



Merchant/Business Cash Advances

Study Module 2

Cash Flow Based and
Receivables Lending



Introduction

Merchant cash advances (MCAs) have been gaining popularity in recent years. The product started as a solution to finance future credit card sales. However, this product has evolved into a solution that allows companies to finance future sales of almost any kind. The term *business cash advance* is probably a better description.

You will learn:

- What a business cash advance loan is
- How the payback amount is calculated
- How the cash advance loan is paid back

What is a business cash advance loan?

- The premise behind a merchant cash advance, or a business cash advance, is *that you can sell your future sales* and get funded quickly. With this short-term solution, payback usually happens in months.
- Repayment often begins immediately. The cash advance provider either takes a portion of your ongoing sales, or it debits your bank account every business day.
- Due to this structure, the product is more similar to a short-term loan than a line of credit. Although this product is often referred to as a business cash advance loan, providers often state that the product itself is *not a loan*. They state that it is the sale of a future asset.

Credit card sales vs. commercial sales

- Business cash advances can be used to finance most types of future sales. Credit card transactions are one of the most commonly funded types of sales because repayment, from the lender's perspective, is easy.
- However, companies can also finance future cash sales or net-30 commercial sales. The repayment method on these transactions, however, is different and is explained in the following sections.

How is the funding amount calculated?

- The cash advance provider determines how much to advance the company by reviewing their past sales. The provider reviews past credit card transactions or analyzes your bank statements.
- Most cash advance companies fund anywhere from 80% to 150% of a company's average monthly sales. This amount varies by provider and is also based on the financial strength of the company.



- **How is the payback amount calculated?**

The amount that must be repaid ranges from 9% to 50% more than *the amount that was funded*. Cash advance providers call this amount a *factor*, which ranges from 1.09 to 1.50. The payback is determined by multiplying the factor by the advanced amount.

For example, a cash advance of \$100,000 with a factor of 1.35 requires a \$135,000 payback. In this case, you repay 35% more than the amount you got.

Most cash advance transactions are short-term, usually 3 months to 15 months. To calculate the APR of the transaction, you need to consider both the cash advance factor *and* the repayment term. As you can imagine, the APR is much higher than that of a regular business loan.

- **How is the cash advance loan repaid?**

Repayment of a cash advance is somewhat similar to that of a term loan. The business owner will get the funds upfront, and then they make regular payments until the outstanding balance is paid off.

Advances based on credit card sales are repaid by sharing the future daily revenues with the cash advance company. The percentage rate of the revenues paid to the cash advance company is called the “*retrieval rate*.” Retrieval rates range from 8% to 13% of the sales and are handled by using split processing with the merchant’s card processing company.

Advances on regular sales are repaid through bank account debits. The cash advance company debits a fixed amount from the merchant’s bank account every business day until the funds are paid off.

Sample cash advance transaction

- Here is a *simplified* example of a cash advance. Assume the following:
- **Advance:** \$100,000
- **Factor:** 1.35
- **Total repayment amount:** \$135,000
- **Repayment period:** 4 months (weekly payment)
- **Weekly payback:** \$8437.50



****Although this product can be quite expensive, it is very popular, as it solves urgent cash needs many businesses have!**

ORGINATION PROCESS:

The process of origination begins by having your client complete a one page application(included in this packet)

Request 3-6 months most recent business, and/or merchant bank statements.

If your client processes credit cards, you will want to collect those statements, as well as business bank statements. The number of statements required varies by lender, but are generally between 3-6

You will submit the information to your lender for initial approval.

Your lender will guide you on collecting additional information, and having the final contracts signed.

After studying this module, and product pages included, you will use the on-line links to sign up with the lenders included!



LENDER LIST-BUSINESS CASH ADVANCE/BUSINESS LOANS

- *1st Merchant funding:* <https://www.1stmerchantfunding.com/partnerships/>
- *Pearl Capital:* <https://pearlcapital.com/>
- *On Deck Lending:* <https://www.ondeck.com/affiliate>
- *ARF Financial:* <https://www.arffinancial.com/iso-program-brokers-agents/>
- *New Vista Financing (Cannabis Lending!!!)* <https://mjbusinessloans.com/>
- *United Capital Source: (Variety of Business Loans)* <https://www.unitedcapitalsource.com/merchant-iso-referral-program/>

You will want to sign up in each case as an ISO (Independent Sales Organization) You will also have the option to just refer business for a small referral fee, but as an ISO you are more involved in the process and make much more money. I have included a standard application for this industry, although your lender may send you theirs.

There are many other cash flow lenders available. However many offer the same products, and these lenders give you a pretty broad spectrum. You will receive support and instructions from your lender, through the ISO packet each will send to you once you sign up with them. You can get started marketing their products pretty quickly. A great way to start is through posting ads on Craig's list, reaching out to local businesses around you, and following additional instructions in our resource center.

BUSINESS TO DO LIST:

- Once you have completed the module, use the links provided to sign up with the lenders included
- I have included a generic application in this unit, which has been acceptable by the companies listed. This could change, and they will notify you of any changes needed.
- You have on line access to our resource page for additional information, **including 2 very important business loan lenders, I encourage you to sign up with to offer as a longer term alternative to your clients, taking out business advances!** You will also find information on starting, marketing, and expanding your business!!

Online resource link is: <https://www.nbaaz.com/resource-center.html>

We wish you the best in your endeavors!