

FEDERAL NATIONAL PAYABLES

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Financing federal government contracts is different.

As a government contractor, it is sometimes tempting to think it is OK to enter into a borrowing relationship with a financing company that doesn't seem to understand or doesn't understand federal government contracting well. After all, "Why should it matter as long as you get your money?"

The federal government contracting environment is as different for finance companies as it is for the contractors themselves. As a prospective borrower you need only think just a little farther to realize that a finance company that doesn't really know their business can get into serious financial trouble. Consequently that financial trouble may prevent them from funding on time for your next payroll, releasing your reserves, and handling your clients with professionalism and respect. Even if the problem probably isn't with your account, you pay the price in the end by trying to save customer relationships, worrying about where your money is, and perhaps even missing payroll!

There are hundreds of bank and non-bank financing providers across the country. Many of those are more than willing to jump in and provide financing to attractive federal government contractors. Conventional wisdom has it that government receivables don't carry any risk and the uninformed lender or factor is therefore attracted to such opportunities. This notion that U.S. Government receivables are risk-free is false. You as a contractor know this. While there is no apparent "credit" risk, there are other kinds of risk to a financing provider; some unique to the particularities of government regulation and process and some that are common in commercial obligations as well.

The Assignment of Claims: The Assignment of Claims Act is law regarding the process for assigning the payments under a federal government contract to a financing institution. Most asset-based financing involves the assignment of accounts receivable to a lockbox (a special account at their bank over which they maintain control). In the commercial world, this is done very simply according to the Uniform Commercial Code with a "notice of assignment" to your customer. The process is quick and very easy and requires no agreement or acknowledgment from your customer. However the Assignment of Claims Act establishes a specific and different process for federal contracts. Specialized forms are required in multiple originals, notarized signatures are required, and the assignment is not complete until the government returns an executed Notice of Assignment. In most cases, this actually involves a modification to the contract. Any financing provider that is not chartered appropriately as a "financing institution" is not eligible and any provider that does not know what forms

to use and what process to follow will not complete an enforceable assignment. The government usually will not go out of their way to identify any deficiencies. Of course you don't intend to take advantage of your provider's ignorance but if one of his other clients does, and as a result, your finance company is financially crippled, it could end up costing you dearly.

Specialized Contract Vehicles and Instruments: BOAs, IDIQs, P.O.s, GSA Schedules, DD-250s, Task Orders, just to name a few are acronyms for vehicles and instruments used by the federal government that do not appear in commercial contracting. For a financing provider to communicate professionally and efficiently with you and your clients and quickly complete effective assignments, you need a provider who knows and understands the federal government contracting world and moves quickly and confidently through these peculiarities to easily and efficiently provide you with financing.

Federal Government Culture: Most asset-based finance is supported by some amount of communication between the finance company and the borrower's customers. This usually takes the form of regular or periodic audits confirming the accounts receivable (AR). The payment offices of federal government agencies have their own culture, their own daily schedule, their own terminologies and their own ways of doing things that are different from the accounts payable department of a commercial enterprise. For these AR audits to be performed easily without harm to your customer relationship, and for your payments to be made accurately and on time, you want a provider very experienced with this government culture and process.

Payment Practices: Contrary to popular notion, the federal government usually pays fairly consistently and fairly timely. However, it is important to note the term "usually" in this last statement. Though the government pays its bills on average in about 40 to 45 days, now and then payments will fall completely and severely off schedule. This doesn't really happen in the commercial world. The exception may be something as simple as a lost invoice, a misdirected payment, a payment office relocating or something as complicated as depleted or redirected funding. Whatever the problem, government controls and bureaucracy combine to make correction of these exception conditions very slow. Occasionally, payment can take 90, 120, even 180 days. Does the finance company you are considering understand this? Most accounts receivable finance providers have limits to the age of an item they will finance. The question is, how will they handle such an exception? Do they reduce or stop funding until you resolve the item? You need a provider who understands that this occasionally happens with the federal government, and knows how to determine that the payment will ultimately be good and can continue to provide you with the funding you need.

In summary, it is important that a financing provider bring real expertise in federal government financing to the table.

- (a.) An inexperienced provider may provide slow, unreliable service as they wrestle with government process,
- (b.) Their lack of familiarity with government procedure and culture may harm your relationship with your government client,
- (c.) Their ignorance of proper assignment regulation could cause them sudden financial loss that could suddenly and unexpectedly render them unable to meet your critical funding deadlines and lastly,
- (d.) They may be unable or unwilling to accommodate the occasional payment delays inherent in the government process.

Federal National Payables, Inc. opened its doors in October of 1992 exclusively providing financing to federal government contractors. Though FNP is fully diversified into commercial, state and local financing today, it has maintained its superior expertise in the financing of federal contractors and finances in excess of \$100 million in federal government receivables for dozens of contractors across the country each year.

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