# Factoring vs Line of Credit for Staffing Agencies

Both factoring and a line of credit solve the same underlying problem, the gap between paying workers and collecting from clients, but they're structured differently enough that "which one is cheaper" is only half the question. The other half is which one you can actually qualify for, and which one fits how your agency is growing right now.

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## What each actually is

**Factoring** means selling your invoices, or the right to collect them, to a factoring company, which advances you most of the invoice value immediately and takes a fee for the service. The factor is often taking on collection risk and sometimes runs collections directly, which means underwriting focuses more on your clients' creditworthiness than your agency's balance sheet, a real advantage for a newer or thinly-capitalized agency that wouldn't qualify for a traditional line.

A **line of credit** is a traditional lending relationship: a bank or lender extends a revolving credit facility, usually secured against your receivables or other assets, that you draw against and repay as cash flows in and out. Underwriting here focuses on your agency's own financial strength and track record, and the ongoing cost is typically interest on the drawn balance rather than a per-invoice fee.

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## Costing each one honestly

Factoring Cost computes what a specific invoice actually costs to factor, supporting both a flat fee and an incremental fee structure where the rate steps up the longer the invoice stays outstanding, since many real factoring agreements are priced that way rather than as one flat percentage regardless of days outstanding. It also produces a simple annualized-equivalent figure so you can compare the cost against an interest rate on a like-for-like basis, though that figure is a comparison tool, not literally an APR, unless your factoring agreement independently states one.

Factoring vs Line of Credit runs that comparison directly for a given funding need, factoring's per-invoice fee structure against a line of credit's interest-on-drawn-balance structure, so you're comparing what each would actually cost for the same dollars over the same period rather than comparing a percentage that sounds low against one that sounds high without a common basis.

## Why the cheaper option isn't automatically the right one

A line of credit is very often the lower-cost option once an agency qualifies for one. That doesn't make factoring a mistake for every agency that's currently using it. Factoring commonly serves agencies that can't yet qualify for a line of credit sized to their needs, agencies growing fast enough that a static credit line would need constant renegotiation, or agencies that specifically want the collections work handled by the factor rather than carried in-house. The right comparison isn't "which is cheaper in a vacuum," it's "which is available to me now, and what does switching actually cost and gain."

## Deciding when to graduate

Graduate From Factoring is built for exactly that transition question: given your current factoring cost and the terms a line of credit would actually offer you today, would switching save real money, not in theory but at your current volume and current qualification. Agencies sometimes stay on factoring well past the point where a line of credit would be cheaper, simply because the switch itself takes effort and the existing factoring relationship works. Running the comparison periodically, not just once at the start, is what catches that gap.

The reverse is also worth checking: an agency growing fast enough, or entering a period volatile enough, might find factoring's flexibility worth its higher cost even after qualifying for a line of credit, since a line of credit's covenants and renewal terms can constrain growth in ways a factoring relationship's per-invoice structure doesn't.

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