

# Contract Financing: Commercial Item Financing

**(May 2018)**



**Presented By:**

Bryan Erickson, DCMA

Contract Administrator

**DISCLAIMER: The views expressed are not necessarily representative of DCMA. I am here to present on behalf of NCMA, Wisconsin Chapter. Although much of the information contained within is public knowledge, any opinions expressed are those of the presenter alone. If you have any questions, feel free to contact Jason Rath sack at [visn12jr@gmail.com](mailto:visn12jr@gmail.com)**

– **Policy**

- DCMA- Instruction -- N/A

– **Resources**

- FAR Subpart 32.2 – Commercial Item Purchase Financing
- FAR 52.232-30 – Installment Payments for Commercial Items
- DAU ACQuipedia

<https://dap.dau.mil/acquipedia/Pages/ArticleDetails.aspx?aid=fe3b53bf-6978-4d2e-a25c-643d1d5113a3>

- DCAA CAM: <http://www.dcaa.mil/>
- WIFCON: <http://www.wifcon.com/>

# Commercial Item Financing - Definition

- **Commercial Item Financing:** Financing provided in a contract for the purchase of commercial items.
- **Three Types of Payments for Commercial Items:**
  - **Commercial interim payment** means any payment that is **not a commercial advance payment** or a delivery payment. These payments are contract financing payments for prompt payment purposes (*i.e.*, not subject to the interest penalty provisions of the Prompt Payment Act in accordance with [Subpart 32.9](#)).
  - A **commercial interim payment** is given to the contractor after some work has been done, whereas a **commercial advance payment** is given to the contractor when no work has been done.
  - **Delivery Payment (not a financing payment)**

# Financing Requirements

- **Commercial advance and interim payments may be made under the following circumstances ([FAR 32.202-1\(b\)\(6\)](#)):**
- The contract item being financed is a commercial supply or service.
- The contract price **exceeds** the **simplified acquisition threshold**.
- The contracting officer determines it is appropriate/customary in the commercial marketplace to make financing payments for the item.
- The form of contract financing is in the best interest of Government.
- Adequate security is obtained.
- The contract is awarded on the basis of competitive procedures.

# Security Requirement

- **CIF requires security be provided by the contractor.**
  - The type of security should be specified in the solicitation
  - Value of security must be equal to the amount of unliquidated amount of contract financing payments to be made to the contractor.
  - Types of acceptable security (FAR 32.204-4 (b), (c), & (d):
    - Paramount Lien
    - Irrevocable letter of credit
    - Bond from a surety
    - Guarantee of repayment from a person or corporation
    - Title to contractor assets
  - The value of security may be adjusted periodically during contract performance, as long as it is always equal to or greater than the amount of unliquidated financing. 32.202-4(a)(3)
- Verify that assets offered for security are free of encumbrances per 32.202-4(b)(3)
- Security Review completed at least annually (CIF Surveillance Plan)



## ACO Verifications Prior to Approving Payment

- FAR 32.232-30 - Installment Payments for Commercial Items is in the contract
- The installment payment financing schedule is included the contract or calculated
  - Contractor is responsible to calculate monthly amounts per 32.206(g)(3), but verify that no errors were made
  - Calculate monthly payment amounts by CLIN and ACRN (Commercial Contracting Guidebook/Instructions)
- No shipments have occurred for each CLIN receiving installment payments per 32.206(g)(1) and 52.232-30(b)(4)
- Payments stop for each CLIN with early shipments

- **Calculating the monthly payment (instruction in FAR 52.232-30 (b) )**



- **$(\text{Total Unit Price} * 70\%) \div (\text{Monthly Installment Payments} - 1)$**

**Limitation on Payment: The Sum of all installment payments may not exceed 70% of the price of that unit.**





# Questions

