



"Commercial Lending Simplified!!!"

COMMERCIAL CAPITAL BANCORP

GLOSSARY & TERMS

- Account Debtor:** The customer of a factor's client (the business owing the money.)
- Accounts Payable:** Amount(s) owed on open account by a business to their creditors (suppliers) for goods sold and delivered or services rendered
- Accounts Receivable:** Amount owed to a business by its customers for goods sold and delivered or services rendered
- Accounts Receivable Aging Schedule:** A classification process, as reported on a schedule by time intervals (30 day increments & current), 30 days, 60 days, 90 days, 90+ days, used to analyze the amount of money owed to a business by its customers. It is used by credit grantors (such as banks and factors) to determine the probability of collection, as it shows patterns of payment and delinquency
- Accounts Receivable Financing:** Short term financing using the accounts receivable as collateral for advances of cash. This is NOT the same as factoring
- Acknowledgment Form:** Form sent to the client's customer account debtors to confirm that the invoice the client is selling does exist and that they will remit payment directly to lender
- Associate:** An individual who introduces a client that needs cash to a factoring company, and receives a commission
- Blanket Assignment:** The legal transfer of ownership of all accounts receivable, both present and future, as collateral for funding
- Capital:** The total amount of funds invested in a business after all debt has been satisfied. Also called net worth. (Assets - liabilities = capital)
- Cash Flow:** An analysis over a period of time revealing the availability, or lack, of cash. More simply put, the difference between cash in (income) vs. cash out (expenses). Since money does not flow in and out at an equal rate, in most businesses, an analysis of cash flow is important, especially of businesses that are cyclical in nature, or subject to external forces
- Chapter 11:** A proceeding under the Federal Bankruptcy Act whereby a debtor may, through a court order, remain in possession of its business (and control its operation) for a time (as long as it pays its current debts). It also makes possible the negotiation of payment schedules and the restructuring of debt. The debtor must eventually reorganize and pay its creditors, or cease operations
- Client:** For our purposes here, a client is a business that desires to sell its accounts receivable
- Collateral:** Security (an asset) that is given or pledged to a creditor (in the case of accounts receivable, the factor) to guarantee the discharge of an obligation by the debtor. If the borrower defaults, the creditor has the legal right to seize the collateral and sell it to pay off a loan. Also see: Recourse & Non Recourse Factoring

- Concentration:** A proportion of a client's total accounts receivable that is due from one single customer
- Corporation:** A legal entity, chartered either by an individual state or the federal government, which is separate and distinct from its officers, directors, and stockholders. The charter is the "birth certificate" of the corporation. It can own property, incur debts, sue and be sued. There are three distinct advantages: limited liability (owners can lose only what they invest), easy transfer of ownership (through the sale of stock), and continuity of existence
- Corporate Resolution:** An action taken by a vote of the corporation
- Customer:** The commercial entity that a client sells goods to or performs services for. It is the customers who pay the factor for invoices purchased from your clients. The customer is often referred to as Account Debtor
- DBA:** Doing Business As. Used to designate the name of a business as it is commonly known rather than its legal name, the name of the owner, etc.
- Direct Mail:** Mail sent to large numbers of potential customers advertising a product or service and soliciting orders
- Discount:** Method whereby a fee is earned through the purchase of an asset at less than face value
- Discount Factoring:** Arrangement whereby a factor purchases an account(s) receivable from a business (your client) at a discount to the face value of that receivable. The factor earns a fee based on the number of days that the receivable remains unpaid, i.e., the longer the receivable remains unpaid, the larger the fee incurred
- Discount Fee:** The amount earned by a factor on each invoice purchased. It is based on the period of time the invoice remains outstanding (unpaid) and is set forth and agreed upon by both parties in the Discount Schedule
- Due Diligence:** The verification of information and its documentation given to a factor in order to facilitate a decision as to whether or not a particular invoice should be purchased. Factors always want to take as little risk as possible and want to be assured that the money they advance will be paid back
- Face Amount or Face Value:** The total dollar amount of an invoice. This is the amount that has to be paid to the factor by your client's customer, without consideration as to how much was advanced to the client
- Factor:** A company that purchases accounts receivable (invoices) from a business
- Factoring:** The selling of a business' accounts receivable to a third party. Invoices are generally sold without recourse (i.e., the factor cannot turn to the client for repayment, or compensation for the advance, if the invoice proves to be uncollectible), although they can be sold on a recourse basis. Factoring is usually done on a notification basis, whereby the client notifies its customer to pay the factor directly
- Invoice:** Bill for the sale of goods or performance of services to a client's customer. An invoice lists items purchased, or the service rendered, the per unit cost, the total price, and the terms of sale
- Liabilities:** The amount owed by a business or an individual, excluding ownership equity. There are two types of liabilities: Current and Long-term. Current are debts that must be paid within one year (such as accounts receivable, dividends, notes payable, bank loans payable, taxes payable, wages and long-term debt due within one year). Long-term liabilities, also called funded debt, are debts that are not due until after a year's time
- Lien** A creditor's claim against property. When the debt is paid, the lien is removed. Courts to satisfy judgments may also grant liens

- Lien Search:** A search through public records on file in both the County Clerk and Secretary of State's offices for any claims (pledges) against the property of a business (such as their accounts receivable) or an individual. An example would be if a taxing authority has a lien against the accounts receivable of a business due to taxes owed
- Line of Credit:** The maximum amount of credit that may be extended to a borrower by a lender (i.e., a bank.) This type of arrangement gives a borrower more flexibility in planning for operating expenses
- Liquidity:** The ability to convert assets into cash (or cash equivalent) without significant loss. If a business has good liquidity they will be able to meet their maturing obligations promptly, earn trade discounts, benefit from a good credit rating, etc.
- Mechanic's Lien:** A lien on property (such as a building or an invoice) given by statute to a worker or contractor who performs work or furnishes materials for the improvement of that property, until compensation is made for the improvement. Until that lien is satisfied, it usually takes precedence over all other liens
- Negative Cash Flow:** A pattern in which cash receipts (income) are less than cash expenditures (expenses). Continual negative cash flow usually leads to the failure of the business
- Notification:** Process whereby the factor lets an account debtor (your client's customer) know that an invoice(s) has been purchased from your client, and that the debtor is to pay the factor directly
- Non-recourse:** Without obligation to pay. A type of factoring wherein once a factor purchases a receivable they assume complete responsibility for its collection. If the money owed cannot be collected, the client will not be held liable
- Partnership:** A contract between two or more people in a joint business venture who agree to pool their funds and/or talents and share in the profits and losses of the enterprise. General partners are those who are responsible for the day-to-day management of activities, whose individual acts are binding on all the partners, and who are personally responsible for the partnership's total liabilities. Limited partners are those who contribute only money and are not involved in management decisions and whose liability is limited to the amount of their investment
- Personal Guarantee:** An agreement between the principal of a corporate borrower and a lender (or, in the case of factoring, the factor and the client) wherein the principal assumes liability for the obligations and performance of the corporation
- Principal:** Generally, a major party to a transaction, acting as either a buyer or seller; or the owner of a privately held business
- Proprietorship:** Non-incorporated business owned by a single person, who has the right to all the profits from the business and is responsible for all its liabilities
- Purchase Order:** Written authorization to a vendor (supplier) to deliver specified goods or services at a stipulated price
- Recourse:** Type of factoring in which the client, or guarantor, is liable for payment (i.e., the return of the money advanced) in the event the customer is financially unable to pay
- Reserve:** A deposit maintained by a factor to cover bad debt losses and/or shrinkage of accounts receivable because of discounts taken for shortages, returns, etc.
- Security:** Property given or pledged to ensure the repayment of a debt by a borrower
- UCC-1:** The document filed with the Secretary of State and/or the County Clerk's office(s) to perfect a factor's lien on a clients' assets (accounts receivable). Also called "UCC Financing Statement."

UCC-2: The document that is filed with the State of California, for clients incorporated in California, to perfect a factor's lien on a clients' assets (accounts receivable).

UCC-3: The document that is filed with the Secretary of State and/or the County Clerk's office(s) as evidence of an assignment, release or change in the UCC-1. In the case of factoring, a UCC-3 is filed to terminate a UCC- 1 when all outstanding invoices are paid and the relationship between the client and the factor is severed. Also called "UCC Statement With Respect To Change."

(UCC) Uniform Commercial Code: The federal code which regulates the transfer of property

Verification: Process by which a factor confirms the validity of an invoice by checking directly with the client's customer to make sure a specific invoice is indeed due and payable, and that payment will indeed be made to the factor

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