



# INVOICE FINANCE GLOSSARY OF TERMS

## A.

### Accounts receivable

Monies owed to you from your customers where you have extended credit terms and raised invoices. Also referred to as the sales ledger or debtor book

### Advance Rate

The agreed % that a lender will advance to you against your invoices

### Aged Debtor Ledger Report

A report of your debtors showing outstanding balances generated from the date of invoice

### Approved Debt

This is where your sales invoices are accepted by your lender as eligible for funding

### Asset Based Lending

This is where your sales invoices are accepted by your lender as eligible for funding

### Assets

Anything that has a monetary value and is owned by your company is considered an asset. This includes stock or machinery, premises, vehicles or your sales ledger

### Assignment of Debt

The transferal of debt i.e. the money owed to your business by your debtors to your lender in order for them to recoup the money they have lent

### Associated Businesses

Any other businesses which the directors or shareholders own or have control over

### Audit

An official review of the sales ledger and associated documentation carried out by the lender at the clients premises

### Availability of Funds

The amount of funds available to your business to draw down on from your invoice finance facility.

## B.

### Bad Debt Protection

Sometimes also known as credit protection or insurance, this protects against the insolvency of a debtor.

### Borrower

Any business or person who obtains funding on the premise that the loan will be repaid in full at an agreed date in the future

### Business Overdraft

A credit facility agreed with a bank allowing you to cover short term financing requirements with money you do not currently have in your account.

## C.

### cashflow

The flow of cash in and out of the business, especially as affecting liquidity



# INVOICE FINANCE GLOSSARY OF TERMS

## Chaps Payment

(CHAPS) is real-time gross settlement payment system used for sterling transactions in the UK

## Chocs Facility

Acronym for Client Handles Own Collections. This is applicable for Invoice Discounting products.

## Collect Out

This is where the lender collects advances from the invoices issued

## Concentration

The level for which a lender will fund a single customer within your client portfolio usually determined as a %. This is analysed by the lender to ensure 1 client does not represent too large a majority of your portfolio to mitigate the lending risk.

## Credit Limit

This is the finance limit the lender places on each of your customers, often based on credit rating and concentration.

## Credit Protection

A facility that covers the client against losses resulting from non-payment of invoices.

## Credit Terms

Payment terms agreed with your customers for when payment is due i.e payment is due within 30 days of the invoice being issued

## Construction Factoring

Specific form of financing for the construction sector, usually (but not always) subcontractors

## Confidential Factoring

A confidential facility where the customer is not aware the client is factoring their invoices

## Current Account

The total amount of funds paid to you including charges, at any given time

## Customer

An individual or company that purchases products or services from the factoring client and who will pay the invoice that is issued to them by the client

## D.

### Debenture

A charge registered against the assets of the company by any party owed money

### Debtor Financing

Generally a broad term that is used to describe factoring, invoice factoring or invoice discounting.

### Debtors

Customers who owe you money for any goods or services supplied

### Disapprovals

Invoices that are not approved for funding by the lender



# INVOICE FINANCE GLOSSARY OF TERMS

## Disclosure

Notification to the customer that the debt is assigned to a finance provider

## Discounting Charge

The interest rate charged on any monies borrowed

## Dispute

Any situation where a customer does not pay an invoice due to an issue with the products or services sold

## E.

### EFG

A government incentive specifically tailored for SME's to encourage lending. A guarantee for a % of the amount loaned is given to the lender.

### Export Debt

Money owed to a client from a customer based overseas

### Extended Terms

Customer payment terms that exceed 30 days

## F.

### Facility Limit

The maximum amount of funding that can be drawn upon against your invoices

### Factoring

A type of business funding where the lender advances an agreed % against the company's sales invoices. The lender also provides a full debt collection and management service.

### Factoring Company

A factoring company provides funds against the sales ledger and handles the debt collection process.

### Factoring Charge

A charge for handling, processing and collection a company's invoices

### Freight Factoring

Specific form of financing for the freight and transport sector

### Funding Period

The period of time from the invoice date when the lender will advance funds to the borrower. Usually between 90 - 120 days from issue of invoice.

## H.

### High Involvement

See Concentration Limit

## I.

### Import Finance

Also referred to as Trade Finance, this is funding for the purpose of purchasing goods from an overseas supplier, including VAT charges and freight costs.

### Ineligibles

The value of disapproved invoices that are ineligible for funding



# INVOICE FINANCE GLOSSARY OF TERMS

## Invoice Discounter

A lender who funds a borrower against the sales ledger. Unlike an Invoice Factor, an invoice discounter does not collect debts on behalf of the borrower.

## Invoice Discounting

A finance facility whereby a lender will advance funds against a company's sales invoices however the borrower will have responsibility for credit control and debt collection.

## Invoice Finance

A broader term used to describe finance that is provided by a lender leveraged against the debtor book

## L.

### Lender

An invoice finance provider also sometimes referred to as factor, invoice discounter or finance provider

### Letter of Credit

A legal document issued by a bank to certify to a supplier that payment will be made available upon the presentation of certain documentation

## M.

### Minimum Fee

This is the minimum service fee payable to the lender over the course of the facility. This can be shown as a monthly, quarterly or annual figure, depending on the terms of your facility.

## N.

### Non-Recourse Factoring

This is a form of factoring where the lender will absorb any credit losses that are resultant from a customer not paying an invoice. This is effectively a form of credit insurance for the borrower. Common types of credit loss that are covered are bankruptcy or insolvency

### Notice of Assignment

Notification sent to customers to inform them that the invoice is factored and being managed by the lender.

## O.

### Overpayment

This is an additional advance against the value of the invoice over and beyond the pre-agreed funding limit

## P.

### P.G. or Personal Guarantee

This is a form of security provided by the directors to repay monies advanced by the lender in case the lender cannot recover the funds provided from invoices issued or the borrowing company itself.

### Pre-invoicing

The practice of issuing an invoice before the products or services have been delivered to a customer.



# INVOICE FINANCE GLOSSARY OF TERMS

## Purchase Order Financing

This is a form of funding that finances supplier costs associated with a purchase order. This particular type of funding can only be used in instances where the PO is used for purchasing finished goods.

## R.

### Receivables

Debts owed by customers for any outstanding invoices for goods or services rendered

### Refactoring Charge

This is where an invoice has been outstanding for longer than the pre-agreed funding period. In these instances, the lender will usually charge additional costs for collecting this debt.

### Reserve

An amount of funds, often a % of the funding facility to cover bad debt expenses and payment shortages

## S.

### Sales Ledger

A report showing all outstanding sales invoices that remain unpaid

### Service Charge

This is the fee charged by the lender for the funding facility, usually a % of the borrowers turnover or on a 'fixed fee' basis

### Selective Factoring

This is finance leveraged against a single or small selection of invoices or customers

## T.

### Take On Debts

Put simply, this is the value of the sales ledger at the point the finance facility begins. A lender will 'take on' these debts and use them to form the basis of the initial funding.

### Trade Finance

See Import finance

### Trust Account

A bank account set up on behalf of an invoice discounting client for debtor payments to be paid into.

## V.

### Verification

The process whereby a lender will verify the value and validity of a clients invoice with the customer

## W.

### Warranties

Differing from a guarantee, a warrantee defines the level of service expected by one party in line with the terms of an agreement.

### Working Capital

The capital of a business which is used in its day-to-day trading operations, calculated as the current assets minus the current liabilities.