

Damian Services Corporation – Financing Resources

	<u>Temp Funding Company</u>	<u>Bank</u>	<u>“Factor”</u>
• Credit Limit	Unlimited funding no “cap” or upper limit.	Credit limit is usually set solely at bank’s discretion. Cannot be increased without request in advance, updated financial statements, and usually not without loan committee approval.	May set a limit as to amount which may be purchased. Factor may not want to concentrate in any one business.
• Cash Advance Amount	Advance 100% of client company payroll and taxes.	Typically advances 75-80% of accounts receivables up to the total credit limit set by bank.	May be as low as 70% of receivables depending on review by factor. Normally, factor buys only most secure A/R’s.
• Collateral	Accounts receivable and personal guarantee of owner(s). The accounts receivable are guaranteed by the company.	Accounts receivable and generally other corporate and personal assets the bank may deem necessary along with personal guarantee of owner(s).	Factor buys A/R’s. Although, under an agreement where factor has recourse, client may have to repurchase uncollected receivables immediately.
• Fees / Interest	Generally a percentage of weekly gross billing. Depending on the funding company, fees for all services range between 5 and 10%.	A variable number of percentage points over prime on the outstanding loan balance. Variable loan origination and/or administrative charges. In many cases a mandatory minimum no-interest checking account balance (compensating balance) to offset bank charges.	Based on cash advance amount. Factor earns differential or “spread” between A/R and usually cash advance. Agreement depends on factoring arrangement.
• Term of Commitment	Contractual commitment to provide unlimited funding and related services. Depending on the funding company’s policy, the contract term can range anywhere from 12 to 60 months.	The borrower signs a demand note which can be called by the bank at any time.	No contractual commitment. Factor may terminate relationship at any time.
• Expertise	Specializes in funding temp help firms only.	No specific expertise with the temp industry. Generally more familiar lending to consumer products, distribution, and manufacturing companies.	No particular understanding with temp help industry.
• Other Services	Payroll processing and billing services, partial or full tax services, management reports, and software.	None	None

Accounting Implication Comparison

Temp Funding Company
No A/R recorded from customers.

Bank
Records A/R and loan payable.

“Factor”
No A/R recorded. A/R’s sold to factor.

**Research provided by Ernst & Young LLP*