

# Potential Pitfalls of Legal Factoring

By [Christian M. Lovelace](#)

May 31, 2016 | **CORPORATE**

With respect to determining whether a financial transaction is a factoring arrangement or a loan, New York courts have held that it is the *substance* of an arrangement, and not the name assigned to an arrangement, that determines whether a transaction should be considered a factor or a loan. Indeed, if accounts receivables are purchased in a manner where there is no reasonable means of non-payment—such as a purchase of receivables that requires a personal guarantee of payment from the Seller and/or pursuant to which the Purchaser is awarded a security interest in the Seller’s property—the arrangement may be deemed a loan even if the parties believed they were entering into a factoring agreement.<sup>[1]</sup> As such, in order to avoid potential issues with usury laws, it is vital that any party wishing to enter the factoring business carefully draft its operative agreements to ensure its arrangements will not be considered loans.

---

<sup>[1]</sup> See, *Ideas v. 999 restaurant Corp.*, 2007 WL 3234747 (Sup. Ct. NY Cnty.) (denying a plaintiff’s motion for summary judgment regarding a defendant’s non-payment pursuant to a factoring agreement because there was a question of fact as to whether the agreement was a loan as, to ensure the plaintiff received the amounts due under the factoring arrangement, the defendant executed a personal guaranty and the plaintiff obtained a security interest in certain property owned by the defendant).

**Disclaimer:** *The information in this post is provided for general informational purposes only, and may not reflect the current law in your jurisdiction. No information contained in this post should be construed as legal advice from our firm or the individual author, nor is it intended to be a substitute for legal counsel on any subject matter. No reader of this post should act or refrain from acting on the basis of any information included in, or accessible through, this post without seeking the appropriate legal or other professional advice on the particular facts and circumstances at issue from a lawyer licensed in the recipient’s state, country or other appropriate licensing jurisdiction.*