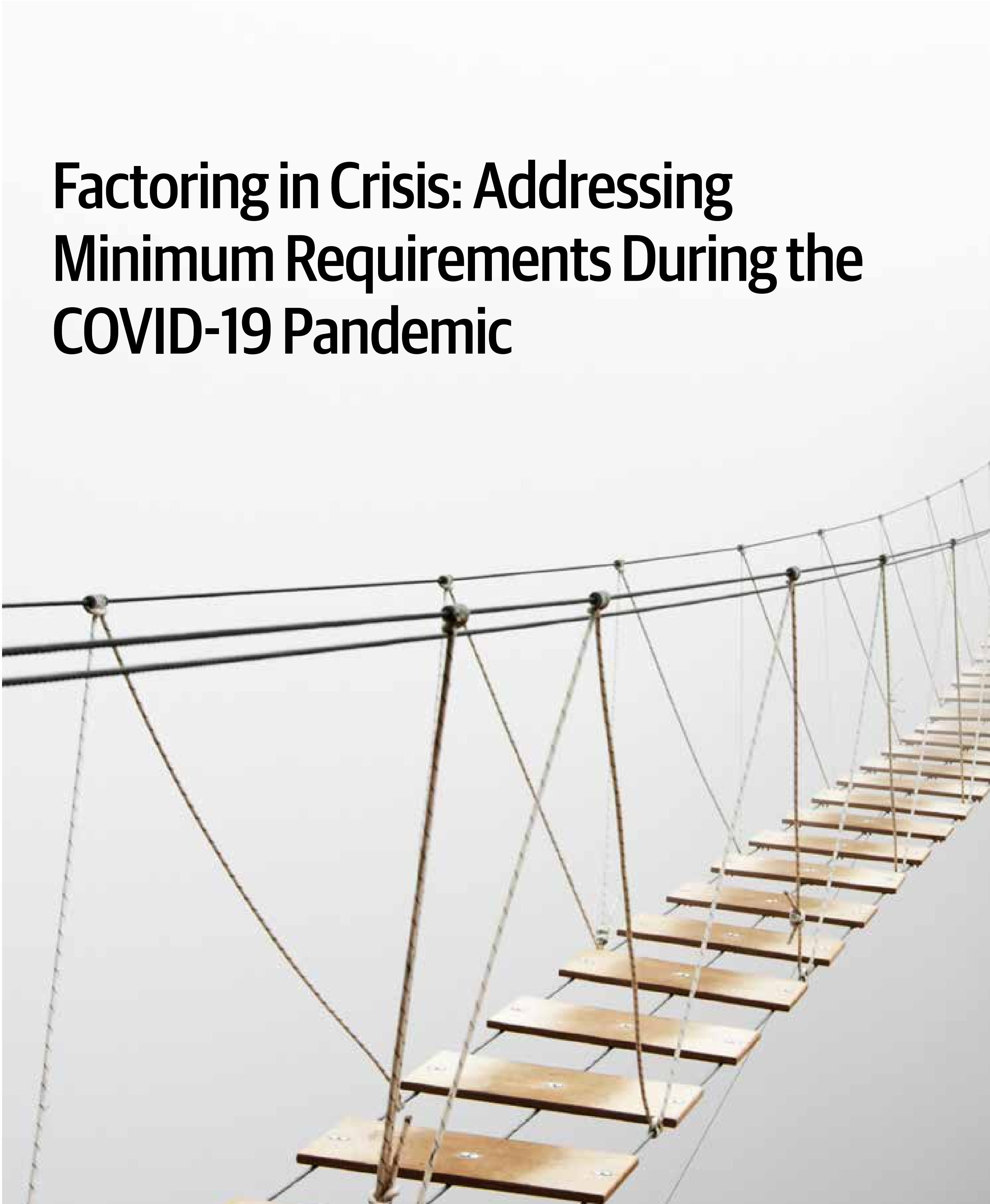
Factoring in Crisis: Addressing Minimum Requirements During the COVID-19 Pandemic



In the midst of the coronavirus (COVID-19) pandemic, minimum requirements create challenges both on the bank side and the debtor side for factoring companies. Robyn Barrett of FSW Funding and Stewart Chesters of Republic Business Credit detail how proactivity and flexibility with minimums can lead to important short- and long-term gains.

BY PHIL NEUFFER

Professionals in the factoring industry live with a level of uncertainty. That's just part of everyday business. The onset of the coronavirus (COVID-19) pandemic has caused that uncertainty to reach unforeseen heights. Disruptions to the supply chain and social distancing practices have put businesses on hold, rapidly changing the economic landscape and the way factors conduct business.

This disruption, of course, is not only affecting the factoring industry, but there is no doubt factoring professionals are facing unique challenges. One of the most critical is what to do about monthly minimum requirements, both when dealing with banks and with debtors.

Aging invoices are what stand to create the largest roadblock to factors and their relationships with their funding banks, according to Robyn Barrett, managing member of FSW Funding. As businesses are forced to close stores, they will cancel orders and put payments on hold in an effort to retain cash. That will cause invoices to age, which will create problems for factors.

"That will be an issue for a lot of factors," Barrett says. "As they see factored invoices age and then become ineligible due to cross aging or aged over 90 days. Concertation issues could also arise as a factor's portfolio shrinks because clients are non-essential or are on lockdown and can't sell invoices."

A rise in aging invoices is also a symptom of a drop in collection volume for larger companies, according to Stewart Chesters, CEO and founder of Republic Business Credit. This is dangerous for small businesses, who will suffer as large companies protect their cash while invoices get older.

Factors who maintain communication with their debtors and their bank will have the best chance at surviving through this pandemic. Factors may need to ask for exceptions from banks while stepping up collection calls and ensuring all data is collected in debt factoring software, according to Barrett, who adds it is important to determine the length of expected payment delays.

"[This] allows the factor to be proactive with their senior lender," Barrett says. "It also gives the factor time to look at the debtors and to really consider which ones might be liquidated and which ones are just delaying payment because they're conserving cash."

Chesters has already seen the positive results that can be achieved by maintaining a proactive and communicative relationship with a bank partner.

"We've had a conversation with our bank, which is Wells Fargo Capital Finance, and they've indicated that pretty much as we see problems occur, they're going to work with us," Chesters says. "I'm expecting it not to be an issue on the bank side."

When it comes to minimum monthly requirements from debtors to factors, there is room for nuance even if these requirements are still technically enforceable. Just how easy it is to enact effective strategies will vary depending on the factor itself. Many of FSW Funding's clients don't have minimums to begin with, and the ones that do are growing in this environment, according to Barrett. Meanwhile, Chesters says that Republic Business Credit has taken the unilateral approach of not enforcing minimums at this time.

For other factors, Barrett says it is important to take a case-by-case approach to determine what to do about minimum requirements. Making decisions that will be beneficial to both sides is the key. Businesses are struggling enough as it is and piling on by enforcing minimums could end up being harmful in the long term.

"It really doesn't serve anybody's purpose," Barrett says. "When the economy finally does turn around, you have a client now who really doesn't like you, and the first chance they can to leave you, they're going to leave. So I think this is really more about factors being smart and working with their clients, and if they want to retain those clients, work toward a win-win relationship."

Of course, factors still need to conduct business and maintain a level of consistency. Some strategies to consider include waiving minimum requirements for up to 90 days and ensuring that clients are still submitting their receivables.

"I would rather do that and keep the client, keep the relationship and have that client loyal to me than trying to enforce a monthly minimum for a very short-term gain," Barrett says.

It's not entirely a doom and gloom scenario for every business, however. Chesters notes that there

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has been 20% portfolio growth for Republic Business Credit in the midst of this pandemic, including work with a manufacturer that is producing surgical masks for the Federal Emergency Management Agency.

"We've also had clients take additional availability because they want the comfort of funds in hand, so extra cash," Chesters says.

The effects of the coronavirus (COVID-19) pandemic will be felt far beyond the short term. How factors adapt and provide support in this environment will go a long way in guiding businesses through the turmoil and in shaping how the factoring industry is viewed in a time of crisis. To Chesters, this is a time where factors can truly step up.

"We are probably going to be seen as businesses that helped small businesses get through this," Chesters says. "[We have] the ability to prove that we are a good delivery system for funding working capital for small businesses." •

Phil Neuffer *is managing editor of* Commercial Factor.

Robyn Barrett
Managing Member
FSW Funding

Stewart Chesters
CEO and Founder
Republic Business Credit