

# Understanding Non-Traditional Funding Sources and Alternate Forms of Working Capital



*“Access to Capital is the Key to Your Customer’s Success.”*

# Sources of Operating Capital

## Source of Capital

- Equity from Principals or Outside Sources
- Mezzanine Debt
- Factoring Companies
- **Action Capital** (*A/R Finance Company*)
- Specialty Debt (*Leasing, SBA, etc*)
- Traditional Bank Debt
- Extended Trade Terms
- Normal Trade Terms

## Relative Cost

Highest Cost



Lowest Cost

# Comparison of Working Capital Products

## Traditional Bank Line of Credit

- Least expensive source of working capital 5%-7% APR
- Requires CPA prepared financials showing historical profits and low debt to worth ratios...no startups or young companies
- Prefers hard assets like R/E or equipment as additional collateral
- **Can Be Lengthy Approval Process (3 weeks to several months)**
- Advance Rates 70%-80% on A/R
- Requires expensive independent onsite audit prior to closing
- Attorney cost and closing fees
- Annual contracts with commitment fees
- Additional cost for Lock Box and Monitoring Service
- Little or no verification on Invoices
- Limited knowledge of government receivables
- Requires Owner Guarantees

## Accounts Receivable Based Line

### *Action Capital's Credit Product!*

- Cost is 14%-17% APR broken down into an interest cost and processing fee. Example Prime + 2% plus 1% monthly fee on net amount borrowed.
- Internal financials statements required and/or tax returns
- Only collateral taken is accounts receivable
- Approval and closing in less than a week.
- Advance Rates 90% on A/R
- **Advances against unbilled revenue**
- Companies with losses, customer concentrations, tax liens, start-up, high or slow growth and in bankruptcy are OK
- Review credit quality of the company's customers and require change of address notification
- No closing cost or long term contracts
- Little or no verification on individual invoices
- Free Lock Box Service
- Strong knowledge of the government market
- Requires Owner Guarantee

## Factoring

- Cost is 20-30% APR with a discount on the face amount of the invoice and a per diem on balance advanced
- Internal financials required and/or tax returns
- Only collateral taken is Accounts Receivable
- Approval and closing in two weeks
- Advance Rates 90% on A/R
- Companies with losses, customer concentrations, tax liens, start-up, high or slow growth and in bankruptcy)
- Typically one year contract with minimum fees and out of pocket closing fees.
- **Focus on each individual invoice with up front confirmation, stamping with notification stamp, mailing of invoice and collecting invoice. High notification level to customers.**
- Knowledge of the government market varies based on the factoring company
- May or may not have Owner Guarantees

# Qualifiers for Target Businesses We Finance

- Doing Business With Government Agencies
- Companies Without Assets like Real Estate, Land or Equipment
- Companies that are Start Ups, Early Stage or High Growth
- Turn Around Situations
- Sudden Change in Financial Performance (*Decrease in Revenues or Recent Losses*)
- Large Customer Concentrations
- Company is consistently Beyond its Credit Terms with Banks & Vendors
- Unusual Large Product Order
- Companies that are Constrained by Current Lender (*Bank Won't Increase Their Line of Credit*)
- Companies in the Workout, Special or Criticized Asset Group within their Bank

# Industries We Serve

- Services and Professional Services Firms
- Government Contractors
- Distributors and Re-sellers
- Out of Favor Industries (*Trucking, Printing, Services to Real Estate or Construction Firms*)
- Companies looking for Supplier Diversity Opportunities

# Let's Partner!

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