



**GETTING THE  
CASH YOU  
NEED WITH A  
MERCHANT  
CASH ADVANCE**

For businesses that need a source of quick cash and do not qualify for a traditional loan, a merchant cash advance, also known as a business factoring loan, is one alternative. There are a number of advantages to a business cash advance and there are also a few drawbacks to be aware of.

Merchant cash advances are a fast and relatively easy way to obtain needed cash to get your business through a slow period or to cover expenses. This is not a loan, but rather an agreement in which your merchant account provider purchases the right to receive a percentage of your future credit card sales, based on your company's credit card sales history. This is a short-term financing option, and can help your business maintain cash flow or pay for equipment or other needs to help your business grow.

If your business qualifies, the process for obtaining a business cash advance is quicker and easier than applying for a traditional business loan. However, because such advances are a riskier investment for the provider, the fees can be as much as 40% of the total cash advance amount.

This guide is designed to help you through the process of finding a merchant cash advance provider who can meet your needs.

## Types of Companies Who Can Benefit from Merchant Cash Advance

Businesses that are seasonal in nature, such as those that rely heavily on tourist seasons or holidays, can often benefit from a cash advance during the slower periods. A cash advance can also be an easier way to obtain needed funds for retail establishments or restaurants, which are often considered high risk by banks and other lenders. Benefits of a merchant cash advance include:

- No personal guarantee needed.
- No collateral required.
- No fixed repayment amount.
- No fixed repayment term.
- High applicant approval rate.
- Will not show on your credit report. •  
Good credit is not a requirement.
- Quick and easy application and approval process.
- Bankruptcy, liens and bad credit are not a problem.
- No credit check needed for quote.
- Fees are tax deductible.

## The Merchant Cash Advance Application and Approval Process

### 1. Research several providers to find the best one for your business.

The next section of this guide will provide details on how to do this.

### 2. Set up a consultation.

Once you've found a provider you like, the next step is a phone consultation to discuss your needs and give the provider basic information about your business. This will be followed by a meeting in person to review your credit card transaction history and your business financial statements, including any current outstanding debts.

The amount of the advance will be based on your average credit card receipts from the six months preceding the advance application. Although perfect credit is not generally required to obtain a merchant cash advance, many providers will run a credit check to assess the amount of risk involved and to determine the amount of your loan and your interest rate. A provider will also consider other factors indicating the strength of your business and may then offer an advance of between 80 and 125 percent of your monthly receipt average.

The provider's fee is known as the factor rate, and will usually be between 20 and 45 percent of your advance amount. If the provider considers your business to be an unusually high risk, they may opt to charge a factor rate of 75 percent or more.

The provider will also determine a daily retrieval rate. This is a percentage that will be deducted from your daily credit card sales and be paid to the provider. This rate can amount to 15 to 25 percent; the higher the percent, the faster your balance will be paid off. Most providers prefer to have the advance paid back within six months, but many are flexible on this and will work with you to set a daily retrieval rate that will allow for a reasonable amount of cash flow for your business. This rate can also be adjusted upward or downward according to your sales volume during the repayment period.

Your payment is directly tied to your credit card receivables as a percentage, not a set number. If you want to pay a 10% daily capture and you take in \$10,000 one month, your payment that month will be \$1000. If, in the following month, your business takes in only \$7,000, you will only pay \$700. This flexibility allows you to comfortably repay your cash advance, avoiding undue hardship during slower months.

### **3. Review and sign your contract.**

In most cases, you will be informed within a few hours whether your application has been approved. Go over the details of your contract carefully to make sure it is aligned with the terms you discussed with the provider. Check for any fees and ask your provider for an explanation of any points that need clarification. If you have to switch merchant account providers be aware that, if you had a long-term contract, your previous provider may charge a penalty for ending your agreement early.

Once the switch-over is complete and the provider has had a chance to perform some tests to make sure everything is in working order, your cash advance will be wired to your bank account. You can then use the cash to:

- Make payroll
- Advertise your business
- Expand business inventory
- Purchase equipment and supplies
- Open a new business location
- Get through a slow period
- Pay rent and other bills

The main purpose for a cash advance is to help your business grow. If you find you are using cash advances just to stay in business, this could be a sign of trouble. In fact, many providers will require proof of how the advance is being used.

## **Selecting a Merchant Cash Advance Provider**

Some business cash advance providers are small, independent companies who specialize in cash advances, while others are larger vendors who offer cash advances in addition to merchant account services. Some banks have also begun offering business cash advances as one of their services.

Look for a provider that offers excellent customer service -- one who is willing to take time to discuss your business needs and work with you to establish a comfortable repayment plan.

Research the history of several providers to find out how long they have been in the business and what companies they have worked with. You will want a provider with a strong background and experience in helping businesses with their financial needs.

Feel free to ask for quotes from several providers. A quality provider will allow you to take the time you need to make your decision and will not pressure you to sign an agreement before you're ready.

The North American Merchant Advance Association (NAMAA) provides a list of best practices for Credit Card Factoring agents. When choosing a merchant cash advance provider, look for one that follows these guidelines:

- **Gives clear disclosure of fees** - NAMA doesn't condone closing charges as part of the application process of merchant advances but recommends that any of these fees be clearly explained and disclosed. The total payment amount should be explained in full detail and determined prior to putting the final touches on the agreement.
- **Offers transparent disclosure of penalties** - Merchant advances are not truly loans; they are considered a purchase of future credit card sales. The cash advance recipient can be held personally liable for any cash not returned if the merchant violates the agreement.
- **Takes into consideration your business cash flow** - A typical agreement provides that the small business owner repay a determined amount of credit card receipts on a daily basis.
- **Marketing materials give full disclosure** - All advertising materials should make it clear that the contract is one of factoring, not a loan.

Additional factors worth considering when selecting a merchant cash advance provider include:

- **Accessibility** - You will need to communicate frequently during the application process and possibly throughout the repayment process.
- **Knowledge** - The provider should be able to explain the application and repayment process thoroughly and answer any questions you may have.
- **Reputation** - You should choose a merchant cash advance company with a solid and established history in providing financial services to businesses similar to yours (similar in size, revenue, amount of advance, etc.).
- **Honesty** - A good provider should be able to evaluate the financial state of your business and make a recommendation as to which type of financing would be best for you. No provider should try to steer you toward an advance amount that is too high, or towards an agreement with onerous repayment terms.

## Glossary

**Cash Advance Provider:** A business that purchases the future sales of another business in exchange for a cash payment. The provider can be a large bank or a small business that specializes in this type of financial product.

**Factoring Service Provider:** A business that purchases accounts receivable loans from other businesses.

**Factoring Fee:** The percentage that a factoring company charges for collecting on a purchased invoice.

**Advance Amount:** The amount of money given to a business up front in exchange for a percentage of future revenues.

**Factor Rate:** Sometimes called "provider fee," the percentage of the advance amount that the provider charges to provide the advance. The factor rate is usually between 30-35% of the total cash advance, though in some cases providers may charge up to 80%. This rate varies depending on credit history, business revenue amounts and the risk the provider feels it will bear in advancing the payment.

**Daily Retrieval Rate:** The amount a provider collects from daily credit card revenue.

**Safe Retrieval %:** The daily retrieval rate is based on this percentage, which is the portion of daily sales that are "safe" to use for daily repayment. This percentage varies depending on the volume of credit card sales and the advance amount.