DAT® Freight & Analytics

The Complete Guide to Freight Factoring

Get answers to all your questions about freight factoring

Introduction

Managing cash flow has never been easy. While payments can take weeks or even months to come in, operating expenses never stop. Between the fluctuating fuel prices, rising truck repair and replacement costs, and ongoing labor shortage, it's often difficult for carriers to find the cash they need — even if they already earned it.

However, you don't have to stretch your budget to its limits, max out your credit card, or take out loans with soaring interest rates to keep your business afloat while waiting for your partners' payments to roll in. Instead, you can factor your loads with a reputable company.

What is freight factoring?

In the trucking industry, brokers and shippers pay carriers primarily on a standard net 30 term. After the load is delivered and you've invoiced the broker for payment, the expenses incurred on that load, and all the loads you deliver in the next month, won't see a return for up to a month. Enter factoring, or the process of selling invoices (accounts receivables) to a factoring company in exchange for cash.

Essentially, factoring eliminates the extensive waiting period that comes between the time you deliver a load and the time your customer pays the invoice. By selling your accounts receivable to a factoring partner, you can quickly get your hands on cash — often within a day. You'll be able to use the money to run your carrier business and pass the stress of collecting customer payments on to your factoring company and rest easy knowing your factoring partner is also handling all of your back office work, offering you one easy resource for every load you deliver.

Of course, factoring companies have to make a profit, too. They'll take a small percentage off the top of your invoice in exchange for giving you money upfront before your customer pays. Rates vary depending on the company, how many invoices you factor, how much your invoices are worth, your customers' credit histories, and whether you opt for recourse or non-recourse factoring.

How does freight factoring work?

Freight factoring might seem complicated or even intimidating for those unfamiliar with the process, but it really isn't. In fact, factoring has become a very normal practice in the industry, with the majority of existing and new carriers using the service, and preferring it over other fast pay options like broker quick pays. Though the process may differ slightly from factor to factor, the factoring process can be summed up in five simple steps.

Provide important details

Wait for a broker credit check

Deliver the load

Send essential documents

Receive payment

Rinse and repeat

Provide your factoring company with all the important details

The freight factoring process begins as soon as you book a load from a customer. You'll need to send information about the load to your freight factoring company via an online portal or your factor's app. Helpful information includes the load, the rate confirmation, and details about the shipper.

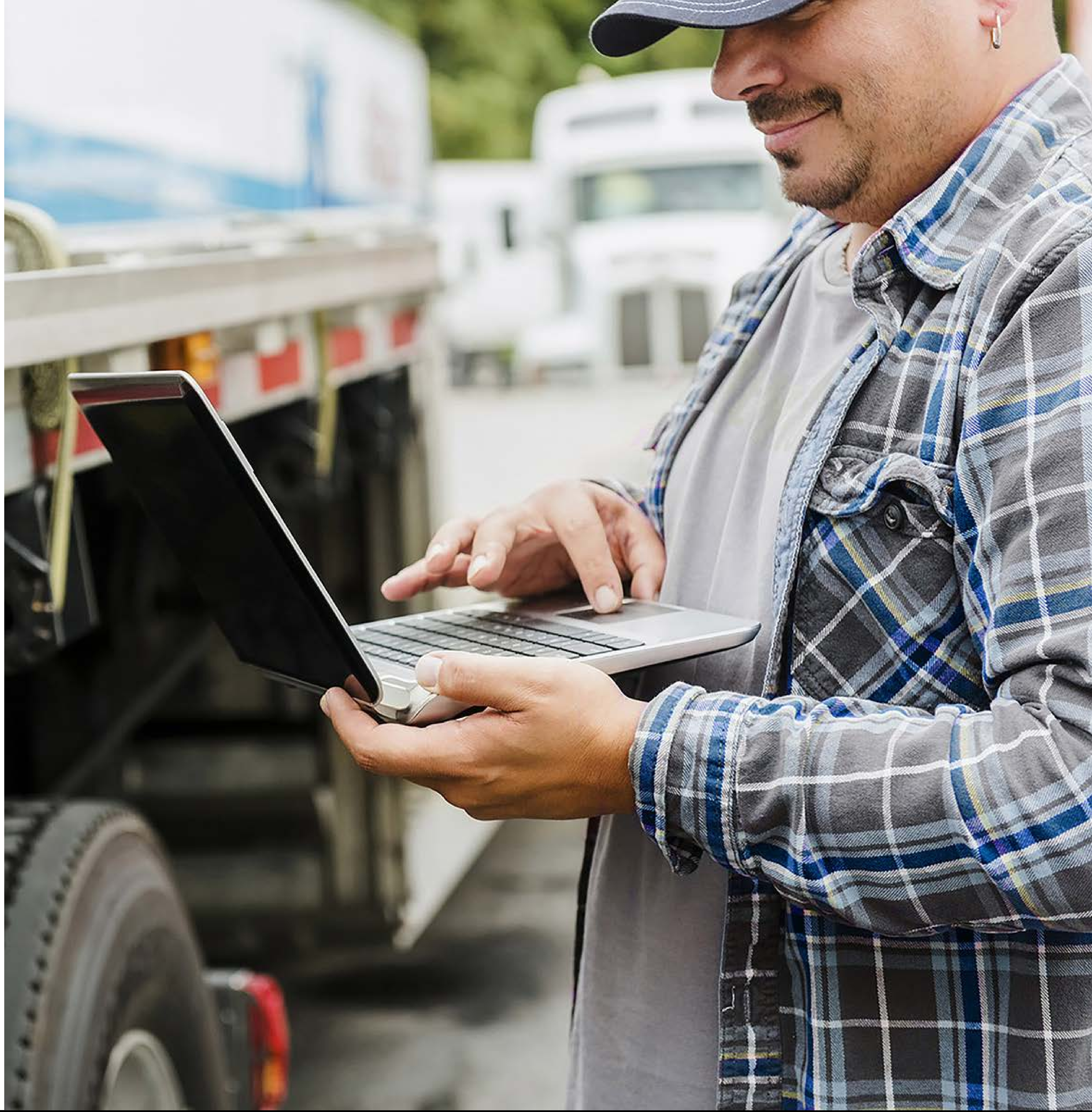
Wait for your factor to complete a credit check

Just like you take steps to ensure your potential partners are in a position to pay you for your work, factoring companies also ensure the brokers and shippers who will pay them are actually able to pay — and in a timely manner. Factoring companies aren't intended to buffer you from low credit and poor payment history customers. They are there to expedite your cash flow and manage your back office with trusted, credit-worthy customers. Brokers and shippers with bad credit histories may not be approved if your factor believes they're unlikely to pay and are too much of a risk factor.

Factoring companies constantly monitor broker and shipper credit and share the status with you through a simple search, so there's no waiting when you are trying to book that next load. That way the factor won't have to complete a credit check every single time because they already have the information on file and know which shippers and brokers are trustworthy. When you use the DAT load board, you'll be able to see which shippers and brokers are pre-approved for factoring by DAT partner OTR Solutions, making it easier to plan ahead. Just look for a blue checkmark icon in the load details to see the pre-approved companies!

Deliver the load

After receiving approval from your factor, it's time to hit the road and deliver the load.



Send essential documents to your factoring company

After you've reached your final destination and all the cargo is unloaded, you'll need to provide your factoring company with additional documents related to the load, such as proof of delivery and rate confirmation. Once you submit those load details through the factor's online portal or mobile app, they will automatically generate an invoice.

Receive payment from your factor

Once all your documents are received and confirmed, your factoring company will transfer payment to your account for the full invoice amount less their factoring fee. In most cases, factors pay via overnight ACH, meaning your funds are available first thing the following day. Some factors, like OTR Solutions, offer instant funding options so you don't have to wait for slow ACH or frequently-costly wire transfers.

If you are using non-recourse factoring, once you are paid, the factor handles the rest. The money is yours to keep whether or not your broker or shipper pays your factor. However, you should be mindful that not all factors are the same and some non-recourse programs can still hold you liable if they are not paid back. Additionally, if you use recourse factoring you will be held liable if your broker or shipper doesn't pay in a timely manner and will need to return the funds. We will discuss the differences between non-recourse vs. recourse factoring in further detail in the next section.

Rinse and repeat

That's all you have to do! You can find and haul your next load, using the funds you received from your factor to cover expenses like fuel and repairs along the way. Meanwhile, your freight factoring company will set their collections team to work. They'll follow up with any slow-to-pay customers and do everything in their power to collect payments.

What is the difference between recourse and non-recourse factoring?

When factoring loads, you have two types of factoring to choose from: recourse and non-recourse factoring. Both kinds of factoring follow the same basic steps laid out above, but differ when it comes time for the customer to pay.

Recourse factoring is the most common and more straightforward process of the two. The factoring company will buy an invoice from you and give you part or all of the invoice's value within hours or days (minus the small fee). You can then use that cash to keep operations running smoothly, and your factoring company will do everything possible to ensure your customer pays the invoice.

However, the money isn't fully yours to keep just yet. If your customer defaults or makes a late payment, your factor will charge you for the amount they paid you earlier. You'll be on the hook if your customer refuses to pay, so a certain level of risk comes with recourse factoring. This can be stressful, especially for smaller carriers that don't necessarily have much spare cash to absorb that risk.

Don't let this deter you from factoring, though! After all, if your customer never pays and you end up having to pay your factoring company back, you'll be in the same position as if you hadn't decided to factor in the first place. Either way, you won't have the money you earned if your customer refuses to pay — the only difference is that you would have received some of the money upfront and would be responsible for paying it back.

On the other hand, in non-recourse factoring, your factoring company will take on the risk of non-paying customers. If your customer defaults or can't make the payment on time, you'll still be able to keep the money you received in advance from the factor. However, it's worth noting that because non-recourse factoring doesn't hold extra funds in reserve and will not charge you back if a customer doesn't pay, it generally has a higher advance rate than recourse programs. This type of factoring vets customers' credit and histories more carefully and has slightly higher fees than recourse factoring since the factor fully absorbs the risk, but it can be worth the extra expense for some carriers.

Unfortunately, finding true non-recourse factoring isn't a walk in the park. Plenty of factoring companies say they offer non-recourse factoring but ultimately fall short of their promise. Many will actually issue chargebacks unless very specific circumstances are met (i.e., your customer files for bankruptcy after you submit your invoice). Situations where most generic non-recourse factoring programs refuse to take liability when a true non-recourse program will take it include:

- An invoice you factored did not include all the documents the broker needs to pay your factor (i.e. rate confirmation, all pages of bill of lading, etc), and your factor never checked or followed up with the broker on payment. Trust us, it happens more often than you would think.
- Your factoring company never sent the invoice to the broker, failing to check in to make sure payment was set.
- Accounting applied a payment to the wrong invoice, and the correct one was never marked as paid.

As you can see, most non-recourse factoring contracts will never work as they should because companies will only follow through on their promises under very specific circumstances. Essentially, these companies are selling recourse factoring under a new name and with a price premium, so always read the fine print before deciding who to factor with and how.

Factor with the best

In addition to getting cash in your hands faster, factoring offers plenty of benefits for carriers. With the help of a factoring company, you can eliminate uncertainty, improve cash flow, avoid taking on more debt, and even pass on back-office support duties. You'll be more efficient, have less risk, and be able to grow your business much faster. After all, you'll have more cash on hand, meaning you can haul more loads, invest in new trucks, or even hire other carriers. However, you need to work with the right factoring company to make the most of the factoring process — and that company is OTR Solutions.

While many non-recourse factoring companies turn out to be too good to be true once you read the fine print, OTR Solutions offers true non-recourse factoring in addition to quality recourse factoring. They don't bury clauses in the small print, so you'll never be surprised by hidden fees and chargebacks. Plus, since OTR Solutions is a trusted DAT partner, you'll be able to see which loads and brokers have been pre-approved by OTR Solutions right from the DAT load board. This way, you'll know whether you can factor a load before you even book it.

Start factoring with OTR Solutions today to gain peace of mind!

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