

# Business Finance Solutions

## Creating Cash Flow for Small Businesses

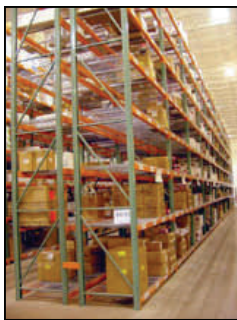
### Fact Sheet—Working Capital Inventory and Purchase Order (PO) Finance

#### Overview

Inventory financing is usually combined with other types of loans such as purchase order financing, factoring or asset based loans (ABL), though it is possible to obtain stand alone inventory loans. These types of loans are most suitable when:

- ◆ Inventory growth is high because of demand;
- ◆ There is a long manufacturing or transportation cycle from manufacturing plant to customer;
- ◆ Rolling out new product to large customers requiring unusually large quantities;
- ◆ Seasonality peaks cause uneven inventory levels (such as Christmas);
- ◆ Overseas contract manufacturers require prepayment terms.

Often times, due to the “mobile” nature of inventory, lenders who make inventory loans require regular audits and a perpetual inventory system.



#### Qualified Inventory as Loan Collateral

Inventory and purchase order lenders have a number of requirements about the characteristics of inventory being financed. Here is a partial list:

- ◆ Inventory must be easily sellable as salvage inventory.
- ◆ Private labeled or custom manufactured products will not usually qualify.
- ◆ Salvage value must be easily calculable.
- ◆ Inventory must be stored where lender can have legal access to it in the event of default.
- ◆ There must be highly accurate inventory records available.
- ◆ Generic or commodity inventory will command a higher advance rate than other types.
- ◆ Inventory lenders are often concerned about what type of customers are buying the inventory and purchase order terms are.
- ◆ Inventory and PO lending is typically more expensive than factoring, so it is often advantageous to pay off the inventory loan with an accounts receivable loan.

Call us if you believe an inventory loan is right for you. We can generally give you a quick idea about the cost and various terms of inventory lenders.



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