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UP CLOSE / Mark Little, president of Diversified Funding Services Inc.

Cash consultant

Broker helps firms turn slowly paid invoices into fuel that turns the wheels of commerce

By PÉRALTE C. PAUL
The Atlanta Journal-Constitution
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When companies find themselves in a bit of a corporate cash crunch, Mark Little and others like him are called on to give them temporary infusions of money.

Little, president of Jonesboro-based Diversified Funding Services Inc., is a factoring broker and consultant who helps companies willing to sell their accounts receivable to firms willing to buy them.



Becky Stein/Special
(ENLARGE)

Mark Little, a former private investigator who grew up working in a family-owned auto repair business, got a firsthand look at how cash flow problems could hamstring a small business. It led him to enter the factoring business.

THE MARK LITTLE FILE

- **Residence:** Jonesboro
- **Family:** Married to Donna; one stepson, Daniel Barker; five pets
- **Hobbies:** Racquetball, sports cars, aquariums and fishing.
- **What I'd be doing if I wasn't doing this:** Probably be in commercial real estate.
- **Biggest heroes:** "Heroes are the people who sacrifice themselves and go off to war. I have a place in my heart of respect for the people who do that."
- **Favorite movies:** "Braveheart" was a passionate movie; "We Were Soldiers" was very good; "Almost Famous"; "The Shawshank Redemption."
- **Expensive toy:** Six-speed manual Electron Blue 2006 Corvette C6 Z06.

Typically, these are companies in service industries that need money to fund things like payroll and other expenditures, since the receivables they're waiting on could take months.

Little, a former private investigator who grew up working in a family-owned auto repair business, said he knew firsthand how tight cash flow could be for small businesses.

Often, they can't get traditional bank financing or can't get enough because their biggest assets are their receivables, he said.

And that's what got him interested in the factoring business.

"It really intrigued me because I knew the need that it could fill," said Little, 42. "If a bank has to tell a customer no, a lot of times, we're able to grow that company to be bankable."

He said he brokers financing for companies that have between \$10,000 and \$5 million a month in receivables.

There's a lot of money to be made in cash.

The industry financed more than \$120.1 billion in receivables last year in the United States, up 15 percent from the \$104.4 billion in 2004, according to Factors Chain International, a trade group.

Worldwide, the business grew 18 percent to \$1.29 trillion last year, up from \$1.09 trillion in 2004.

Even traditional banks, including Branch Banking & Trust Co., Wells Fargo and HSBC, have units that provide factoring for businesses.

Q: Explain how factoring works. What exactly is it?

A: Any business-to-business or service and the company invoices for that product or service. The product must be delivered, the service must be rendered, and they invoice and they wait for payment. The terms can be 15, 30, 60, even 90 days. As long as they're invoicing a creditworthy company, then they can qualify for factoring. There are some things that need to be taken into consideration, whether they have any existing loans or lines of credit. It's basically selling accounts receivables at a discount.

Q: So, if I had \$100,000 in receivables coming in each month and I needed cash flow, I would go to you?

A: Correct, as long as you're invoicing a creditworthy company. A good example like, say, a staffing company — IT [information technology] staffing or nurse staffing for hospitals, etc. — every time they place an employee into a company they have to make payroll at the end of the week.

They invoice that company, that hospital etc. for that week's worth of labor. Well, they make payroll. However, they invoice that hospital and they have to wait 30 or 60 days for payment because that's the terms. So, they can be out two, three, four payrolls before they get paid from the previous invoices.

With factoring they can sell their receivables and get that immediate injection of capital. It works off an advance rate. The average advance is 80 percent. So using that \$100,000-a-month example, they get \$80,000. The factor then waits for payments. When the payment is made, the factor rebates that 20 percent minus the fees.

your year?

Q: I get the \$80,000 and once I get my receivables against that \$100,000 I would pay

A: The payment — since the factor has purchased that invoice — would go to the factor and then that would activate the 20 percent. The factor would advance the \$80,000, the \$100,000 payment would come in and the factor would send the 20 percent minus the fees. So for example, if the fee was a total of 3 percent, they would receive \$17,000.

Q: What's the range in fees?

A: It depends on the volume of the company and how much they're doing a month. The rates can be as aggressive as

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prime plus 2 [percent] up to what's called block funding. Instead of having a daily rate, a factor may choose to say it's going to be 2.5 percent for 30 days. The longer the invoice is outstanding, the higher the fee will be. There will be a zero-to-30-day fee and then a 31-to-40-day fee. So it depends on if it's a daily rate or a block schedule.

Q: What are the types of industries that most use factoring?

A: Any business-to-business product or service is a candidate. However, factoring is one of the oldest forms of commercial finance that exists. It used to be very popular in the manufacturing and textiles industries. It's very popular for service-based industries — trucking heavily utilizes factoring.

Construction is a niche area for factoring. Medical receivables are another niche for companies that invoice Medicare and Medicaid. But truly, any business-to-business product or service — that's why I'm able to help start-up companies.

Let's say that you're not bankable at this time, because you haven't been in business long enough or don't have the financials or the track record. As long as [you're] invoicing a creditworthy company, that invoice is the asset, so that's what's taken into consideration. So that's why start-ups are able to qualify for factoring, because the asset is a creditworthy receivable.

Q: And they can't get traditional bridge loans or business loans factored against whatever income or capital they might have from month to month?

A: A lot of times it's both sides of that coin. Some companies can't qualify for traditional financing or they don't qualify for an adequate [credit] facility. They can't get enough to meet their cash flow needs. Or, it's a company that has outgrown their [credit] facility and a lot of their growth is receivables-based and the banks are not as comfortable with it being strictly receivables-based. There's no other assets to sink their teeth into. It's just as popular for start-ups as well as rapidly growing mature companies.

Q: So why haven't banks established factoring companies separated from their main banking operations?

A: Some do. One of the primary reasons that drove me into this is, I grew up in a family-owned business. I did not know factoring existed. There's so many business owners that desperately need this that do not know it's available. If you start comparing costs, it's two totally different products. I have clients that I have watched that go from start-up — from \$10,000 a month — to invoicing \$1 million a month. And they grew their company with factoring. This provides not only jobs but it provides a valuable service.

Q: If you have a lot of requests for factoring, is that a sign the economy is growing?

A: Oh, definitely. It is a good indicator. We've all heard the saying that 'cash flow is the lifeblood of business.' It's true, regardless of how large or small a company is. There are companies that ... go out of business because of their growth. Because they don't have the capital to fuel that. Factoring is an unlimited access to capital that does not create debt. So they're able to take on a new customer, sell that receivable, still offer the terms and get the capital they need to keep growing and expanding.

So, it's a very good sign of strength.

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