Receivable Finance Explained

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HOMMOCKS LLC

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Preamble

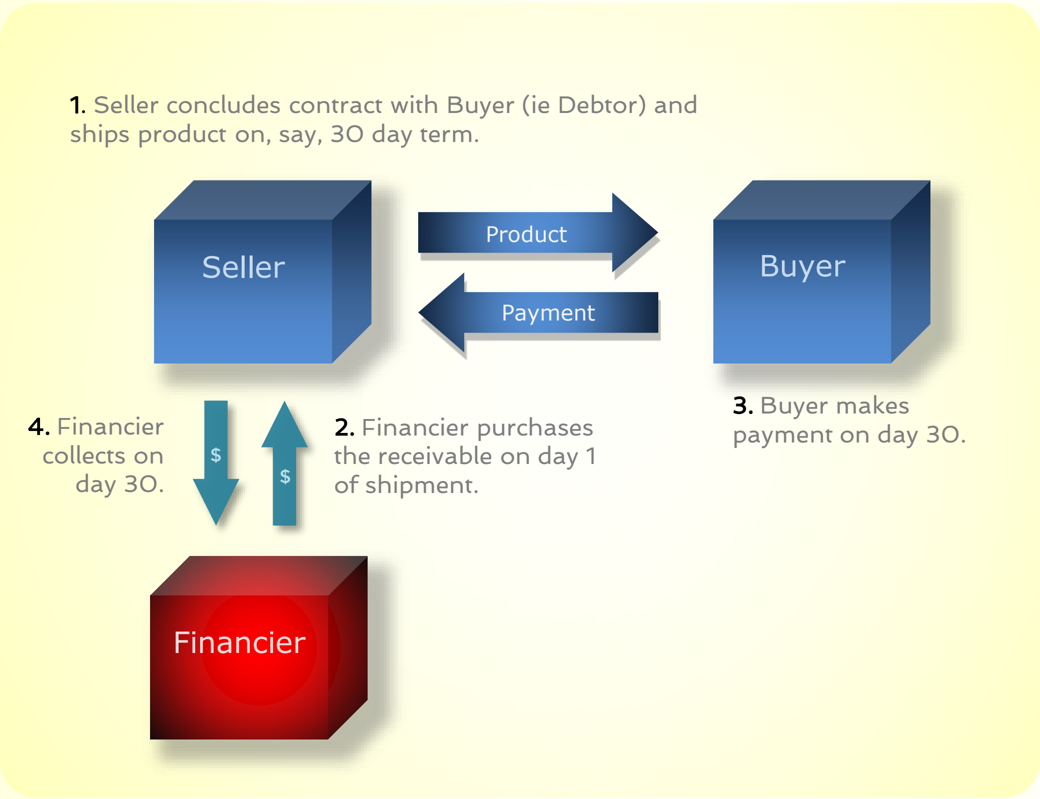
Receivable finance is a financing technique for a Seller of a product to raise working capital by monetizing a receivable with a financier.

Instead of waiting, say, 30 days to be paid by the Buyer, the Seller receives early payment from the financier for the product sold to a Buyer.

Receivable finance is the most basic form of trade finance that started in ancient Rome.

Receivable finance = factoring = receivable discounting = AR financing.

Receivable Finance



- Seller prefers not to wait 30 days to receive payment from Buyer, so Seller monetizes the Buyer receivable with Financier (ie Seller assigns, sells, transfers the receivable to Financier).
- A receivable is a right to collect payment.
- Not a loan from Financier but a sale of an asset called a 'receivable' to Financier.
- Not an inventory asset based loan. Product is not pledged as collateral to Financier. Title to Product passes directly from Seller to Buyer.
- **Non-Recourse** Receivable Finance: if Buyer goes bankrupt during the 30 day period, Financier faces the non-payment loss, not Seller.
- **Full-Recourse** Receivable Finance: Seller fully responsible to 'repurchase' receivable from Financier upon non-payment from Buyer.
- Some financiers require direct payment collection from Buyer on day 30 instead of indirect via Seller.

Seller Benefits

- Liquidity improvement:
  - Immediate payment upon product delivery
  - Balance sheet enhancement by reducing receivables
  - Reduction of cash conversion cycle

- Risk mitigation:
  Manage Buyer credit risk and reduce counterparty exposure

- Ease of set up:
  No SPV set up, no lengthy documentation as in securitization

- Minimal admin work:
  No allocation of full time staff

Features

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- Transactional: One-off transaction for each invoice.
- Off-balance Sheet: True sale and non-recourse. When the receivable is sold, such receivable comes off of the balance sheet.
- Buyer Payment: Financier typically prefers direct payment from Buyer to Financier on Seller invoice due date.
- Disclosure: Transaction typically undisclosed to Buyer. Correspondence between Financier and Buyer occurs only upon collection complications or Seller default.
- Advance Rate: Typically 80 - 95% of Seller invoice amount. Sharing of risk. Finanicer reassured of Seller's skin in the game.
- Financier Protection: Financier may credit insure Buyer payment risk.
- Receivable Lien: Financier creates a lien on the receivables purchased from Seller. In the US, lien perfection is conducted under the Uniform Commercial Code ("UCC"). Seller must ensure the receivable is unencumbered under a separate financing facility (eg revolver borrowing base facility)

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Features

- Line Establishment: Financier needs to assess Buyer credit strength and establish internal risk limit.
- Pricing: Financier's interest rate determination:
  - Buyer credit strength (approx 60% weighting)
  - Buyer jurisdiction / country risk (30%)
  - Seller performance risk (10%)
- Non-committal: Typically, receivable finance is on an uncommitted basis. Financer reserves right to decline any discounting.
- Non-recourse: Typically, receivable finance is non-recourse, on true sale basis and the receivable comes off the balance sheet upon deal execution.

  In rare cases, receivable finance is on recourse basis. The Seller must repay financier upon non-payment by Buyer.

Documentation

- Master Receivable Purchase Agreement between Seller and Financier.

- Typical documents required for each discounting transaction:
    - Loan Ticket (form in the Master Agreement)
    - Sales contract
    - Commercial invoice
    - Purchase order
    - Bill of Lading
    - Inspector report
    - Certificate of origin
    - Other shipping documents.

Terms & Conditions

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Facility:	Uncommitted, unsecured, non-recourse receivable discount facility
Seller (Client):	Seller of a product. Seller seeks to monetize its receivable instead of waiting for payment from Buyer on invoice due date.
Buyer (Debtor):	Buyer of product from Seller. Financing undisclosed to Buyer.
Financier:	A bank / institutional investor that advances the funds to Seller by purchasing the receivable from Seller.
Product:	Product sold by Seller to Buyer.
Tenor:	Up to [90] days.
Deal Amount:	$[50 million] per Seller invoice.
Frequency:	Up to [2] times per week.
Advance Rate:	[80% - 95%].
Credit Enhancement:	Financier may mitigate Buyer credit risk with a) Buyer's parent company guarantee, b) credit insurance or c) letter of credit issued by Buyer's house bank.
Fees:	Discount interest rate (% per annum). Payable in advance by Seller using actual/360 day count convention. Discount interest rate is largely determined by i) Buyer credit risk, ii) Seller performance risk and iii) buyer/seller country and jurisdiction risk. [Upfront fee] Upfront legal fees payable by Seller.

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Calculations

Calculations using broad assumptions on a typical deal.
Illustration purpose only.

Invoice Amount ($):	100,000	A
Advance Rate:	85%	B
Financed Amount ($):	85,000	C = A x B
Residual Invoice Amount ($):	15,000	D = A - C
Advance Start Date:	Jul/20/2024	E
Advance Maturity Date:	Aug/19/2024	F
# of Days	30	G = F - E
SOFR (%pa):	5.3%	H
Interest Margin (%pa)	12.0%	J
Interest Rate (%pa):	17.3%	K = H + J
Interest Amount ($):	1,225	L = C x K x G / 360
Amount Advanced ($):	83,775	M = C - L

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Notice

- **Confidential:** Please refrain from disclosing this information to external parties.
- **For discussion purposes only:** All terms and conditions are subject to change. Not a commitment to fund.
- **Information:** Hommocks unable to warrant correctness and completeness of information.

Thank you

HOMMOCKS LLC

- Established in 2019 and based in New York, Hommocks LLC is an alternative investment management firm specializing in short term commodity trade finance.
- Hommocks originates and provides short term commodity trade finance solutions to commodity traders.
- Hommocks has access to a large capital base represented by institutional investors, private funds, family offices and merchant banks.
- Hommocks funds with own capital on deal sizes less than $1 million.

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