cannot be Verified

When a factoring company finances invoices for your company, it is taking on the risk of ultimately collecting on the invoices from your clients (ie. the invoice debtors). As a result, when a factoring company is assessing any new factoring client, one of the most important criteria in determining if a client will be approved, is the creditworthiness of its invoice debtors. If the creditworthiness of the invoice debtors cannot be determined, this can present a significant challenge and may result in the factoring client application being declined.

Invoice Cannot be Verified

Before a factoring company will factor your accounts receivable, it will typically call the invoice debtors and verify that the invoices is legitimate and that all services were performed to their satisfaction and/or that any product delivered was satisfactory to ensure the invoice debtors will make payment without any issues arising. This also helps you because the factoring company can provide valuable feedback you may otherwise not receive from your clients. If your clients refuse to verify the invoices, the factoring company may refuse to finance those invoices. In that case, you will need to factor different invoices to obtain financing.

Invoice Debtor Refuses to Remit Payment to Factoring Company

As part of the factoring process, the factoring company will request that each invoice debtor verifies the invoices to be factored and agrees to remit payment for the invoices to the factoring company by signing a notice of assignment letter that is sent to them. This is standard operating procedure in factoring among all factoring companies. If the invoice debtor refuses to submit payment for the invoices directly to the factoring company, you may not be able to factor those invoices.

Work is not Completed

If you submit invoices to be factored and the product to be delivered is not fully delivered, or the services to be rendered have not been completely finished, your factoring company may determine that it cannot factor those invoices. The reason for this is that the invoice debtor



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(your customer) may not be satisfied when everything is completed and this could result in the invoice debtor refusing to make payment for these invoices or only making a partial payment for these invoices, and the factoring company is uncomfortable taking on this risk.

Although some challenges can present themselves with factoring, business owners are realizing the tremendous benefit that this form of financing provides. We invite you to review our other articles on the factoring process, explore our website and to give us a call with any questions you may have about our invoice and accounts receivable factoring services.

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