

Invoice Finance Myths

It is clear that many business owners are put off by invoice finance by what seems to be a never-ending list of misunderstanding the charges and these are often calculated incorrectly. The Business Board was established to bust these myths and to help our clients understand how to calculate their charges & what they are for, and in some cases help you to either remove or amend some ancillary charges if they should not apply to your business.

At The Business Board, we see our job as one of carefully selecting the right provider that is best suited to not only finance your sales ledger composition, but also the financial standing of your company, your sector of operation, and your need.

We will join your Invoice Finance meetings & VET your offers, as well as calculating all charges to ensure that you know to the penny your costs per £1,000 of invoice value making it easier for you to either pass on finance costs or obtain supplier discounts to pay for your invoice finance costs.

Invoice Finance Costs Myths

So How Much Will It Cost You? (this is dependent on a number of variables which we will run through with you in detail).

The Split of costs are:

1. Arrangement Fee

This is the cost associated with the setting up of the facility. It is important to note that some lenders legal fees in this (sometimes referred to as a Debenture Fee- it is the fee associated with registering a legal charge). It is common that most lenders will charge an arrangement fee of some sort. This is often expressed as a % of the facility or as a £ amount.

2. Renewal Fee

Some lenders (although not all) will charge a fee for renewing the facility each year. This is either expressed as a % of the facility limit or a fixed £ sum.

3. Service Fee

This is often referred to as the facility fee. This is the charge associated with operating the facility. This will in most cases be expressed as a % of the gross turnover, but in some cases, this can be agreed to a fixed monthly charge., usually made available for financially stronger companies.

One rule of thumb is that the higher the gross sales turnover the lower the % that is charged. Do bear in mind that that invoice finance companies will check your sales, and any up tick in sales will need to be supported by projections & a cash flow forecast. If your projections are unrealistically high you could end up paying substantial minimum charges. At the Business Board we will check your projections to ensure that you get a suitable deal.

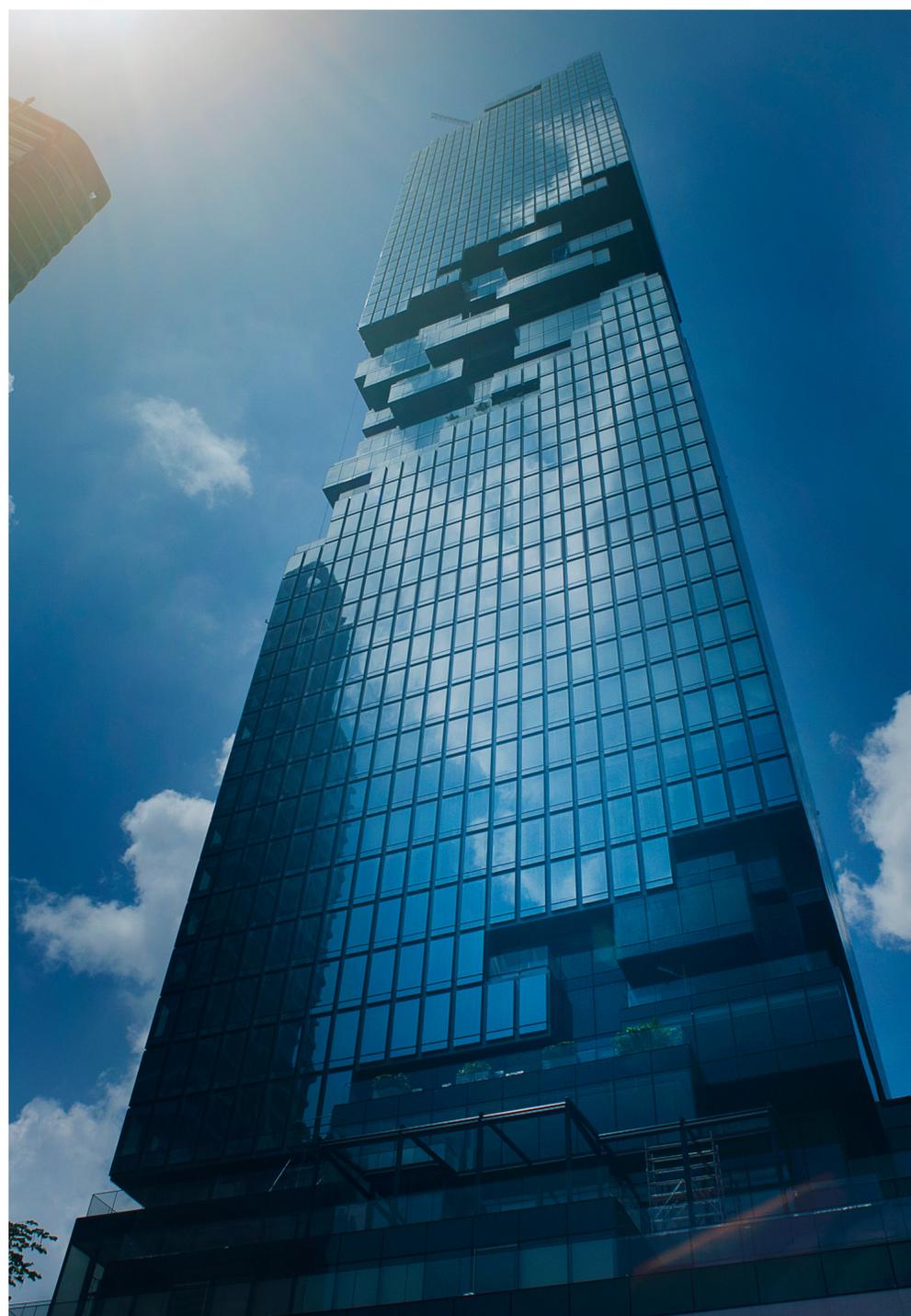
4. Minimum Service Charge

This is linked to the service charge & is typically set at 80% of the expected service fee calculated on the turnover the factor had quoted on to derive your % charge. For example, if your sales turnover is £1M, your service fee is 2%, your annual fee would be £20K, and at 80% your minimum service charge would be £16K. This fee is collected monthly which is £1,333 PCM, if the 2% service charge does not cover £1,333, the minimum service charge is debited. If the 2% yields more than £1,333 PCM then the higher figure is taken.

5. Discount Charge

This is the cost of borrowing or interest which the factor refers to as Discount. This is charged on the money that you draw down from the facility, and is usually charged daily on funds outstanding. Again, this charge can vary according to risk (how financially strong is your business), but also according to the invoice finance company's own cost of funds. It follows that the banks offer the cheapest discount rates, but are risk adverse. They will only consider 'vanilla operations' and it can take up to 6 / 8 weeks to get a decision. Small independent factors almost always have to borrow funds on what is referred to as Back-to-Back arrangements which add to costs. This reflects that many lenders cannot raise funds via retail deposits as banks can.

The banks need to make a margin too, it tends to make smaller independent IF companies slightly more expensive. Some lenders may also incorporate a minimum base rate charge. This may be expressed as a charge of 2% above Bank of England (BOE) Base Rate, subject to a minimum base rate of 1%. Roughly speaking if BOE base rates does not go above 1% then your discount margin is 3%. Typical invoice finance rates vary 3% to 4% plus base rate for SME borrowers compared to an overdraft rates of between 4% to 7% given the higher risk.



6. Other Costs

The other costs involved in invoice finance facilities, The Business Board Financial Services Limited will ensure that you are aware of what additional fees are charged over & above the charges we have previously mentioned. These include payment fees (charges for CHAPS, Faster Payments, Trust Account Fees, Overpayment Fees, and facility increase fees).

The Business Board will always ask for a list of disbursements or additional fees prior to entering into an agreement. Often these fees are hidden as the focus is on the three main fees, arrangement, service & discount charges. At the Business Board we will ensure that all the costs & charges are fully disclosed.

Working Out the Costs

Allowing for disbursements, we can & have calculated the costs involved in taking up an invoice finance from the indicative offer each factoring offer letter each factor will provide.

Each client is different therefore it would be inappropriate to guess at a cost based on made up figures as we cannot account for variables. We prefer to find you the right financier from a carefully selected panel & calculate your costs to the penny based on your individual quote.

As always, good luck with everything, stay safe and if we can help in any way we're happy to do so.

email us: info@thebusinessboard.co.uk
call us: 0118 338 1818

 0118 338 1818

 info@thebusinessboard.co.uk

 Unit 4b, Paddock Road, Caversham, Reading, Berkshire. RG4 5BY

www.thebusinessboard.co.uk

