



## **Consumer Receivables Financing Increases Sales**

The Consumer Finance industry mainly came to fruition in the middle of the twentieth century. At that time these finance companies were all standalone companies, not owned by banks. Consumer finance came about because at that time banks made it difficult to obtain personal credit and they did not offer the wide variety of programs or aggressive marketing that they do today.

Consumer contract financing covers a wide range of activities, including loans for financing mortgages, automobiles, household goods and a multitude of consumer services that are considered "high ticket" items. These might include home improvements, cosmetic and dental procedures, vacation clubs, gym memberships, etc.

Consumer finance allows customers to finance transactions without having to pay the full cost of the merchandise or service at the time of the transaction. Without this financing available, the average consumer would have to forego the purchase. Merchants will either provide for the financing internally, or more commonly, they use outside finance companies.

Merchants that are selling products or services that range between \$1000 and \$5,000 often find that if they do not provide some form of consumer finance, many sales opportunities will be lost. Big consumer purchases don't have to mean big stress. By utilizing a consumer finance company, merchants are not required to have deep pockets to carry the sales financing themselves. Besides the financial strain this could cause for a merchant, there are also the administrative tasks such as credit approval, monthly billing, and collections to be managed. Outsourcing all of these functions is usually preferred by merchants.

### **How Consumer Contract Financing works**

A finance company buys (at a discount) the installment sales contracts of retail merchants, thus providing an immediate cash flow. A merchant can sell a current portfolio (bulk purchase) of consumer receivables or new sales as they occur. These consumer credit sales or retail installment transactions refer to both "revolving" sales and to "closed-end" sales.

Revolving (or open-end) credit sales of consumer goods and services generally take the form of the seller's use of a credit card, often bearing the name of the seller or retailer from whom the consumer is making the purchase. The credit is open-ended because it allows the consumer to make additional purchases, and to carry the balance or debt incurred for an open period of time, so long as the minimum payments are made as agreed between the parties. In technical terms, this means that finance charge can be computed from time to time on the outstanding unpaid balance.

Alternatively, closed-end credit generally utilizes a fixed finance charge, and the customer is required to pay the debt off in regular payments, over a set amount of time. An Installment Sales Agreement allows the buyer to pay a deposit, then pay the remainder (this is also called the balance) of the purchase price in small amounts of money (installments). This is done over a period

of time such as 3, 6, 12, 24 or 24 months until the full price of the goods and the finance charges have been paid.

Merchants can be standard "brick and mortar" retail and service stores, in-home direct sellers, direct-mail, infomercial sellers, and internet sellers.



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