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Theoretical principles of the classification of factoring deals

The significance of factoring increased enormously in recent years especially as a form of executing international payments. The volume of factoring transactions, however, differs significantly per geographical area. Factoring turnover totalled to 860 billion euros, of which 612 billion was generated in Europe, meaning 71 percent of factoring transactions in the world took place in the old continent.[1] *The contribution of Central and Eastern Europe to this turnover, however, was low. Even if we count Russia as part of the region, factoring turnover was below 15 billion euros, with Hungary representing 1.1 billion euro only.*

As this figure suggests, there is a significant growth potential in domestic factoring and especially in international factoring. Up to recent years, this arrangement was practically unknown to Hungarian enterprises. The "exploration" and increasingly frequent usage of the instrument is especially important from two aspects. First, it can solve the funding issues of small and medium enterprises, both on the domestic market and in international trade. SME's often have difficulties getting access to loans, due either to their financial performance or to the lack of necessary collaterals. Second, financial institutions which offer factoring may also enable the advance financing of EU grants. In order to increase confidence in factoring, both in theory and in practice, a clear definition of the term should be rendered both in an economic and legal context. Furthermore, the types and operational mechanisms of factoring should also be clarified. This study addresses the two latter topics, putting special emphasis on the regulatory issues of factoring.

MAIN TYPES OF FACTORING IN RELEVANT TECHNICAL LITERATURE

The classification of factoring deals is at least as complex an issue as defining and clarifying factoring itself. Therefore, it is important to analyze and explain the individual types of factoring so that we can get an understanding of how the underlying mechanisms work. Factoring deals are defined and classified into various types in Hungarian and international technical literature and international business practice along a diverse set of criteria. These types partly result from historical development and partly from changes in market needs. The responsibilities of agents and commissioners, who used to provide market research and other administrational services, have changed so much that new forms of financing evolved, where the factoring company not only checks the creditworthiness and solvency of the client but occasionally also takes over financing chores and risks,

and collects receivables.[2] Practically, all three characteristics of a complex factoring service are displayed here (service, financing, and risk-taking aspects) and the partial or full presence of these functions determine the various factoring types. Studying the related technical literature, however, one would soon find out that many authors use different terminology for the very same transaction type.[3] Therefore, it is wise to examine the criteria applied in each classification and then define terms accurately.

In English-language technical literature, it was *Salinger* who began classifying factoring. Ever since, his work has been regarded as a set of guiding principles by both foreign and domestic authors.[4]

The *Table 1* shows that Salinger groups the seven main factoring types into two large categories: notification and non-notification factoring. Then he differentiates between the seven "variants" based on the services involved.

This grouping helps identify some key points regarding classification. One of the principal points is that with the exception of "maturity factoring", *financing* is a fundamental service with all types. In maturity factoring, it is an incidental element.

In the theoretical definition of the term, *risk* taking came up as one of the most important service elements of factoring. Risk *taking* can be taken into consideration as a dual element: First, a factoring deal inevitably conveys risk, regardless of whether or not the factoring company assumes "del credere" risk which derives from non-payment by the debtor, as there is no guarantee that any receivables not collected from the debtor can be collected from the original supplier. In an extreme case, both the supplier and the debtor can become insolvent. Second, there is assumed risk. It is a service element when the factoring company explicitly assumes the risk of non-payment by the debtor. In technical literature, it is referred to as "del credere" risk assumption and it usually goes with the abandonment of recourse rights by the factoring company. In this specific case, risk assumption is referred to by the author as "protection against doubtful debts" and is

Table 1

SUMMARY TABLE OF FACTORING TYPES

		Financing	Protection against doubtful debts*	Notification of debtors	Keeping track of receivables	Collection
I	Full service[5]	A	A	A	A	A
	Recourse factoring[6]	A	N	A	A	A
	Bulk factoring[7]	A	N	A	N	N
	Maturity faktoring[8]	N	A	A	A	A
	Agency factoring[9]	A	S	U	S	N
II	Invoice discouting[10]	A	N	N	N	N
	Undisclosed factoring[11]	A	S	N	N	N

* Any kind of factoring which includes this element can be considered "recourse factoring".

Explanation of notations used in the table:
A: Always provided
U: Usually provided
S: Sometimes provided
N: Never or rarely provided service
I: Each of these types can be called notification factoring or disclosed factoring.
II: Any of these types can be referred to as confidential factoring or non notification factoring.

called “factoring without recourse” which is in fact del credere risk assumption.

In Salinger's classification it is rather disturbing that the author considers “invoice discounting” and “undisclosed factoring” two separate sub-types of non-notification factoring, although there is only one difference between the services involved: “protection against doubtful debts”. For one of them is a “sometimes provided” and the other is a “never or rarely provided” service. This distinction does not justify classification into separate categories as it is not a real difference: the service in question can be provided with both types. Another apparent issue relates to the terms “undisclosed factoring”, “confidential factoring” and “non-notification factoring”, all of which refer to the very same thing: simply that the debtor will not get notified of factoring. In business operations and technical literature, these variants are often referred to, in my opinion wrongly, as “quiet factoring”[12]. I think the right and accurate description would be “factoring without notification”. Furthermore, based on the arguments presented above, invoice discounting and undisclosed factoring as used in Salinger's classification should be separate categories.

Another problem I see in classification is that recourse factoring is considered a separate type. In my opinion, it is not a separate type but a feature that relates to risk taking, one of the services embodied in factoring. This standpoint is also supported by Salinger's remark on “protection against doubtful debts” where he describes this service as “non-recourse factoring”. Another argument for not listing it as a separate type is that in a risk-taking context, it can be an embedded service or feature of other factoring types as well. The right of recourse is equally present in e.g. bulk factoring and invoice discounting.[13]

Salinger also mentions international factoring and two special arrangements which he again does not regard as separate types: factoring with credit insurance and factoring financed by credit institutions. In the latter case, a bank is also a party to the transaction besides the factor and the client as it is the bank who provides financing to the customer via the factor company.[14]

Károly Martinkó[15] groups the variants of factoring into categories, basically following the footsteps of Salinger but also keeping an eye on international trade practices.

Martinkó uses the characteristic features of factoring deals as the basis of classification. In my opinion, these characteristics actually mean the services provided by the factoring firm.[16]

The author classifies factoring deals in a summary table, based on the services they involve. The resulting service types are somewhat different from those identified by Salinger.[17]

One important difference is that Martinkó divides factoring deals into two main groups: domestic and international, further dividing the latter into export factoring and import factoring. Thus the geographical aspect is the main sorting criterion here as opposed to the notification of the client.

It is important to point out that Martinkó erroneously applies the term “remunerated factoring” in the sense of recourse factoring which is not in line with either Hungarian or international terminology. If something is remunerated it assumes the provision of a remuneration for a service. Yet free factoring practically does not exist.[18]

Contrary to Salinger's approach, Martinkó's classification combines “bulk factoring” with “discounting” and labels it as “stock financing factoring”. The author cites two arguments for this. First, he considers “invoice discounting” a faulty description and advises that it should not be made a standard term in Hungarian technical parlance. He adds that the British factoring industry only introduced the term *invoice dis-*

counting because they wished to release the underlying service from the effect of British banking regulations. Martinkó's second important argument is that “invoice discounting” in practice entails the “entire turnover” and therefore the two can be combined under the term “stock financing factoring”.[19]

Regarding the services provided by the factoring company, Martinkó introduces a minor change by replacing “protection against doubtful debts” with “credit insurance”. In my opinion, these two services are not identical. Protection against doubtful debts which Salinger considers non-recourse factoring refers to the assumption of risk by the factor company as described above. Credit insuring is not a factoring company service. As also agreed by the author, it is provided by a credit insurer to the customer either directly or through a factoring company.

It is fair to conclude that Martinkó actually applies Salinger's approach in classification, the same way as *Andor Gellért* does in one of his publications.[20]

Gellért speaks about *international factoring* and, within that, *import and export factoring*[21], yet he does not consider this scheme a separate contract type. He mentions several new types. Among other things, he classifies maturity and advance factoring[22] as sub-types of *credit* factoring. The specifics mentioned in the related definition, however, reflect full service factoring.[23]

With advance or financing factoring, the factor bank prepays the invoiced amount and charges market interest. This may happen both with and without recourse.[24]

Supplier guarantee factoring evolved in the United States in the 1920's. Practically it used to be a form of credit insurance because the factoring company either prepaid the invoiced amount or assumed the risk of non-payment by the debtor. Due to the protests of American insurance companies, this type of factoring was terminated in the 1930's.[25] *László Réczei* provided a slightly different definition of guarantee factoring, stating that the factoring company only executed payment if the debtor became insolvent. In my opinion, this latter definition better reflects the characteristics of guarantee factoring and insurance companies had a valid reason disliking it. As in this arrangement, no other financing or additional service is provided on top of the guarantee commitment.

The cessation of supplier guarantee factoring triggered the birth of *purchase factoring* since in this scheme service providers already purchased receivables and took over non-payment risks without recourse.[26, 27]

Gellért's classification relies on László Réczei's *study.*[28]

Réczei classifies factoring deals based on the underlying contracts and the activities executed by the factoring company. He based both approaches on opinions presented in international technical literature.[29]

When reviewing Réczei's classification, we equally find brand new types and ones which only differ from the categories discussed above in their description.

By *standard or old-line factoring* the author refers to the most common form of factoring which is practically full service factoring.

Collection factoring does not include either pre-financing or risk assumption. This way, the factoring company does not provide any additional service but collection.[30]

Non-del credere factoring is identical to the formerly mentioned recourse factoring while *disguised factoring* is the same as undisclosed factoring or, in current business parlance, quiet factoring. In the latter arrangement, the supplier does not want the customer to know about the existence of the factoring deal for some reason. Instead, a separate account is designated to which the customer can make payment to.

Réczei regards *export and import factoring* as interrelated transactions traditionally labeled as

international factoring, which is a term that covers both types.[31] Regarding activity-based classification, we already defined *supplier guarantee* and *purchase factoring.* A scheme similar to guarantee factoring is *day-to-day factoring* where the factoring company commits to pay the due amounts in case the customer is not fulfilling his payment obligations until a certain point of time.

Pay-as-paid factoring does not involve pre-financing. The factoring company only pays after having collected receivables from the obligor. Contrary to this arrangement, in *loan factoring* the factor pays up to 85–90% of the invoiced amount but does not take over from the client the risks associated with the debt. Thus if the debt cannot be collected, the factor may claim repayment of the loan which they provided.

Split factoring emphasizes the way of risk sharing. In the case of significant financing and risk taking, large factoring companies share the risks among themselves and contract with the client jointly. A similar solution is applied in the loan financing arrangements of banks, where a consortium of credit institutions provides a loan to the client.

Informing cannot be considered a type on its own as it is a part of factoring services. The financial institution is in permanent contact with the client which enables the factor to keep the client informed on market developments and on the ability and willingness of certain enterprises to pay.

Anna Halustyik[32] also uses examples to classify factoring deals, combining the British and American categories described above. Instead of presenting a closed system of categories, she rather highlights the best known forms of existing types. A similar categorization is rendered by Austrian and German authors (Binder-Degenschild[33], Horbach[34]) who practically follow Salinger's approach which was adopted in Austrian industry practice.[35]

In *Hungarian technical literature,* different approaches seem to take shape regarding factoring types. One of these which we already mentioned above takes over the British-American system and uses it as a basis for classification. The drawback of that method is that it analyzes contract types and the services of factoring companies without striving for completeness.[36]

According to the other standpoint, there are two basic types of factoring. Opinions, however, differ concerning which criteria should be applied when defining the two basic types. Domestic technical literature cites three classification criteria: First, the *maturity of the debt,* second, the *takeover of risk* and third, *notification of the debtor.*

Based on the *maturity of receivables,* there is *overdue* and *immature debt factoring.* The foundation of this classification of factoring was laid by *Iván Szentiványi.*[37] In his view, a factoring deal may equally involve the "prepayment" and "buyout" of receivables. The difference between the two comes from the maturity or immaturity of the factored debts. The "prepayment" of the debt, i.e. the "credit function" of factoring comes to the forefront if the factored debt is not due yet. If it expired already, the debt can only be "purchased". Szentiványi considers the buyout of immature receivables more significant than the other form as this arrangement has more of the financial service nature of factoring deals.

The standpoint of *István Gárdos* is just the opposite. In his view, only the purchase of overdue receivables should be regarded as factoring in a narrow sense. He says this scheme better reflects the specialty of factoring deals, whereas the "assignment" of immature receivables is simply an instrument to see through a loan transaction.[38]

The factoring of immature receivables can be classified into further categories. They can be *incidental* and involve the purchase of a specif-

ic debt of a customer. They can also relate to a *frame contract* and involve the purchase of receivables of certain debtors on an ongoing and recurring basis.[39]

Based on the *takeover of risk,* both domestic technical literature[40] and court precedents[41] identify two basic types: *old-line* and *not old-line factoring.* Quite obviously, court practice reflects the approach used in technical literature, and this approach has German origins.[42] *Tibor Nochta* says the main point of *old line factoring* is in the fact that together with the debt, the "del credere" risk of collection is also transferred to the factoring company. The amount paid should be considered the purchase price and the entire arrangement is described as a "specific credit or receivable purchase deal". With *not old-line factoring,* however, the factor does not take over any del credere risk. It is borne entirely by the creditor so in Nochta's opinion we have an assignment credit here. If the debtor fails to pay, the assignor of the receivables must repay the amount received plus interests. This way, Nochta considers not old-line factoring a loan provided against the collateral of a debt.

While this classification is justified in both international and domestic technical literature, I have some concerns about the terminology because in the most commonly used arrangement in Hungary, factoring companies do not take over del credere risk, yet this is what they consider factoring. In other words, "not old-line factoring" is becoming "old-line factoring". Second, I do not think risk-taking should be a main criterion of classification for it does not reflect all features and the very nature of the transaction.

The third aspect is the *notification of the debtor.* On this basis, we can differentiate between *"quiet" or "confidential"* factoring, also referred to as "closed factoring" and *open factoring,* sometimes mentioned as "not closed factoring".[43]

In the first scenario, the debtor is not notified of the factoring deal. The supplier continues to keep records of the debt and the debtor makes payment directly to the supplier, mostly onto a dedicated account.

A good integration and summary of the various classification criteria is rendered by *Sándor Bozsik.*[44]

Out of the types he describes, I would like to highlight the ones which have not been discussed herein yet or which are not in line with the standpoints in mainstream technical literature. With a view to the *agreement regarding the customer,* Bozsik speak about frame contracts and incidental agreements.[45] According to Bozsik, a *frame contract* means that up to a specific value limit, the factoring company buys all the receivables of a supplier, provided the solvency rating of the latter is good, and guarantees the payables of the debtor. With an *incidental agreement,* the debtor's solvency is used as reference and only receivables relating to that specific customer are purchased.

In Hungarian industry practice, however, there is another interpretation of frame contracts.[46] The factoring company does not principally assess the supplier but the customer and sets limits per customer. Obviously, suppliers are also taken into consideration upon the setting of customer limits (total turnover, frequency of returned goods invoices, etc.) but the size of factoring limits is basically defined by the customer's solvency rating. (In many cases, the frame contract is not for the entire factoring turnover but for the individual customer limits.) In the agreement, the factoring company lists eligible customers and the frame amount which it is willing to factor, usually setting a one-year term.

A specific classification of deals is based on *geographical location* and the resulting categories are domestic and foreign factoring.[47] By domestic factoring Bozsik means scenarios where both the supplier and the customer are

domestic residents and the transaction is executed in domestic currency. With *foreign* factoring, either the customer or the supplier is a foreign entity and the transaction is usually concluded in a foreign currency. Although we find similar classifications in technical literature, many authors provide an explanation that is different from the above.[48] It is therefore more proper to talk about *domestic* and *international* factoring, and international factoring comprises the interrelated schemes of export and import factoring.[49] Domestic factoring is actually the factoring of domestic deliveries. Here the service or product which supplier and customer contracted on is delivered within the country, whereas in international factoring it all takes place abroad. Either the product is imported or the point of service delivery is domestic. (Naturally, for another customer, the product or service may be taken abroad but it is already independent from the factoring relation between the parties.)

The classification of factoring transactions based on *contract type* generated a rather special term: *risk factoring.*[50] As it involves the purchase of an overdue debt of an insolvent business, both the time of collection and the collectible amount are uncertain. Therefore, according to Bozsik, the receivables are obviously bought at a low price.

NEW CLASSIFICATION OF FACTORING AND THE APPLIED CRITERIA

In summary, we can say that types of factoring have been classified along a number of criteria and approaches, but only one or two authors could come up with consistent and systematic classification. In most cases, only random examples were provided. With a view to technical literature and industry practices, I think factoring deals can be classified as summarized in *Chart 1* below.

I attempted to present a consistent and comprehensive classification of factoring types and the related criteria based on Chart 1. It should be noted, however, that these are only the main factoring types and new schemes will inevitably emerge as actual business practices evolve. One advantage of this classification is that the overall structure can handle new deal types or can be extended further without any fundamental modification to the structure itself.

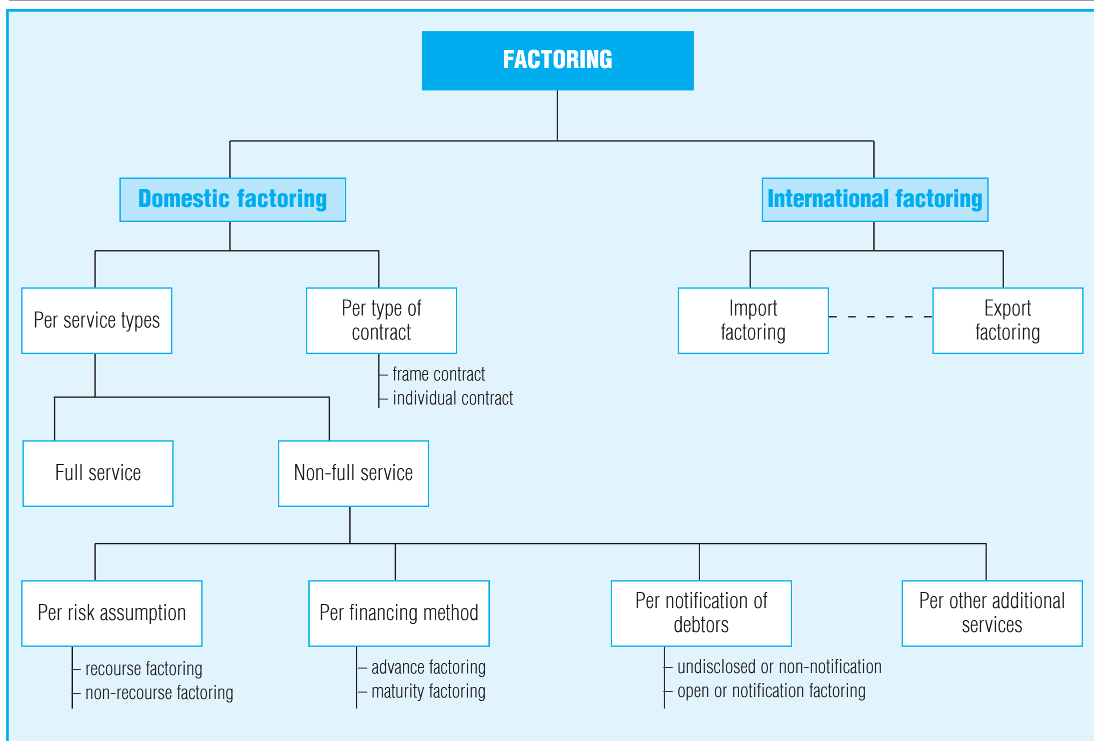
The division of factoring deals as *domestic-foreign* or *domestic-international* is present in most of the aforementioned authors' works. For some of them it is a geographical distinction[51] while for others it relates to the way how the deal is technically executed, with international factoring being regarded as "dual-factoring".[52] At the same time, the legal differences should also be highlighted. While domestic factoring is subject to domestic regulations, international factoring is governed by the UNIDROIT Conventions[53], other international conventions, governing laws stipulated in the contracts and national legislations. International factoring can be divided into import and export factoring. Theoretically, both of these are individual forms on their own but in practice they are closely interrelated.

There were two basic approaches to classify *domestic* factoring: per *type of contract*[54] and per *type of services*[55]. Factoring contracts are typically frame agreements which specify the range of customers whose invoices are eligible for purchase along with a limit to which the factoring company is willing to finance receivables.[56] Besides this scheme, a specific debt may be financed on an occasional basis and then only an individual contract is drawn up. This approach is usually taken when the client of the financial institution signs an agreement with a major multinational customer on a one-off delivery and the bank cannot finance the deal through a loan.

The other suitable classification criterion is

Chart 1

CLASSIFICATION OF FACTORING DEALS



the *type of services.* Based on the analyses so far we can declare that factoring is a complex service which went through changes and evolved during the years. Salinger's classification of factoring was already based on five services.[57]

In my opinion, two basic categories can be set up based on the services involved: *full service* and *non-full service* factoring. Full service factoring encompasses all services, i.e. at least five of in Salinger's approach. This service package, however, is expanding and changing on an ongoing basis depending on customer needs and the market-oriented behavior of factoring companies.[58, 59]

Having analyzed historic development and opinions in technical literature, I think it is proper to declare that services can be divided into two groups: *basic services* and *additional services.*

Basic services are ones which determined factoring in the beginning, through the historic development and evolution of the instrument. They also helped clear legal distinction between the individual types. In my understanding, such basic services are overtaking *of risk* i.e. protection against doubtful debts, *financing* and *notification of debtors.*

Other additional services are provided in conjunction with basic services on an incidental basis, depending on the presence or absence of basic services. Additional services include the tracking, handling and collection of receivables, credit insurance, checking of creditworthiness, etc.[60]

I left the category-based division of other additional services blank in the table. We could put special types here which are differentiated from other factoring types by the special element they involve. As one could only put examples into this category randomly, I left it blank so as to enable the further extension of classification.[61]

Classification within the basic service types was established as a summary of theoretical approaches. In two cases, the presence of service is the basis of distinction. Therefore, concerning takeover of risk we have *recourse* and *non-recourse factoring,* concerning the notification of debtors we have *undisclosed* or *non-notification,* and open or *notification factoring.* Regarding the latter scenario, somewhat diverting from certain approaches in technical literature, I prefer the use of the adjectives "undisclosed" or "non-notification" because they better reflect the key point of the transaction than the term "quiet".[62] (Unfortunately, the term "quiet factoring" has become widely adopted in business practice.)

When classification is per way of financing, the basis of distinction is actually the time of financing. The key point in *advance factoring* is the prompt funding of the customer. Here the factor company executes payment after contract signing and in accordance with the conditions stipulated therein.

With *maturity factoring,* however, there is no immediate financing. The factoring company executes payment only upon a specific deadline or when receivables are falling due.

INDIVIDUAL TYPES OF FACTORING AND THE RELATED RULES

Full service factoring

Full service factoring can be regarded as the basic type of domestic factoring. It emerged from the evolution of classic English law[63] and still to this day serves as the basis of modern factoring service. With this type, the ownership of receivables is transferred to the factoring company without the right of recourse. In full service factoring the customer gains access to financing, he is relieved from the related administration and is protected against doubtful debtors.[64, 65]

Regarding *administrational chores,* it should be pointed out that the factoring company is responsible for bookkeeping, maintenance of records and collection in respect of the receivables. (In this case, we can practically regard these services as internal services of the factoring firm, for the firm already purchased the debt.)[66]

Protection against doubtful debtors is implemented efficiently through the takeover of risks under a full service factoring contract. As the factoring company buys receivables without the right of recourse, they take over the risk of non-payment or insolvency of the customer. This risk assumption, however, is limited because it only applies to receivables and amounts approved by the factoring company. Thus two limits are involved: the so-called "delivery limit" which puts a threshold on receivables on a monthly or weekly basis and the so-called "general credit limit" which sets maximum values per debtor.[67]

Concerning any potential legal issues with receivables, the scope of assumed risks is limited. In other words, the factoring company does not assume liability for the following:[68]

- acceptance of the client's goods or services by the customer;
- obligations undertaken to the customer;
- correctness of invoices;
- counterclaims.

In Hungarian business contracts, these limitations are handled through clauses that require exemption from lawsuits, claims and encumbrances and exclude offsetting and warranties.

An extra service that can be employed to mitigate risks is *credit insurance* taken out at a credit insurer either by the factor or directly by the client.[69] Some theoretical interpretations consider this genre as full service factoring.[70] In foreign theories, however, credit insurance is regarded as an occasional element of contracts which involve the right of recourse and this scenario is considered an equivalent of full service factoring.[71, 72]

The comparison of theoretical stands, however, takes us to the conclusion that full service factoring offers more benefits to the client in terms of risk exclusion or mitigation, because credit insurers would not provide insurance against the entire debt. Furthermore, if the client was to take out credit insurance, he may be faced with several issues:[73]

- based on insurance policies, it often happens that the insurance company only accepts the claim if the receivables are listed among the client's bad debts,
- whether or not the client fulfills insurance requirements is an element of uncertainty for the factoring company,
- insurance companies may often set requirements for the client concerning credit checking and collection and may not accept the factor's rights to carry out these activities,
- in case the client is insolvent, the liquidator may not fulfill the obligations that derive from the insurance policy.

With a view to all that: either the factoring company has to take out credit insurance for the receivables and thereby insure the receivables of individual clients, or the client's credit insurance needs to be linked with the factoring deal through a so-called "factoring clause".[74] The factoring clause is part of the insurance policy. It declares that the factoring company owns the receivables and admits their title to them. The clause should explicitly state that the insurance policy is transferred to the factoring company.

The other solution is to make the factoring company a "coinsured" party.[75] The benefit of this arrangement is that the factoring company will also be eligible to fulfill obligations stipulated in the insurance policy (pay premium, report overdue receivables, etc.) and then cross-charge expenses to the client.[76]

Regarding *financing matters* it has to be underlined that this service element has the most significance in practice. In my personal opinion, it is financing that embodies the purpose and key advantage of factoring. Factoring is often employed as an alternative to financing through loans. This financing, however, is not a full-amount one, for a "factor warrant" is retained after calculating it[77] in one of various ways, e.g.

- as a percentage of total receivables;
- as a percentage of receivables due within the accepted expiry date;
- disapproved receivables in total or as a certain percentage of approved receivables.

In practice, this retained or reserve amount serves as a warrant for potential risk assumption issues which we discussed earlier (usually, the retained amount varies between 10 to 30 percent). The full service factoring process is illustrated in *Chart 2* below.[78, 79]

Although the sequence of individual processes may differ and some of them may take place simultaneously, the sequence scheme above reflects preferred industry practice. E.g. the factoring company often not only notifies the customer but requests a specific statement on the approval and acceptance of the invoice. An individual factoring contract would not be signed or would only be concluded conditionally in the absence of this statement of debt approval.

Transactions differentiated on the basis of risk assumption

The other large category of factoring encompasses *non-full service deals* where the issue of risk assumption is the most critical service aspect. From this point of view, we differentiate between *factoring with right of recourse* and *factoring without right of recourse.* We discussed the latter in the context of full service factoring, explaining the standpoint set forth in technical literature that even in the absence of the

right of recourse, there are still certain liability scenarios where the client shall be liable for the debt.

Risk assumption was considered a significant element by all authors and, as mentioned earlier, they also used it to differentiate between the two basic types of factoring (Differentiation of old line and non-old line factoring.[80, 81, 82])

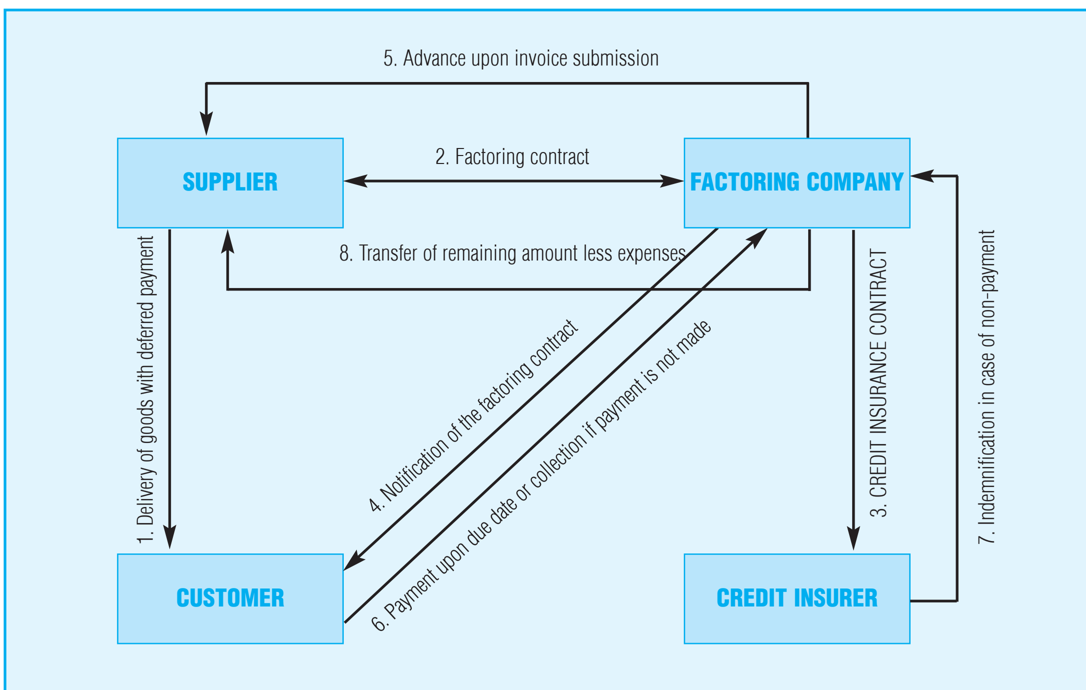
In general, any factoring deal conveys risks for the factoring company. Since the factor is actually a financial intermediation party, they pay out sums which they may not be able to collect later. The risks embodied in this uncertainty can be referred to as country, industry or client risk.[83] What is more, the financial institution is exposed to losses to some extent even if the right of recourse is secured: Both the client and the supplier may become insolvent which would make the right of recourse unenforceable.

Three terms are used in technical literature as an equivalent of risk taking: del credere risk assumption[84], right of recourse[85] and the assumption of risk arising from the debtor's insolvency[86]. W could also add the undertaking of surety, a scheme used in Hungarian law.[87] (The term “takeover of risks” is also mentioned in the Hungarian act on credit institutions and financial enterprises.[88])

Del credere risk means that the financial institution will pay the invoiced amount if the receivables cannot be collected. This liability is softer than that conveyed by surety. The reason for using this somewhat lighter liability arrangement is that a claim can only be raised if the debtor goes bankrupt, becomes insolvent or if the debt cannot be collected. No claim can be raised in case payment is simply rejected.[89] (Furthermore, this liability is limited and does not cover scenarios which I mentioned in conjunction with full service factoring.) The presence or absence of the right of recourse is therefore equivalent to the assumption or non-assumption of del credere risk. In other words,

Chart 2

THE PROCESS OF FULL SERVICE FACTORING



factoring with the right of recourse can be defined as factoring without the takeover of del credere risk.[90]

What is the *right of recourse* and how can it be enforced? Technical literature and applicable laws provide various legal solutions which highlights the complexity of the issue. It has to be pointed out, however, that the right of recourse is not only there in case of debtor insolvency. It can also be employed upon plain non-payment.

German law enables the enforcement of *reimbursement claims*. I.e. if a debtor fails to pay the debt, the client has to reimburse the entire factored amount plus fees to the factoring company.[91]

If a permanent contractual relation exists between the factoring company and the customer, the enforcement of reimbursement is not particularly difficult. The beneficiary can simply deduct the debt from the funds they hold or add it to their payables to the client. The problem is with individual contracts, where there are no funds from which the financial institution could deduct the debt. In this case, however, the buyer of the debt can turn to both the original debtor and the client and collect payables from either of them. (Naturally, if the client repays the debt, he also regains ownership of the receivables once the due amount has been paid.)

In British and American law, the right of recourse means the *guaranteeing of payment and the repurchase of the debt by the client.*[92] The *guaranteeing of payment* is more of a possibility prior to the repurchase of the debt. Up to a certain date, the factoring company would stay away from enforcing their right of recourse and the client agrees to pay additional charges. This method, however, also has some additional consequences. The buyer of the debt will demand additional collaterals, i.e. the factoring company will principally set a higher retention for the upcoming bills or will retain amounts payable to the client.[93]

When a *buyback obligation* is imposed on the client, he is required to buy back the debt and reimburse the already paid amounts plus fees to the financial institution.

The solution in Hungarian law is presented in conjunction with the rules of assignment which is an underlying legal relationship.[94] The Civil Code defines the right of recourse as a *suretyship liability* in the context of onerous assignment. The liability of the surety provider, however, is limited extensively by the regulations regarding both its extent and the uncertainty of receivables. The surety provider's liability is limited to the value paid for the debt concerned.[95] Furthermore, if the debt was transferred by the assignor explicitly as an uncertain receivable or if he otherwise excluded liability, this liability is not there at all.

Although all three solutions occur in Hungarian business practice, we need to highlight some critical remarks regarding the right of recourse.

Regarding reimbursement claims, it is important to describe this instrument with thorough regulations which specify the extent and way of enforcement, etc.

The stipulation of buyback obligation would be subject to a specific difficulty in Hungarian law. Namely, only buyback rights are mentioned in Hungarian legislation, buyback obligations are practically “unknown”.[96] (Not excluding other options enabled by civil law which could restore the original status.) Naturally, these remarks are not meant to suggest that buyback obligations cannot be regulated fairly in a contract. Still, this arrangement may incur several unfavorable consequences. E.g. the number of obligors decreases if the client buys back the debt. In this case, the only potential obligor is the client, as the factoring company is no longer in legal relation with the direct debtor. When enforcing the recourse claim, however, the beneficiary can turn to both obligors, i.e. he can claim the invoice

amount from both the customer and the supplier.[97]

Another potential problem is that the client fails to fulfill his buyback obligation. In this case, as proved by documents of actual transactions, the related contracts call for *immediate and automatic reversion of title.* In other words, in case the debtor fails to pay, ownership of the receivables is returned to the original beneficiary as stipulated in the factoring contract, i.e. the original situation is restored. This is usually combined with the right of offsetting, which means that the factoring company may count the value of the reversed claim plus charges as a part of their debts.

There would be reasons to incorporate a liability scheme in legislation that is stricter than plain assignment. It could be implemented through calling for a joint and several guarantor instead of a surety provider in the applicable laws. Financial institutions often require a joint and several guarantor in the factoring contract and I do not see any reasons for not making it a mandatory requirement in the law.

Transactions differentiated based on the way of financing

Financing has become an indispensable element of modern factoring. Actually it is the main reason that factoring has become so widely used by now.[98] In my opinion, out of the three functions of factoring (risk takeover, financing, and service providing) financing is the one that gained the most significance throughout the years. By way of the financing functions, various financial schemes became dominant.[99] We could already see in Salinger's classification that financing is an indispensable element in all types of factoring except maturity factoring. Even in that case, financing plays a role, albeit not in the form of prompt financing.[100] Some authors mention "credit factoring[101] but the most widely used term is *advance factoring.*[102, 103] With this type, the financial institution provides financing immediately after purchasing the invoices, i.e. they finance the supplier until the invoices fall due or the receivables are collected. In factoring theory, this type is often considered an alternative to financing through loans although it is more advantageous than a bank loan and actually differs from it.[104]

At the other end of the scale of financing arrangements is *maturity* factoring. There is some contradiction in technical literature concerning this variant. Some authors are of the opinion that financing[105] is completely missing from maturity factoring while other say only advance financing is missing.[106] The comparison of these standpoints leads us to the conclusion that the financing function of factoring is not missing from this scheme either, only advance financing, i.e. prompt financing upon the purchase of the invoice is not present. Therefore and due to the increasing importance of the financing element of factoring, this deal type is not common in Hungary. Still, it deserves mentioning as a counterpoint of advance factoring. As the advance financing element is missing from it, this type evolved as an alternative of credit insurance.[107]

The service package includes debt handling and collection along with protection against bad debts – practically all the services associated with full service factoring.[108]

Classification based on debtor notification

Several authors point out the significance of debtor notification when mentioning this element as a basic and main differentiator in the classification of factoring deals [109, 110]

Based on debtor notification, we can differentiate between two factoring types: *undis-*

closed or non-notification and *open or notification factoring.* The former is often referred to as "quiet" factoring, which is a description used by some authors.[111] (As mentioned earlier, I disagree with the term "quiet factoring" regardless of how widely it is used, simply because it does not reflect the main point of the arrangement. What is more, it suggests that the underlying transaction is somewhat "unlawful". It is probably more proper to use one of the above descriptions which refer to notification.) In business practice, the most commonly used term is *notification factoring.*[112]

Sometimes the factoring company not only notifies the debtor but asks the obligor for a *debt acknowledgement.* It mostly happens with individual, high value contracts where a one-off contractual relation is in place between the supplier and the customer. The written request for debt acknowledgement can be regarded as a notification. Debt acknowledgement takes place also when the factoring company is financed by a bank. The bank requests a right of pledge over the debt and the obligor has to confirm that he acknowledges it. Regarding its content, this confirmation includes the elements of debt acknowledgement as well.

If the debtor is not notified, we talk about *undisclosed or non-notification factoring*. Due to the reasons discussed earlier, this deal type is rare and it is usually employed because of business considerations.[113] Albeit it would surely be popular among clients as it would help them "hide" their financing difficulties from the customer, Hungarian factoring companies usually insist on notifying the client, obviously to mitigate the risks of the transaction among other reasons. Technical literature mentions this factoring type in conjunction with bulk factoring where the client has his entire account turnover factored, i.e. the debtor does not get notified per each and every invoice.[114] For this scenario, a specific arrangement has been developed in Hungarian factoring practice which cannot be considered non-notification factoring. Large chain stores sign a separate agreement with the client and the factoring company. The contract declares that from a specific date on, the factoring company purchases the client's receivables from all obligors and the obligor would transfer all invoiced amounts less necessary deductions to the factoring company's account. Parallel to that, the obligor would enter the factoring company in their accounting and financial system as a new beneficiary and would make transfers to them automatically.

Factoring types based on additional services involved

Theory and practice shaped a wide range of contract variants in factoring which cannot be classified along the basic services they involve. Instead, these contracts stipulate other additional services or convey a special element compared to other factoring deals. Therefore, this category cannot be handled as a closed set, for the underlying deal types continuously change or cease to exist while new types emerge. Due to their importance in technical literature, however, I would still highlight a few types. Items which I think belong here are as follows:

- bulk factoring,[115]
- agency factoring,[116]
- factoring combined with credit insurance,[117]
- collection factoring,[118]
- pay-as-paid,
- guarantee factoring,
- purchase factoring,
- loan factoring,
- day-to-day factoring,
- split factoring,
- information service,
- agreements between the bank and the factoring company.

Naturally, the above list is not intended to be complete. It only presents the diversity of deal types belonging to the category. We discussed the listed types in relation to the individual authors and I touched on credit insurance matters in detail in conjunction with full service factor. Two types have not been mentioned yet: agency factoring and the agreements between the bank and the factoring company. One of them deserves mentioning due to its traditional nature while the other is a contractual arrangement widely used in domestic and international business.

Agency factoring, a type that emerged upon the initial evolution of factoring has lost practical significance by now.[119]

Originally, the word "factor" referred to an agent or commissioner who played a significant role especially in export transactions. The factor was between the exporter and the importer. He was familiar with local needs and the financial position of buyers. Furthermore, the factor assumed the risk of non-payment as he provided surety for non-payment by the customer or prepaid the price of delivered goods to the supplier.[120] From a service standpoint, agency factoring meant that administration and collection were practically performed by the client as the agent of the factoring firm. Under this scheme, the factor even demanded sometimes that the right of recourse be stipulated in the contract.[121] Therefore, in current terminology, the sole purpose of the deal is financing, whereas in former times it used to serve as protection against nonpayment.[122]

Agreements between banks and factoring companies emerged as a result of recent market development. Banks began to show increasing interest in factoring in Hungary and this development accelerated in the late 90's. Albeit with varying success, more and more banks are becoming active on the factoring market.[123] Factoring, however, is a different business and service compared to traditional banking lines of businesses. Therefore, many banks choose to establish a separate factoring company and provide factoring services through them.[124, 125] These separate entities are financed by their parent bank because they were usually provided with low capital resources compared to the nature of the business.

Parallel to this development, small factoring companies were established in the early 1990's. They are not owned by banks but lack funding, thus they rely on financing from certain financial institutions.

In Hungary, banks finance factoring companies through frame contracts. The frame contracts set either *general purpose* or *limited-purpose* factoring limits. In the former case, the bank determines the amount of funding which the financial enterprise may freely use for factoring purposes. These limits are exclusively applied for the financing of large, financially solid factoring companies and subsidiaries. It may happen that the bank announces the limit as a general purpose one but they still check each and every client individually and make financing available only for customers with an appropriate credit rating. Obviously, client assessment is less strict here than upon lending, since the factoring company is also liable for the successful collection of the debt.

The other solution is the establishment of *limited-purpose quotas.* In the contract with the factoring company, the bank provides an itemized list of companies whose debts they are willing to finance and also specify the upper limits of financing. Client limits are not exchangeable and accurately reflect the extent of exposure undertaken by the bank. Naturally, the factoring company remains liable for the debts in this scheme as well. In order to mitigate risks, the bank can seek collection both from the factoring company and from the clients. Banks enabled debt collection via two arrangements. In the late 1990's, they insisted on the assignment of receivables to the bank.

Then from 2001 on, they levied the right of pledge over the debts. The reason is that new mortgage and pledge laws enabled the establishment of right of pledge also on future or conditional receivables.[126]

Classification based on contract type

The factoring contract can be a one-off agreement or a frame contract. According to technical literature, frame agreements are definitely dominant but one-off contracts may also be concluded.[127, 128] True, individual agreements became increasingly rare during the late 1990's and attempts to establish long term relations with customers also propelled the spreading of frame agreements.[129]

Typically, *individual contracts* do not emerge from ongoing supplier-buyer relations. They often serve the factoring of invoice debts belonging to specific deliveries or to an individual capital investment project. Quite obviously this variant involves more work and conveys more risk for the factoring company due to the lack of permanent client relations. Plus, it is more difficult to integrate these contracts with existing financing schemes and therefore they hinder financial planning.

Contrary to that, in the case of *frame contracts,* the factoring company buys all the receivables of the client due from either a specific customer or from any customer (bulk factoring).[130] This arrangement is better for both parties as the client can expect fast service and stable solvency thanks to the permanent relationship, while the financial institution benefits from easier contact keeping with customers and the permanent contact with the client mitigates their exposure.[131] (It may happen that a specific invoice does not get paid or is disputed. In this case, the factoring company can deduct the debt from the retained amount which is set up for other invoices.)

Frame agreements work similarly to the contracts between the bank and the factoring company, i.e. the financial institution sets customer limits and provides factoring up to their value. It has to be noted that if a frame agreement is concluded by the parties, there will be no individual contracts. Invoices will get factored by the financial institution automatically in accordance with the frame agreement.

International factoring

The distinction along domestic and international factoring has not always been typical in technical literature. Rather, authors mentioned export factoring[132] besides domestic deals. What is more, certain approaches identified export factoring with international factoring.[133] Current legal interpretations, however, definitely distinguish between domestic and international factoring, dividing the latter into export and import factoring.[134]

We can talk about *domestic factoring* when the core transaction, the underlying delivery or other contract is concluded between domestic resident businesses. In this scenario, the residence of the factor is irrelevant although domestic factoring deals are typically executed by domestic financial institutions as they are familiar with local language, laws, business practice and have access to information sources.[135]

International factoring is a clearly defined and accurately interpreted type, mainly as a result of the UNIDROIT Conventions. The conventions use the expression "international debt purchase", meaning international factoring, and render a definition thereof. Thus we can talk about international factoring if the factored debt is between a supplier and a customer who reside in different countries.[136] Within international factoring, import factoring and export factoring[137] is distinguished and the two

can also be considered interrelated transactions.[138]

Export factoring is an agreement concluded between the exporting supplier and the financial institution whereby the exporter assigns deferred payment receivables arising from his international trade contracts to the financial institution.[139]

Import factoring is a deal concluded between two or more factoring companies in a so-called dual factoring arrangement[140] or between financial institutions acting at the place of residence of the exporter and the importer respectively[141]. In practice, the former scheme is more frequent whereas the latter is rarely applied. Due to the space limitations herein, I discuss the rules and mechanisms of international factoring in detail in a separate study. Therefore, this deal type is not presented thoroughly herein.

SUMMARY

This study was intended to highlight the diversity and complexity of factoring through presenting the related classification. The deficiencies which exist in the relevant contractual arrangements and legislation, however, hinder the wider application of factoring which would otherwise be a logical development. The purchase and selling of debts could resolve payment deadlocks and defaults among business partners. It could help eliminate current asset shortages, especially for small and medium enterprises. Furthermore, the expansion of the European Union may open new markets for factoring companies regarding downpayment financing and providing advances to capital investment projects.

Deficiencies in legislation, however, may limit these opportunities. E.g. it is somewhat difficult to understand why legislators are reluctant to regulate factoring in a proper manner either in a dedicated act or through the Civil Code, as actual contracts and court proceedings have already challenged the legal framework of debt assignment. Yet the issue is not less urgent on an international scale either. The rules of international factoring are regulated by the UNIDROIT Conventions, the joint rules of factor chains, standard contract conditions and national laws. The complexity of the underlying legal relations would definitely call for more thorough and more specific regulations. The further development of the UNIDROIT Conventions could provide a good opportunity for that in the future. This study illustrates that actual industry practice is ahead of theory and legislation. Therefore, I attempted to discuss and systematize these two areas in combination, so that the reader can easily find his way through the various types of factoring. True, theoretical systematization is not a substitute for proper laws, yet it may help understand the essence of factoring.

NOTES

[1] Based on a report by Factors Chain International. In HVG, 1 October 2005, Factoring is gaining ground, page 35, The source includes 2004 data. Factoring turnover in Hungary amounted to 1.1 billion euro and subsequently reached HUF 700 billion by 2007 (Barbara Farkas: Uneven growth of the factoring market, Világgazdaság 16 January 2007 , page 14)

[2] Martinkó, Károly: Factoring – the Cinderella of Corporate Financing, Saldo Rt, Budapest, 2002, page 28

[3] The same view is shared by Károly Martinkó, cf. Martinkó, ibid. page 28.

[4] Freddy Salinger: Factoring law and practice, Sweet & Maxwell, London, 1995, page 24
The same classification is presented in a study prepared by Heller Factoring Österreich Aktiengesellschaft, titled"The Main Features and Practice of Factoring" (manuscript, Library of the National Bank of Hungary, page 22).

[5] Salinger (1995) Ibid. pp. 14–17
In full service factoring, the client gains access to financing, he is relieved from administrational chores and transfers the risk to the factor.

[6] Ibid. pp. 17–19
With recourse factoring, the client gets all the services associated with full service factoring, except the takeover of the risk of non-payment by the debtor. I.e. the customer does not receive protection against doubtful debts. In this case, the client has to repay the amount which the factor paid for the open receivables.

[7] Ibid. pp. 17-18
This type only provides financing to the client. The factor is not assuming responsibility for administering and collecting the receivables and factoring is executed on a full recourse basis.

[8] Ibid. pp. 19–20
Maturity factoring does not involve advance financing, thus it evolved as an alternative to credit insurance. It involves the keeping of records, collection, and protection against bad dents. The reason it is called "maturity" factoring is that payment for the purchased debts is made after a specific period of time following the transfer of debts to the factor, or upon payment by the debtors.

[9] Ibid. page 18
Agency factoring means that administration and collection are actually performed by the client who acts as an agent of the factor, whereas the factor has the right of recourse. The purpose of this arrangement is to enable financing for clients who do business with a large number of small debtors but does not meet the financial and accounting requirements of invoice discounting.

[10] Ibid. pp. 18–19
This service is designed for clients who only want to have their credit needs financed but do not require any other service. The debtors are not notified.

[11] Ibid. page 19
This is a term for a special form of invoice discounting where the factor provides protection against doubtful debtors up to a certain extent. The debtors are not notified.

[12] Martinkó (2002), Ibid. page 28

[13] Károly Martinkó is of the opinion that the term "invoice discounting" should be avoided. He considers "receivables financing" or "confidential factoring the correct description. He thinks "invoice discounting" would lead to inappropriate terminology in the domestic factoring business. In his perception, discounting is actually the purchase of invoices with the deduction of interests due until the maturity date, while in this specific case the factor charges interests for financing. Martinkó is of the opinion that this service was named "discounting" in the British factoring business because they wanted to avoid making it subject to banking regulations.

[14] Salinger (1995), Ibid. pp. 20–22

[15] Martinkó (2002), Ibid. pp. 29–34

[16] Ibid. page 28

[17] Ibid. page 33, Table 1

[18] Gellért, Gy (editor): Explanations to the Civil Code, KJK-Kerszöv Kft., Budapest, 2002, page 1070: "Assignment can be free or chargeable, it can take place with or without remuneration."

[19] Martinkó (2002), Ibid. page 31

[20] Gellért, Andor: Banking Deals, KJK, Budapest, 1991, pp. 148–151

[21] Ibid. page 147

[22] Ibid. page 150

[23] Ibid. page 150
One modern form of factoring is advance (credit) factoring. The exporter is willing to pay the factoring fee because it enables him to transfer to the factor the risk of non-payment associated with his open and therefore high risk deliveries. For the business relations covered by this arrangement, the exporter is relieved from all administration duties and he can finance his working capital needs at market rates from the invoice release date up to actual collection.

[24] Ibid. page 150

[25] Réczei, László: About the factoring deal, Jogtudományi Közlöny, January 1988, page 12

[26] Gellért, A. (1991), Ibid. page 150

[27] Réczei (1988), Ibid. page 13

[28] Ibid. page 13

[29] G. Schepers, Factoring Handbuch, Fritz Knapp Verlag Frankfurt, 1982, page 67 In Réczei (1988) Ibid. page 13

[30] Réczei (1988), Ibid. page 13
The definition of other factoring types is also on this page of the study, so I would not refer to each of them here! It should be pointed out that László Réczei lists the specific factoring types without claiming to provide a complete list. He considers his list classification based on contract type.

[31] Martinkó (2002), Ibid. pp. 29–34

[32] Petrik Ferenc: Bankjog, HVG-ORAC Kft., Budapest, 2003, pp. 296–297

[33] Leo Binder-Degenschild: The Development of Modern Factoring With Special Regards to Export Factoring, Bécs, 1984, manuscript, Library of the National Bank of Hungary

[34] Hans Janberg: Finanzierungs-Handbuch, Betriebswirtschaftlicher Verlag Dr Th. Gabler, Wiesbaden, 1970, pp. 544–555
Horbach's categories are broader. Based on industry practice, he distinguishes domestic and international factoring and, based on the nature of the factoring deal, “notification” and “non-notification” factoring.

[35] Heller Faktoring Österreich Aktiengesellschaft: The Main Features and Practice of Factoring, manuscript, translated, Library of the National Bank of Hungary, 1988, page 7

[36] This standpoint is also shared by László Réczei, Anna Halustyik and Károly Martinkó among others, based on writings referenced and presented above.

[37] This opinion is also represented by Iván Szentiványi, István Gárdos and Ferenc Umenhoffer Ferenc, cf. Szentiványi, Iván: Factoring and all that is behind it, Gazdaság és Jog, HVG-ORA Kft., January 1995, pp. 11–12; Petrik, Ferenc. Banking law in practice, ECONOMIX Rt., Budapest, 1990, pp. 34–35; Umenhoffer, Ferenc: Loans, leasing, factoring and their relation to corporate tax and accounting, Adó Volume 13, Issue 3/2004, page 21

[38] Szentiványi Iván: Household finances – banking services, KJK, Budapest, 1985, pp. 278–280

[39] Umenhoffer (2004), Ibid. page 21

[40] Nochta Tibor: to the Civil Law Fundamentals of the Factoring Contract, Magyar Jog, Issue 12/1996 pp. 715–716

[41] Ruling no. Gf.I.30.511/2003 of the Szeged Court of Appeal, BH 2005/72

[42] Gerhard Stoppok: The Factoring Contract-Factoring Handbuch, Frankfurt am Main 1987, 94. oldal; Serick: Rechtsprobleme des Factoring-Geschäftes BB, 1976, 425. oldal; Larenz/Camaris: Lehrbuch des Schuldrechts pp. 86–87, In Nochta (1996) pp. 715–719

[43] Zolnai, László: Factoring, Marketing & Menedzsment, Issue 3/1988, pp. 41–42

[44] Bozsik, S.: Commercial banking, Miskolc University Publishing House, 1999, page 75

[45] Ibid. page 75

[46] Reke, B: A decade of factoring, Bankszemle, Issue 2/1997, page 69

[47] Bozsik (1999), Ibid. page 76

[48] A different viewpoint is represented by the following aforementioned authors: Károly Martinkó, Andor Gellért, László Réczei, Leo Binder-Degenschild

[49] Martinkó (2002), Ibid. pp. 33–34

[50] Bozsik (1999), Ibid. page 76

[51] Ibid. page 76

[52] Salinger (1995), Ibid. page 116; Martinkó (2002) Ibid. page 33; Réczei (1988), Ibid. page 13

[53] Act LXXXV of 1997 on the enactment of the UNIDROIT Convention on the international sale and purchase of debts concluded in Ottawa on 28 May 1988. The act actually regulates international factoring. Paragraphs 1–2 in Article 2

[54] Bozsik (1999), Ibid. page 75; Nochta (1996) Ibid. page 715; Umenhoffer (2004), Ibid. page 21; Reke (1997) Ibid. page 69

[55] Salinger (1995), Ibid. page 14–17

[56] Martinkó (2002), Ibid. page 43

57 Salinger (1995), Ibid. page 24
These services are as follows: financing, protection against doubtful debts, notification of debtors, administration of the sales ledger, collection.

58 www.cib.hu/A faktoringról (About factoring)

59 www.hvbfactor.hu/klasszikus faktoring (Classic factoring)

60 Réczei (1988), Ibid. page 12

61 Ibid. page 13
Further categories that belong here are "split factoring" as defined by László Réczei, "informing", "guarantee factoring" or "agency factoring".

62 The term "quiet" factoring is used by e.g. Károly Martinkó [Martinkó (2002) Ibid. page]; Anna Halustyik [Petrik F.(2003): Ibid. page 297] and Sándor Bozsik [Bozsik (1999) Ibid. page 75]

63 Petrik F. (2003), Ibid. page 296

64 Martinkó (2002), Ibid. page 29

65 This standpoint is shared by Heller Factoring AG, Ibid. page 1

66 Ibid. page 2

67 Heller Factoring AG, Ibid. page 3

68 Ibid. page 3

69 www.cib.hu.

70 Martinkó (2002), Ibid. page 30, page 32

71 Salinger, Ibid. pp. 20–21

72 Heller Factoring AG, Ibid. pp. 16–19

73 Ibid. pp. 17–19

74 Heller Factoring AG, Ibid. page 18

75 Ibid. page 19

76 Martinkó (2002), Ibid. page 33

77 Heller Factoring AG, Ibid. page 4

78 www.cib.hu

79 Martinkó (2002.), Ibid. page 30

80 Stoppok (1987), Ibid. page 94

81 Serick (1976), Ibid. page 425

82 Larenz/Camaros (1981), Ibid. pp. 86–87

83 Petrik, F. (2003), Ibid. page 16, page 21

84 Réczei (1988), Ibid. page 14

85 Binder-Degenschild (1984). Ibid. page 9

86 Salinger (1995), Ibid. page 24

87 Gellért, Gy. (2002), Ibid. page 1070; Act IV of 1959(Civil Code) Article 330

88 Act CXLL of 1996 on Credit Institutions and Financial Enterprises, Annex 2, point 10.2. b.

89 Réczei (1988), Ibid. page 14

90 Binder-Degenschild (1984), Ibid. page 9

91 Nochta (1996), Ibid. page 716

92 Salinger (1995), Ibid. page 17

93 Heller Factoring AG, Ibid. page 8

94 Civil Code, Article 330, paragraph (1)

95 Gellért, Gy. (2002), Ibid. page 1071
Naturally, liability also covers additional fees and charges as also mention in the explanation to the Civil Code. According to paragraph (2) in Article 273, the liability of the surety provider also extends to supplementary services falling due after the undertaking of suretyship.

96 Civil Code, Article 374

97 Martinkó (2002), Ibid. page 30

98 Kurt F. Schaer: Factoring – eine neue Dienstleistung fasst be uns Fuss, Der Monat in Wirtschaft und Finanz 10/1982, pp. 16–18

99 Martinkó (2002), Ibid. page 28

100 Salinger (1995), Ibid. pp. 14–17

101 Binder-Degenschild (1984) Ibid. page 10
Here the author refers to Biscoe's definition (Law and Practice of credit Factoring, London, 1975)

[102] Gellért Gy. (1991), Ibid. page 149

[103] Bozsik (1999), Ibid. pp. 75–76

[104] Reke (1997), Ibid. page 69

[105] Bozsik (1999), Ibid. page 76

[106] Salinger (1995), Ibid. pp. 19–20

[107] Ibid. page 19

[108] Martinkó (2002), Ibid. page 32
The author calls this factoring type "maturity factoring".

[109] Salinger (1995), Ibid. page 24

[110] Janberg (1970), Ibid. page 544

[111] Martinkó (2002), Ibid. page 32

[112] www.cib.hu

[113] Réczei (1988), Ibid. page 13

[114] Martinkó (2002), Ibid. page 31

[115] Salinger (1995), Ibid. page 14–17

[116] Ibid. page 18

[117] Ibid. pp. 20–21; Martinkó (2002), Ibid. pp. 32–33

[118] Réczei (1988), Ibid. page 13

[119] Bozsik (1999), Ibid. page 76

[120] Gellért A. (1991), Ibid. pp. 149–150

[121] Salinger (1995), Ibid. page 18

[122] Martinkó (2002), Ibid. page 31

[123] Ibid. page 35

[124] www.cib.hu

[125] www.hvbfactor.hu

[126] Act CXXXVII of 2000 amended the civil law on the right of pledge. It was enacted on 1 September 2001

[127] Szőcsik, E.: The factoring line of business, Befektetés, 1988, Issue 4, page 46

[128] Bozsik (1999), Ibid. page 75

[129] Reke (1997), Ibid. page 69

[130] Szőcsik (1988), Ibid. page 46

[131] Reke (1997), Ibid. page 69

[132] Szőcsik, E.: The factoring line of business, Befektetés, 1988, Issue 4, page 47

[133] Szántó, A.: Factoring, CO-NEX-TRAINING Bt. Budapest, Published version of the 23 February 1994 presentation

[134] Salinger (1995), Ibid. pp. 115–119

[135] Martinkó (2002), Ibid. page 53

[136] Act LXXXV of 1997 on the UNIDROIT Conventions: Article 2, paragraph 1

[137] Kónya (2001), Ibid. pp. 151–152; Bette-Brink (1997), Ibid. page 314; Gellért, A. (1991), Ibid. page 145–146

[138] Réczei (1988), Ibid. page 13

[139] Kónya (2001), Ibid. page 151

[140] Salinger (1995), Ibid. page 116

[141] Kónya (2001), Ibid. page 152

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