

# Accounts Receivable Financing- Yesterday

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Accounts Receivable Financing- Yesterday explores the time value of money and how timing issues regarding cash flow can affect the success of your B2B business. Several technical issues regarding timing and the commercial finance marketplace today may be key factors in the challenge to profitably growing your business.

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Most people intuitively understand the time value of money from first time they received an allowance from their parents. All other things being equal, you would rather get your allowance today instead of having to wait for the weekend. Go to the movies today instead of waiting for the money. Instant gratification.

{bot\_wrgoogle}In business, if you have the money today you are positioned to increase the future value of your business by increasing sales of services or products over a period of time. There are several mathematical concepts to compute the time value of money such as present value, future value, present value of an annuity, and future value of an annuity. These computations are beyond the scope of this article.

Uneven cash flow is a challenge to B2B businesses that have to meet regular obligations such as payroll, rent and supplies. One solution to this problem is accounts receivable financing which is also known as factoring, factoring receivables and asset based lending. With accounts receivable financing you can get cash for your invoices immediately and give terms to your customers to pay you in thirty, sixty or ninety days.

The financial markets today are exceptionally volatile. There are grave concerns regarding a meltdown in the mortgage finance market and several major providers of home mortgages than have declared bankruptcy or exited this market. The secondary market for certain types of mortgage securities has virtually closed the door on securities known as subprime home loan securitizations which makes these types of bonds, not having any liquidity, virtually worthless. Why is this relevant to accounts receivable financing?

A little known fact is that many commercial finance firms that provide accounts receivable financing are not using their own money to fund their transactions. This is sometimes called "refactoring". Their funds may be available from three sources: bank lines of credit, investor participations and the equity of the firm. Bank lines of credit, or asset based credit lines from major non-bank commercial finance firms are by far the largest source of funds for most firms that offer "refactoring" accounts receivable financing.

These firms are under more pressure from their lenders to make safe and sound loans. The pressure comes from Banks, Federal regulators such as the Federal Deposit Insurance Corporation and the Federal Reserve Banks. This may affect how long it takes to get financing.

There is a process called due diligence which is a pre-requisite to accounts receivable financing. Several components are: analyzing the credit of the

borrower; analyzing the credit of their customers, and running a UCC-1 search in each state where the company operates. The UCC-1 search and filing is required to give the lenders the legal right to collect the accounts receivable that are being sold or pledged for the financing. This can take 5 to 10 days depending on the state bureaucracy and how busy they are with such requests. If the UCC-1 report is not "clean" meaning first lien status is not available to the lender, there will be no financing. Tax liens, legal judgment liens, and earlier financing liens can delay financing until they either are paid or subordinated.

When a B2B business is growing rapidly and needs more cash flow for operations the time value of money becomes critical. There is a common answer the question: "When do you need the money?" Answer: "Yesterday".

John Lennon and Paul McCartney understood the time value of money and more importantly for them, the money value of time. They were the primary songwriters for the group, The Beatles, from 1960 to 1970. The group experienced major cash flow difficulties because of poor financial management of recording contracts, out of control costs of running their record business, Apple, and the pressures that caused them to renounce public performances (which was a major source of income). Some of their greatest songs (and a source of substantial future income) were created while they were on a hiatus to meditate with the Maharishi Mahesh Yogi in India in 1965. In 1970 The Beatles disbanded because of personality differences, the stresses of mass popularity and financial problems. Paul McCartney's song, Yesterday, is considered to be the most recorded song in the history of popular music, if not the most popular song of all time. Here are the lyrics to Yesterday:

Yesterday,

All my troubles seemed so far away,

Now it looks as though they're here to stay,

Oh, I believe in yesterday.

Suddenly,

I'm not half the man I used to be,

There's a shadow hanging over me,

Oh, yesterday came suddenly.

Why she

Had to go I don't know, she wouldn't say.

I said,

Something wrong, now I long for yesterday.

Yesterday,

Love was such an easy game to play,  
Now I need a place to hide away,  
Oh, I believe in yesterday.

Why she  
Had to go I don't know, she wouldn't say.  
I said,  
Something wrong, now I long for yesterday.

Yesterday,  
Love was such an easy game to play,  
Now I need a place to hide away,  
Oh, I believe in yesterday.

Mm-mm-mm-mm-mm-mm-mm.

The bottom line: If your B2B business needs money yesterday accounts receivable financing may be the answer to your cash flow challenges.

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