The Functions of Factoring

1. Receive Order
   The supplier receives an order for merchandise from one of its retailers (or a wholesaler).

2. Extend Credit
   The Supplier:
   - Checks the factor’s online system to see if there is a pre-approved line of credit for that retailer
   - Submits the order to the factor for approval
   The Factor:
   - The factor’s on-line system automatically reviews the credit standing of that retailer and responds
     almost instantly with an approval, a decline, or it assigns the pending request to a credit analyst for review

3. Provide Credit Protection
   The factor provides credit protection on all approved sales

4. Sell Invoice
   The Supplier:
   - Ships goods to retailer
   - Sells and assigns the invoice, at full value, to the factor electronically via EDI
   - Sends an original invoice to the retailer, usually with a note indicating “payable to factor”

5. Post Receivable
   The Factor:
   - Receives the invoice data and posts the receivable on its books
   - Maintains retailer payment history
   - Maintains accounts receivable records

(Continued)
The Factor:
- May provide cash advances to the supplier on the receivables prior to collection to support the supplier’s working capital needs.
- Alternatively, if the supplier does not want or need cash prior to collection, the factor remits payment to the supplier upon collection of the invoice.

Collect Receivables
The Factor:
- Receives retailer payments and remittance advice. Larger retailers submit payments to the factor electronically via EDI or ACH. Other retailers mail payments to the factor’s automated lockbox.
- The factor’s automated system quickly and efficiently performs cash application. It also identifies shortages and/or retailer adjustments to payments.
- Records detailed transaction information and sends that information to the supplier electronically.
- Professionally follows up on overdue payments.

Remit Collected Funds
The Factor:
- Credits the supplier’s account for payments received.
- Pays the supplier on approved, uncollected receivables if the retailer is financially unable to pay.
- Applies funds toward advances provided to the supplier, if applicable.
- Forwards remaining balance to supplier via wire transfer.

Financial Reporting
The Factor:
- Provides detailed records of transactions for convenient supplier online access.
- Compiles and forwards dispute and deduction information to supplier.
- Maintains online record of transactions for 12 months.

The Supplier:
- Reviews monthly statement of transactions and makes end of monthly journal entries for factoring fee and interest expense as applicable.
- May customize and print various reports via the factor’s online reporting program. These reports include receivable, payment, deduction, and open invoice dispute summaries.

For more information about factoring, visit CITFactoringUniversity.com or call 800-248-3240.