

## DEBTOR FINANCE: How to choose the right Debtor Financier

*“Is Debtor  
Finance the  
best option for  
me?”*

*In our last white paper we talked about what Debtor Finance is, how it works, what's required of you and discussed why you might need Debtor Finance (<http://www.arcashflow.com.au/why-arcash-flow/white-paper-downloads>). In this paper we want to explore Debtor Finance further and cover topics that will come up when choosing your financier.*

## Is Debtor finance for you?

*Now that you know what Debtor Finance is and how it works, it's time to look at your finances, look at your situation and decide if this really is the best option for me. When deciding, there are a few key factors that you should take into consideration.*

“Do you have sufficient paperwork?”

### The state of your company

Do you need finance to help grow the business or to keep it ticking? If you are looking for growth then Debtor finance could be for you.

### What is your product or service?

Some products or services your company offers are not suitable for Debtor Finance, for example Retailers who sell direct to the consumer and professional services such as Accountants and Lawyers.

### Are your debtors of a high quality or unreliable?

With Debtor Finance we take on risk to fund your invoices relying on the credit worthiness of your debtor to pay back efficiently. If your debtors don't check out then a financier is not likely to take you on.

### Paperwork

Do you have sufficient paperwork to track your Purchase Orders, Invoices etc.? The proof is in the pudding as they say; if you don't have this, a financier is unlikely to help you.

Are you willing to be locked into a contract?

It's unlikely a Debtor financier will fund a one off invoice, usually they require you sign on for at least a 12-month contract. Single Invoice Financing is available but can be expensive.

Do you mind a third party talking to your customers?

In most Debtor Finance facilities a representative from your chosen financier will have to call your customers to chase up payments and verify invoices etc. Some facilities are confidential but these rely more on your credit worthiness and is harder to qualify for.

Your cash flow requirements?

Do you have a one off lump sum you require and/or ongoing invoices funded to generate cash flow (pay wages, fund new orders etc.)? Some Debtor Financiers will fund a one off. The majority of Debtor Financiers will require an ongoing relationship.

*“Make sure to speak to your Accountant, Bank or Broker and ask for recommendations or advice”*

### **How do I choose the right Debtor Financier?**

*So now you have thought about if Debtor Finance is the right option for your company, now is the big task of deciding who is the right financier for you. Before filling out mountains of application forms from everyone around town, you should ask a few initial questions. Make sure to speak to your Accountant, Bank or Broker and ask for recommendations or advice.*

*Like choosing the right bank to handle your finances it's important to choose the right financier for your Debtor Finance. Unlike most banks that have similar policies, I can assure you each and every Debtor Financier you come across is going to be different. Some have different credit policies, others only finance to specific industries, some only offer non re-course facilities and the list goes on.*

*So before you start your research here are some key things to consider or to ask before choosing your Debtor Financier.*

*Do they provide credit-checking services on your customers?*

What is their maximum facility limit?

Some Debtor Financiers only provide up to a certain amount, or base your limit on your current turnover and projected turnover e.g. forward contracts and/or sales orders.

Do they offer un-disclosed and disclosed facilities (sometimes called confidential or non confidential facilities)?

Some financiers won't fund you unless they can contact your customers regularly. Mostly, this is done as what's called a "soft collection" call to ensure your customers have the invoices in their system – most representatives who call understand the sensitive nature of speaking with your customers.

Are they an export factor?

Will they fund your overseas debtors/invoices?

Do they provide collection services?

Some do and some don't, you might not require this service but some people like it as it saves your resources having to do it.

Do they provide credit-checking services on your customers?

Before you decide to enter into a contract or facility it's important you know your customers are good quality. Does your financier provide the service to do a check on all your customers?

Do they finance progress claims or work in progress?

This is a specialised field; some of the Debtor Financiers will specialise in construction or civil contractors and will depend heavily on the strength of your customers.

Are they a large firm or a small firm?

If you are a start up or smaller business, it would be advised you choose a smaller sized Debtor Financier rather than a large bank owned firm who deals with multi million dollar deals where you would be relatively unimportant.

What's their Customer Service like?

Do they have a level of customer service you are happy with? As most financiers will be in contact with your customers and your business, it's important you are satisfied with their personal skills.

Are they available 24/7?

As your business may not sleep, does your financier have facilities that work around the clock? Do they provide an online real time service that includes 24 hour reporting and training support?

Do they provide non-recourse or recourse facilities?

**Side Note:** *What does non-recourse and recourse mean?*

*Non-recourse is when the Debtor Financier has insurance in place to protect their client against non-payment of invoices only in the event of insolvency of the debtor. A non-recourse facility is always more expensive as there is a premium on top of the normal finance fees.*

*Recourse is when there is no insurance in place to protect the client against insolvency of the debtor. The client takes on all the risk therefore the facility is cheaper.*

Do they seem like a good fit?

Do you think your company's values are inline with your financiers? You are entering into a dual relationship here, its important you share similar business ethics and feel happy entering into this ongoing relationship.

*Do you think  
your company's  
values are inline  
with your  
financiers?*

To talk to a product specialist and book in an appointment please call the office on 1300 652 158.

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