

MEDICAL ACCOUNTS RECEIVABLE FACTORING

A CASH FLOW SOLUTION FOR HEALTHCARE PROVIDERS

By: Leon Chernyavsky

As a medical provider your biggest asset is your accounts receivable (“A/R”)– the payment you expect to get from Medicaid/Medicare, HMOs, private insurances, personal injury lien settlements, or worker’s compensation insurances. Unfortunately, due to the current inefficiencies and bureaucratic nightmares in our healthcare system a medical provider has to wait 15-150 days, or more, to monetize this asset. That hinders the provider’s ability to conduct business, pay staff, order supplies, pay rent, advertise and grow the business. Most providers turn to their local banks for working capital loans, but most of these banks have limits, strict requirements and hindrances that make it difficult to obtain these loans. Some banks don’t want to lend against A/R while others only focus on large medical providers with substantial history.

Luckily, providers have other cash flow options – MEDICAL FACTORING!

Medical factoring is a type of invoice factoring where a financial institution (factor) provides a medical provider with an advance payment based on the provider’s outstanding accounts receivable (invoice). The factor advances funds and waits for the invoice to be paid from third party insurance carriers. Medical factors will consider any provider that bills third party insurance carriers, i.e. doctors, doctor groups, DME/HME, Home Healthcare companies, Medical Transport and Translation companies, Imaging Centers, Labs, Urgent Care Centers and many more. Here’s how it works:

1. A medical provider establishes a relationship with a factor, i.e. Alleon Capital Partners, www.alleoncapital.com.
2. A medical provider submits bills to the 3rd party insurance carrier.
3. A medical provider submits a copy of the billings to the factor.
4. The factor advances up to 80% of the net collectable value. This is important since the advance is **not** based on gross billings, but rather on the expected net collectable value. Funds are wired or directly deposited into the provider’s bank account within 72 hours. This timing and advance rate will change if your receivable is related to personal injury or worker’s compensation.
5. The remaining 20% is a financing cushion or reserve in case some bills do not pay or are erroneous.
6. Once the bill is paid by the 3rd party insurance carrier the factor returns the financing cushion minus a factor fee of 2-6%/month. There are no upfront costs as all the underwriting expenses are paid out of the first funding (typically \$300-\$1,000).

The beauty of medical factoring is that it is determined solely by the provider’s ability to generate bills (invoices) thereby providing access to capital for smaller or non-bankable providers. There are no limits – you grow, you factor. Most importantly, the provider now has a clear understanding of when cash flows will come in and can finally concentrate on treating patients!

About the Author: Leon Chernyavsky is Founder and Managing Partner of Alleon Capital Partners (“ACP”). ACP is a specialty finance company focusing on providing capital solutions to the medical industry. Its target is small to mid-size medical providers that bill Medicaid/Medicare, HMOs, Commercial Medical, No-Fault, Worker’s Compensation or await payments from Personal Injury Settlements. To contact Leon Chernyavsky, please call 347-669-2271 or email him at leonc@alleoncapital.com. You can

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