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The Community Lender

from **FOSTRIAN** | Business Capital Corporation

Fostrian Business Capital is a commercial lender specializing in working capital loans to emerging companies through the factoring of their accounts receivable.



FACTORING – A VERY QUICK PRIMER

Factoring Defined

Factoring is a financing vehicle used mostly by emerging companies that are unable to arrange traditional bank financing. Specifically, factoring is the purchase of accounts receivable by the factoring company, from its client, at a discount for immediate cash. Many factoring companies also provide their clients with a comprehensive accounts receivable/credit department management service.

Brief History of Factoring

The origins of factoring go back to the Roman Empire, or some say even as far back as Mesopotamia.

In America, factoring got its start in the early 1600s. Around that time, there was an interdependency between American colonists and British industry. The colonists provided raw materials (timber, tobacco, etc) to British industry, which in turn shipped finished product back to the colonies. In order for the colonists to keep pace with the shipments required by British industry, they needed capital, and could not wait to be paid until their raw materials made it all the way across the Atlantic. European banks stepped in to fill this need. They advanced funds to the colonists upon shipment of the raw materials, and later collected from the British customers. These banks thus became, in effect, the first “factors” in America.

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Jumping to the 1800s, we see an evolution to American “selling agents” working on behalf of European textile mills. These European mills sold to American customers but lacked familiarity with the American market’s “terrain”. This knowledge gap was filled by American selling agents who provided a comprehensive set of services that facilitated moving product from the European mills to the American customer. These services included sales, warehousing, shipping, customer credit evaluation, collections and cash advances to the European mills. American factoring firms evolved from these selling agents. The year 1810 saw the birth of the first documented American factoring firm.

Until recent times, factoring was predominately concentrated in the textile industry. This has changed as factors have diversified into virtually all business-to-business industries. A recent development is niche factoring, where factors specialize in certain industries, deal size etc. You now see factors specializing in trucking, construction, staffing, medical, international sales and government sales. Others specialize in deal size; some go after only the smallest-of-the-small clients, others only the largest clients.

Factoring industry growth has been impressive over the last 30 years. In 2005, U.S. factoring volume was \$112.8B, up from \$20.2B in 1976. There must be something to this factoring thing!

Benefits of Factoring

There are many potential benefits to a client when partnering with a quality factoring firm:

- Needed working capital
- Comprehensive accounts receivable/credit department management service
- Immediate cash advance on invoices - Keeps suppliers current - Keeps suppliers shipping - Maximizes Sales
- Raise capital with no resultant loss of ownership percentage or control
- Better ability to take advantage of supplier discounts
- Improved financial/credit rating
- Ability to provide credit terms to customers

Fostrian Business Capital respects the history/legacy of the factoring industry. Through our mission statement, we are committed to carrying this legacy forward, and to building upon it. Fostrian’s mission is 100% centered on fostering our clients’ growth and overall emergence to success. We consider it a success when a client strengthens its financial position and graduates to bank financing.

Jeff Jentgen
President

Fostrian Business Capital Corporation