Glossary: Factoring Terms in Plain English

Keep this nearby when reviewing offers or contracts.

Accounts Receivable (A/R)

Money owed to you by customers for invoices you've issued.

Advance rate

The % of an invoice the factor pays you up front (often 70–90%).

Reserve

The portion held back until the customer pays; you receive what's left after fees.

Factoring fee

The cost charged for the time the factor waits to get paid; can be flat or tiered.

Notice of Assignment (NOA)

Customer notification that payments on factored invoices go to the factor.

Recourse

If the customer doesn't pay (for covered reasons), the invoice can be charged back to you.

Non-recourse (limited)

Often covers customer bankruptcy only; does not cover disputes/quality issues.

Verification

The factor confirms the invoice is valid/approved with the customer.

Lockbox

A controlled payment address/account where customers send payments to the factor.

Concentration limit

Cap on exposure to a single customer (e.g., no more than 30–50% of facility).

DSO (Days Sales Outstanding)

Average time it takes to get paid; higher DSO = slower cash.

UCC filing

Public notice of a lender's security interest (lien) against business assets/AR.

Chargeback

When an invoice is reversed/invalidated (commonly due to dispute, returns, offsets).

Dilution

Reductions to invoice value (credits, disputes, short-pays) that reduce collectible amount.

Facility

The approved factoring line/capacity available for your invoices.

Batch

Group of invoices submitted together for funding.

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