Cash flow can be a concern for contractors, whether this is the first time to bid, or if the company has several contracts at the same time. Did you know that there is a method already built into most Federal Government purchase orders and contracts to assist companies with financing the expenses they will incur prior to delivery of those items, or completion of those services? That financial solution is referred to as “Assignment of Claims”.

In more prosperous times your company may have been able to use a government contract as collateral to obtain a line of credit, and the procedure described here is comparable. Understandably, banks can be more difficult to work with in the current economic environment. However, if you have established and maintained a good working relationship with your bank, the “Assignment of Claims” can provide a guarantee for your bank, as well as for your company, that your financial arrangement will be satisfied promptly by the same contract for which the money is required. This procedure allows you to use the government contract as collateral to purchase the specific items and/or labor required to fulfill that contract.

So let’s suppose that you have received a government contract for commercial items (SF1449?) which includes the Federal Acquisition Regulation (FAR) Clause 52.212-4. (This clause is often in the contract by reference, so you may not have read it in its entirety. Paragraph (b) addresses the specific authority for assignments). As the contractor (the assignor), you may assign your rights to receive payment due (a claim) as a result of performance of this contract to the financial institution (the assignee) who has loaned you the money to pay the costs which will be incurred by the contract. This requires a written agreement signed by you and the bank describing the terms and amount of the loan and authorizing contract payment by the government to go directly to the bank until the loan is paid. This agreement is then incorporated, by modification, into the contract by the contracting officer. Everyone is happy. You get the money you need to purchase materials or to pay for labor, the government gets what it has procured, the bank gets its money back, and you reap your profit.

For more information about Assignment of Claims, and how your company might benefit from using this and other business strategies, please call our office at (501) 671-2390.