

Medical Accounts Receivable Financing-Stat!

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Medical Accounts Receivable Financing-Stat! explores the unique issues presented to lenders and B2B medical businesses in order to successfully factor medical receivables.

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According to the U.S National Library of Medicine and the National Institutes of Health Medline dictionary the word "stat is an adverb for the latin word: STATIM. Statim is an adverb that means immediately or without delay. When a persons arrives at the hospital emergency room with a gunshot wound, the staff might say, "We need to get this patient to surgery stat!" meaning immediately, now. In a medical situation "stat" connotes extreme urgency. Does your medical business need to accelerate cash flow with accounts receivable financing "stat"?

{bot_wrgoogle}One of the greatest challenges for medical professionals is managing their accounts receivable. Medical accounts receivable typically are the largest asset on their balance sheet. It typically takes 60 to 120 days or more to collect medical accounts receivable because of the long reimbursement process from third party payors, such as Medicare, Medicaid, and commercial insurance companies. The collection process is long and complex. Disputes regarding payment amounts are common. Medical accounts receivable financing accelerates cash flow to pay for expenses such as payroll, malpractice insurance, rent, inventory and advertising.

What are the types of medical professionals that may qualify for medical accounts receivable financing? The following is a partial list: hospitals, medical centers, rehabilitation centers, medical laboratories, surgical centers, sports medicine centers, MRI imaging centers, physical therapy centers, substance abuse clinics, physical therapy centers, manufacturers and/or distributors of medical devices, and physician's practices whether general or specialized from A to Z such as anesthesiologists, gastroenterologists, obstetricians, and Zygote – Morula Specialists.

How lengthy is the process to obtain medical accounts receivable? It generally takes four to eight weeks to obtain funding because of the unique issues presented. The commercial finance company must perform extensive audits and analysis of the prospective client's financial situation. They need to determine that the business is and will be a "going concern". They need to examine billing practices which often are outsourced. This may require a separate audit of a third party. And they need to examine the foreseeability of collection of the outstanding accounts receivable by auditing the accounts receivable aging reports from a historical collection perspective. In other words, how much of the amounts owed will be collection losses? How much will actually be collected?

What are other unique issues regarding medical accounts receivable financing? There are potential bankruptcy issues, lien priority issues and the "big bad wolf" issue: after a commercial finance company has purchased medical accounts receivable, the federal government can assert lien priority on the assets of a bankrupt medical company. One example of this is the case of American Investment Financial ("AFI") versus the US also known as the internal revenue service.

AFI loaned over \$800,000 to a pediatric and urgent care clinic. The clinic defaulted on their financial obligations to AFI and also defaulted on their tax obligations to the federal government. It was undisputed that AFI had followed the rules correctly in terms of filing their liens and perfecting their security interests. Nevertheless, the court held that pursuant to Federal law, after a 45 day statutory safe harbor period had passed, the government's lien took priority. AFI lost hundreds of thousands of dollars because of federal tax law and IRS regulations. It is no wonder that commercial finance companies look very carefully before they purchase medical accounts receivable.

Commercial finance companies will generally advance an amount equal to 70% to 80% of a borrowing base, which may be called "the aggregate amount of eligible accounts", "net realized value" or "net expected collections". You can expect the following items to be excluded from your borrowing base: accounts which are subject to dispute, counterclaim or setoff; accounts of any account debtor who has filed or has filed against it a petition in bankruptcy; accounts owed directly by patients or customers.

The bottom line: medical accounts receivable financing, or medical factoring, is more difficult to obtain than other types of factoring because of the legal risks and business risks faced by the lenders. The process to obtain medical accounts financing usually takes much longer than accounts receivable financing for other industries, such as a manufacturer. This good news is, once the credit facility is established, funding can take place in a day or less from your request for financing. You can have medical accounts receivable financing "stat"!

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