The Case for Federal Market Credit

How FMC Changes Outcomes for Contractors

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I. Executive Summary

Federal contractors operate inside one of the most structurally unique financial environments in the American economy. Their counterparty is the U.S. government, and their receivables are sovereign-backed, yet they cannot access capital commensurate with what they hold. The reason is not the strength of their business; it is the inadequacy of the financial infrastructure built to serve them.

Parabilis exists to correct that misalignment. We are the originating institution and category leader in Federal Market Credit (FMC), a capital model purpose-built for the cash flow mechanics of U.S. federal contracting. Our revolving lines of credit range from $50,000 to $10,000,000 and above, structured around billed invoices, unbilled invoices, and delivery orders, and underwritten by a team with more than 100 years of combined government contracting experience. When capital is designed around the mission environment rather than borrowed from commercial finance, contractors are able to both survive and grow through disruption.

II. The Problem That Demands a New Model

A. The Cash Flow Gap in Federal Contracting

Federal contracting is one of the most stable revenue environments in the American economy, yet persistent cash flow challenges afflict small and mid-sized businesses throughout it. The current structure requires contractors to perform work, submit invoices after completion, and wait for payment. Under the federal Prompt Payment framework, the due date for invoice payment is generally the later of 30 days after receipt of a proper invoice or 30 days after government acceptance of the goods or services, with interest owed automatically on late payments (52.232-25 Prompt Payment, acquisition.gov). In practice, a payment cycle can range from 60 to 120 days, and disruptions such as a government shutdown extend this period further.

The result is that federal contracting cash flow is inherently negative for businesses that lack adequate capital. Federal Reserve survey data confirm that payment-related frictions are widespread among small firms. In the 2025 Small Business Credit Survey, only 42 percent of applicants received all the financing they sought, while 22 percent received none (2026 Report on Employer Firms, fedsmallbusiness.org).

This funding deficit is not a reflection of contractor quality. The issue lies in the financial infrastructure supporting them: the products available to small and mid-sized government contractors were built for the commercial market, not the federal market. Traditional lenders evaluate borrowers on historical financials and profitability, the very metrics that fast-growing small GovCon businesses often lack, creating a bottleneck precisely when capital is needed most.

Budget instability compounds the problem. The GAO reports that the federal government has operated under continuing resolutions in all but 3 of the last 46 years, and that these funding gaps create administrative inefficiencies, hiring slowdowns, and planning constraints across government operations (GAO-22-104701, gao.gov). During the government shutdown in early 2025, Parabilis observed a 60 to 70 percent reduction in inbound payments almost overnight. Furloughed staff at the Defense Finance and Accounting Service meant that invoices that had been submitted and approved were not being processed.

This created an unresolved tension between the Prompt Payment Act, which requires timely payment to contractors for completed work, and the Anti-Deficiency Act, which prohibits federal agencies from obligating funds in excess of what Congress has appropriated (Prompt Payment, fiscal.treasury.gov). Because the government's public-facing position was that essential work would continue, and contractors would be paid, the conflict was not widely understood. Small businesses without proper understanding and guidance bore its cost entirely on their own.

B. Why Factoring Falls Short

Invoice factoring can provide short-term relief, but its utility is narrow by design. Factoring only activates after work is complete and a valid invoice has been submitted and verified, addressing nothing before the first billable milestone. The Federal Acquisition Regulation recognizes that contractors will make expenditures for contract performance during the pre-delivery period that have a significant impact on the contractor's working capital, in many cases four months or more before a small business can submit its first invoice (FAR Part 32.104, acquisition.gov). A 2024 GAO report on defense contract financing reinforced this, finding that contractors need cash to cover labor, materials, and overhead before delivery of the contracted item, and that existing financing mechanisms leave enough unmet need that DOD has proposed a new pilot program specifically designed to meet the general financing needs of small businesses that current tools do not cover (GAO-24-106850, gao.gov). Beyond the timing problem, factoring fees typically run 2 to 5 percent per invoice cycle, an expense that compounds quickly across a multi-month contract and eats directly into margin.

C. Why the Gap Matters

The consequences extend beyond individual businesses. Approximately 55,000 small businesses operate as federal contractors (Henris, Spilling the Tea on GovCon Ep. 83), and the SBA reported that small businesses received more than $183 billion in prime federal contracts in FY 2024, exceeding the government's 23 percent small-business contracting goal (Biden-Harris Administration Awards Record-Breaking $183B in Federal Contracts to Small Businesses, sba.gov). When cash flow pressure forces them to reduce staff, defer business development, or exit the market entirely, the downstream effects reach agency performance and the long-term health of the federal supplier base. The gap in financial infrastructure is not a contractor problem; it is a market problem. FMC was built to close it.

III. Defining FMC: The Model, Its Mechanics, and What Makes It New

FMC was not adapted from an existing financing product. It was built specifically for the way federal contracting actually works.

A. What FMC Is

At its core, FMC is an asset-backed, mission-aware revolving line of credit ranging from $50,000 to $10,000,000 and above. What separates it from any comparable product is the collateral structure it is built around. Rather than requiring a contractor to hold a single qualifying asset type, FMC allows borrowing against three collateral categories, each calibrated to a specific stage of the federal cash flow cycle.

The first is billed invoices. Parabilis advances up to 90 percent of the value of prime and subcontract invoices submitted to the government but not yet paid. This converts the wait for government processing into available capital.

The second is unbilled invoices. Parabilis advances up to 65 percent against work that has been completed but not yet billed, extending capital access earlier in the cash cycle than any invoice-based product and reaching the contractor at the moment cost is being incurred.

The third is delivery orders. For contractors supplying physical goods to the government, Parabilis advances up to 30 percent against government delivery orders, covering procurement and staging costs that precede both delivery and invoicing.

Contractors draw only what they need, when they need it, and pay interest only on the outstanding balance. When inbound government payments bring the balance to zero, Parabilis remits any remaining funds directly to the client. Pricing is transparent: a fixed interest rate on funds outstanding and a small commitment fee. The facility also scales with contractor growth. As new contracts are awarded and headcount expands, the credit ceiling adjusts accordingly. Parabilis also provides mobilization loans to cover contract start-up costs, addressing the capital gap between award and first invoice, a period during which a contractor must staff, equip, and begin performing with no revenue yet flowing.

B. What FMC Is Not

FMC is not factoring. Invoice factoring is a sale, not a loan. When a contractor factors an invoice, it sells that receivable to a third party at a discount, surrendering a portion of every dollar for immediate liquidity. FMC is a borrowing relationship. The contractor retains full ownership of its receivables, draws capital against them as needed, and pays only for what it uses.

FMC is not a traditional bank line of credit. Federal Reserve survey data indicate that many small firms seeking financing do not receive the full amount they apply for (2026 Report on Employer Firms, fedsmallbusiness.org). Banks underwrite on the basis of historical profitability, tangible collateral, and financial ratios that fast-growing small contractors frequently cannot satisfy. Bank underwriting timelines are also misaligned with the pace at which federal contracts are awarded and mobilized. FMC underwrites based on the federal contract itself, the quality and volume of the receivable, and the capability of the team behind it.

FMC is a capital category, the first model explicitly designed for the federal contracting market.

C. Why “Credit” and Not “Lending” Is the Right Frame

FMC sits at the intersection of private credit, federal contracting, and non-bank capital solutions. It is not a bank product and not a government program. It is private capital deployed with institutional underwriting discipline and relationship-based flexibility. A private credit lender can defer payments during a shutdown, adjust ceiling sizes as contracts grow, and make decisions based on mission context rather than spreadsheet ratios alone. Parabilis brings more than 100 years of combined government contracting executive experience to every credit decision. Parabilis capital is deployed by people who understand the difference between a payment delay caused by a furloughed DFAS employee and a genuine credit deterioration event.

IV. FMC in Motion: The Operational Reality

FMC is not a theoretical model. It is a working operational system that functions across every stage of the contractor lifecycle. Understanding how FMC performs in each context is essential to understanding why it represents a meaningfully different relationship between a contractor and their capital.

A. The Normal Operating Cycle

Federal rules contemplate payment within roughly 30 days of a proper invoice or acceptance, but that still leaves contractors carrying payroll and operating costs in the interim (52.232-25 Prompt Payment, acquisition.gov). Consider a federal services contractor generating one million dollars per month in revenue. At any given moment, that contractor has between $500,000 and $1,000,000 in receivables that are real, earned, and backed by the full faith and credit of the U.S. government, and yet entirely illiquid. Until DFAS processes payment, that capital sits beyond reach while payroll, subcontractor obligations, fringe benefits, and overhead costs continue to come due.

FMC converts that illiquid receivable into available working capital on a rolling basis, allowing contractors to draw funds as collateral accumulates throughout the month rather than waiting for a single payment to arrive. Payroll runs on schedule, subcontractors are paid on time, and the business operates at full capacity without absorbing the 30, 45, or 60-day lag that DFAS processing timelines impose.

Liquidity gaps in the normal operating cycle are quiet. A contractor who is perpetually waiting on payment cannot invest in business development, absorb the ramp-up costs of a new contract, or respond confidently to a teaming opportunity. FMC removes that constraint at the operational level, before it becomes a strategic limitation.

B. The Shutdown Scenario

When a government shutdown suppresses inbound payment flows, the quiet pressure of the normal operating cycle becomes an immediate crisis. GAO has documented that continuing resolutions are routine rather than exceptional in federal governance, and agencies report that such funding uncertainty creates operational inefficiencies and planning delays (GAO-22-104701, gao.gov). During the shutdown of late 2025, Parabilis observed a 60 to 70 percent reduction in payments across its portfolio almost overnight.

For contractors with FMC in place, the response is structured and executable rather than reactive. Parabilis instructed its borrowers to pause all non-essential spending immediately, identify the critical expenses, direct payroll, fringe benefits, health care, and 401(k) contributions, communicate proactively with vendors and landlords before payments are missed, and draw on the FMC line to protect what cannot wait.

The lender relationship itself becomes a resource during this period, because transparency earns flexibility. A contractor who communicates proactively, shares receivables data, and demonstrates that the underlying business remains sound gives a mission-aware lender the information needed to respond constructively, making Parabilis open to deferring a payment or restructuring the facility temporarily. A traditional bank, governed by automated covenants and commercial underwriting standards, does not make that distinction.

C. The Pipeline Gap and Growth Transition

New contracts require staffing, equipment, and operational infrastructure before the first invoice can be submitted. FMC addresses these needs directly through continuity capital during pipeline gaps and mobilization loans at contract start-up. The impact at the growth stage is significant. The president of a $15 million service-disabled veteran-owned small business described Parabilis scaling with them through a very significant double-digit million-dollar contract, providing flexible, growth-matched capital at the moment it was needed most (Parabilis, Client Testimonials). This is FMC in practice at the growth transition: not a fixed facility but a living credit relationship.

V. How FMC Changes Outcomes: Five Domains

The value of FMC is not theoretical. It is documented across the contractor lifecycle in five distinct domains, each representing an area where access to capital produces different outcomes than the alternatives available in the market.

A. Survival Through Volatility

Government funding disruptions are a recurring feature of the federal contracting environment. GAO reports that the federal government has operated under one or more continuing resolutions in all but 3 of the last 46 fiscal years (GAO-22-104701, gao.gov). The history of shutdowns suggests their frequency and duration are likely to increase, and that contractors who treat them as rare exceptions are systematically underprepared.

The mathematics of survival without FMC is unforgiving. A federal services contractor generating $1 million per month in revenue, with direct payroll representing approximately 70 percent of that figure, would need $1.4 million in cash reserves to cover payroll alone for a 60-day shutdown. That is before accounting for fringe benefits, health care, and 401(k) contributions. With FMC in place, existing receivables already earned and sovereign-backed become the bridge between a payment disruption and continued operations.

B. Team Retention and Talent Continuity

The most consequential and least recoverable cost of a cash flow crisis is the loss of skilled personnel. Past performance records reflect the work of the team that produced them, and a gap in that team is a gap in competitive positioning going forward. FMC-backed contractors protect payroll through disruptions, keeping teams intact through periods when revenue is interrupted.

This matters most when market conditions shift back in the contractor's favor. Parabilis observed that approximately $400 billion in fiscal year 2026 and 2027 appropriations was positioned to begin converting into contracts once the 2025 shutdown was resolved. The contractors positioned to capture that opportunity are those who still have the teams, past performance, and operational readiness to execute immediately. Talent continuity through volatility is a competitive advantage.

C. Pricing Confidence and Margin Integrity

A contractor without a capital backstop tends to price from fear rather than strategy. When the consequences of losing a bid feel existential, the temptation to underprice becomes difficult to resist. The result is a contract awarded at a margin too thin to support quality staffing, adequate overhead, and the indirect costs that professional delivery requires.

Melinda Colón, a GovCon pricing strategist, addressed this dynamic directly: federal buyers are risk managers, not bargain hunters. They evaluate which contractor represents the lowest risk of non-performance, and a contractor who has priced too low to deliver adequately signals exactly the kind of risk they are trying to avoid (Colón, Spilling the Tea on GovCon Ep. 85). Colón also emphasized that contractors must know their true cost per hour, including direct costs, indirect costs, and profit, and build a data-backed pricing model from that foundation rather than working backward from what they think the market will accept (Colón, Spilling the Tea on GovCon Ep. 85).

Building and holding that pricing discipline requires financial stability. FMC provides the stability that makes disciplined pricing executable. Contractors who price to win profitably build margins that sustain delivery quality, compound their reputation as low-risk vendors, and position themselves for the long-term agency relationships that federal contracting rewards.

D. Strategic Partnership Formation and Teaming

The most durable growth strategy in federal contracting is a diversified pipeline built on teaming. Ashley Duwel of Duwel Dev and Natasha Velez of NVS Strategic Solutions recommend structuring approximately 75 percent of a pipeline through subcontracting relationships and the remaining 25 percent through prime work. This ratio keeps the pipeline full, reduces cost per proposal, and allows contractors to participate in opportunities that exceed their individual capacity (Duwel and Velez, Spilling the Tea on GovCon Ep. 82).

Teaming requires operational credibility. A contractor carrying financial stress cannot bring something meaningful to a teaming conversation. FMC creates the financial floor that makes credible teaming possible. By converting receivables into available working capital on a continuous basis, it allows contractors to absorb the timing gaps inherent in subcontract arrangements and show up as a stable and capable partner. The downstream outcomes include access to larger IDIQs, reduced cost per proposal through shared business development investment, and a diversified pipeline resilient to the loss of any single contract or agency relationship.

VI. The Systemic Case: FMC and Federal Market Health

The case for FMC goes beyond any one contractor. It also affects the strength of the federal supplier base as a whole. Small businesses received more than $183 billion in prime federal contracts in FY 2024, which accounted for 28.8 percent of all federal contracting dollars (Biden-Harris Administration Awards Record-Breaking $183B in Federal Contracts to Small Businesses, sba.gov). In a market this large, the recurring budget uncertainty documented by GAO is not just a budgeting issue; it also affects whether suppliers can stay stable and keep operating.

The problem is clear. Federal receivables are backed by the U.S. government, but many smaller contractors still have trouble accessing financing. Payment may be delayed, but the underlying receivable remains highly reliable. In a better-aligned capital market, that kind of asset would support more accessible credit. Instead, many lenders still use commercial underwriting standards that do not fit how federal contracting actually works. As a result, smaller contractors are often judged by measures that miss the real strength of their contracts and receivables. FMC addresses that problem by evaluating federal work on its own terms.

This also matters for equity in federal procurement. Agencies across the government have introduced equity plans meant to reduce barriers for underserved and newer small businesses. That is important progress, but those businesses still need enough financial stability to compete, perform, and stay in the market. Financial fragility is a real barrier to participation, just like limited awareness or fewer relationships. FMC helps address that barrier by giving newer entrants a better chance to stay in the market long enough to build a track record and grow.

At a larger scale, broader use of FMC would strengthen the federal market itself. Small businesses bring innovation, agility, and specialized capability to federal agencies, but those strengths can be worn down by constant cash flow pressure. A capital model built for federal contracting helps protect those strengths and support a supplier base that is more resilient, more diverse, and better able to meet government needs.

VII. The Path Forward: Adoption, Advocacy, and Action

The case for FMC is established, the model is defined, and the outcomes are documented. What remains is action, and that depends on where you sit in the federal contracting ecosystem.

A. For Federal Contractors

The most important step is also the most time-sensitive. FMC must be built into your business continuity plan before you need it, not in response to a disruption that has already started. The structured triage framework, including prioritizing critical expenses, deferring non-essential obligations, and negotiating proactively with vendors and lenders, is most powerful when the credit facility is already operational and already sized to your critical expense bucket. The time to establish it is now, during ordinary operations, when the facility can be structured deliberately against real receivables and a real contract backlog.

Beyond FMC itself, we recommend pairing the facility with three structural resilience strategies that compound its effectiveness. First, build sufficient commercial revenue diversification to sustain cash flow through a 60-day federal payment disruption, so that no single revenue source has the power to threaten the business on its own. Second, develop a teaming stable in advance of any specific opportunity, so that partnership capacity is available when large contracts emerge rather than assembled under time pressure (Duwel and Velez, Spilling the Tea on GovCon Ep. 82). Third, build a pricing model grounded in true cost transparency, accounting for direct costs, indirect costs, and profit at every line item, so that every bid reflects a deliberate strategic decision rather than a fear-based concession (Colón, Spilling the Tea on GovCon Ep. 85). What you need is capital that understands your market and acts accordingly. That is what we have built.

B. For the Capital Markets and Lending Community

The federal contracting market is a structurally underserved credit environment with characteristics that should command serious institutional attention. The receivables are sovereign-backed, the contract structures are predictable, and historical payment performance is strong. The supplier base of 55,000 small businesses is dramatically underserved by the products currently available to them. We have demonstrated the viability of this market at scale, growing assets under management by more than 1,000 percent through disciplined, mission-aware underwriting of a credit category that no institution had formally defined before. FMC is not a niche product waiting for validation. It is a proven category ready to be institutionalized.

C. For Policymakers and Industry Advocates

The Prompt Payment Act establishes what should happen when contractors submit invoices for completed work. What the 2025 shutdown made visible is that a policy statement and an operational reality are not the same thing. The small business community needs to be loud, organized, and specific about the gap between them, communicating clearly to lawmakers at every level about what is and is not happening on the ground. The payment failures observed during the shutdown were not widely understood to be occurring. That invisibility is itself part of the problem, and closing it requires sustained advocacy grounded in data and directed at the people with the authority to act on it.

VIII. Closing

FMC does not eliminate the structural tensions of federal contracting. Shutdowns will happen, awards will slip, and payments will be delayed. These are features of the market, and no capital product changes that underlying reality.

What FMC changes is the contractor's relationship to that reality. It converts financial fragility into operational resilience. It transforms sovereign-backed receivables from an illiquid waiting game into affordable, accessible working capital. It gives contractors the stability to price confidently, retain their teams, and invest in long-cycle business development.

Parabilis built this category, supported by more than 100 years of combined government contracting executive experience, a track record of more than 1,000 percent growth in assets under management, and the direct testimony of the clients we serve. The category is defined, and the outcomes are documented. The question for the market is whether it will adopt FMC as the standard it deserves to be, or continue applying capital tools designed for the commercial world to a federal market that has always deserved something better.

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