

## Factors Southwest: Open For Business

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Robyn Barrett, owner

It's happening in every city in America: small business owners are getting rejections from banks that once fought for their attention. They can't get a loan, a mortgage, or a line of credit. It doesn't matter whether their credit is good, the sign on the door of the bank says CLOSED.

The problems extend even to Congress; it's lagging in approval of \$30 billion program that would breathe life into small businesses by giving money to the small and medium-sized banks that would lend to them. But banks are not lending to the little guy, making it hard for small-scale operations to pay their employees, compensate vendors, and expand or improve services to attract and keep customers.

"If the bank can't help them, they walk away thinking, 'I'm doomed,'" said Robyn Barrett, the owner of Phoenix-based **Factors Southwest**, which pulls small businesses out of quicksand by freeing up cash. "It's understandable. Whenever you need a loan, the first thing you think of is a bank. It's the same if you're sick: you go to your doctor."

Barrett thinks that's too bad. "If more small businesses knew there were many types of creative alternative financing solutions, they'd be in a better position," said Barrett, who routinely funds businesses run by people previously unfamiliar with the factoring industry. "People discover us when they have to."

Factors Southwest is probably one of the few businesses that doesn't have to search far and wide for clients. But Barrett isn't waiting for customers to come to her. She considers it her job to educate consumers and to find clients she feels she can help forestall bankruptcy. She uses press releases, local press, and a PR firm to get the word out.

"It's an opportunity for me to get out there and educate people about factoring," said Barrett, who holds a CPA and an MBA. "We're a lot like a community bank in that we're strong regionally and locally. Customers are disgusted with big banks and sick of being treated like numbers. When you talk about loans and other services, you'd prefer to work with people who are local, and so would I."

Barrett also focuses on creating close relationships with banks. "Many times, the banks don't even realize we're out there." Bankers are grateful to find her. "No one likes to tell anyone, 'I can't help you.' Now they have an option to return to the person and say, 'We can't extend you a line of credit, but we know someone who can.'"

### Behind the eight ball

Any business that needs cash to move itself forward is a candidate for factoring. Many are good companies that for whatever reason have fallen behind the eight ball, said Barrett. Maybe they have money tied in up in a payment agreement, want to grow sales but don't have enough working capital, are worried about making payroll, or are protecting themselves from vendors who won't ship until a debt is paid.

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For example, Barrett recently pitched a staffing company. “Companies that benefit greatly from factoring have cash outflow much greater than cash inflow. A staffing company may have to make payroll every week, which is a huge expense if its clients are extending payments only every 35 or 40 days. But it can’t say to its employees, ‘I’ll pay you every 45 days.’” If she took on such a client, Barrett would begin by examining the agency’s client list to see whether its clients would pay them on time.

She explained that if an agency is sending temps to places like Honeywell, Wells Fargo, or other places with good credit, Factors Southwest would be confident underwriting its loan limits based on that. “We can factor that invoice, or fund the agency, on day one, so that on day seven, it can make payroll. On day 45, the client pays us for the invoice, and we give it the amount we didn’t advance, less our fees. It helps the company even out its cash.”



Although factoring offers the same types of products as banks, it’s more short term. Also, banks make credit-line decisions based on a company’s historical performance. Said Barrett: “You may need \$200,000 or \$500,000, but the bank may only be able to offer you \$100,000. So if you’re a new business, or if, like many companies, you hit a rough patch in 2008 or 2009, you’re not going to get that money.”

Factoring companies are likely to focus on the future, asking the potential client how much they have in contracts. “If you’ve got business contracts or can show us you are expecting to have a million dollars in invoices, we can fund on those invoices, as long as they’re valid. Our credit limits are often much higher than a bank.”

Barrett noted that even with larger loans, factoring is no riskier than other banking models. “We are extremely close to our collateral,” she explained. “Before we fund, we see every invoice, packing slip, and purchase order, so we can validate that those invoices are good.”

If necessary, Barrett or one of her team of six employees will perform notification, meaning they’ll contact a business’ debtors, inform them that Factors Southwest is a finance company, and direct that all payments to go to its lock box.

In contrast, she says, a bank has higher risk because the bank doesn’t control where the cash goes—the client can put the money anywhere they want, and the bank doesn’t see the actual invoice. “You could have a borrower that makes fictitious invoices, and the bank might not catch that for 60 to 90 days.”