



A Division of Southern California Leasing Inc.

Factoring and A/R (Accounts Receivable) financing are related financial services but have some key differences:

1. Ownership of Receivables:

- Factoring: In factoring, a business sells its accounts receivable to a factoring company at a discount. The factoring company assumes ownership of the invoices and the responsibility for collecting payment from the customers.
- A/R Financing: With A/R financing, a business uses its accounts receivable as collateral to secure a loan or line of credit. The business retains ownership of the invoices, and the lender provides a loan based on the value of the receivables.

2. Responsibility for Collections:

- Factoring: The factoring company is responsible for collecting payments from customers. This can be beneficial for businesses that want to offload the burden of collection and credit risk.
- A/R Financing: In A/R financing, the business remains responsible for collecting payments from its customers. The financing provider acts as a lender and does not get involved in the collection process.

3. Control:

- Factoring: When a business factors its receivables, it relinquishes control over the accounts receivable to the factoring company, including decisions regarding customer communication and collection practices.
- A/R Financing: A business retains control over its accounts receivable, allowing it to manage customer relationships and collection procedures as it sees fit.

4. Cost Structure:

- Factoring: Factoring involves a fee or discount on the face value of the invoices sold to the factoring company. The cost is typically higher than interest rates associated with A/R financing.
- A/R Financing: A/R financing typically involves interest charges on the loan or line of credit. The cost structure is more akin to traditional lending, with interest payments made on the borrowed amount.

5. Confidentiality:

- Factoring: Factoring is usually disclosed to customers since the factoring company collects payments directly from them.
- A/R Financing: A/R financing can be kept confidential, as customers continue to interact directly with the business for payments.

In summary, factoring and A/R financing both offer ways to leverage accounts receivable for working capital, but they differ in terms of ownership, control, cost, and how they impact customer relationships and collection processes. Businesses should choose the option that aligns best with their specific financial needs and objectives.