



MCA CUSHER

Merchant Cash Advances (MCA): Explanation, Costs, Risks, and Comparison

A **merchant cash advance (MCA)** is a form of business financing where a company receives a lump-sum payment in exchange for a **portion of its future sales (receivables)**. Unlike a traditional loan, there's *no interest rate or fixed term* in the usual sense – instead, the MCA provider **purchases future revenue** at a discount, repaid via **daily or weekly withdrawals** from the business's sales or bank account. MCAs **fund fast** and have **looser approval criteria** than bank loans, but **they come with very high costs and serious risks** to cash flow. Below, we break down how MCAs work, what they truly cost (with numbers), compare them to standard small-business loans, and highlight the **risks, warning signs, and when an MCA might or might not make sense**.

How a Merchant Cash Advance Works (and Why It's Not a Loan)

MCAs provide upfront cash to businesses in exchange for an agreed **total payback amount** that is higher than the amount received. The key difference from a loan is legal: **the MCA is structured as a sale of future receivables, not a loan with interest**. In practice, this means: [\[liminallending.com\]](http://liminallending.com)

- **No traditional interest or term:** Instead of an APR and set loan term, an MCA uses a **factor rate** – a multiplier (like 1.2 or 1.4) applied to the advance to determine **your total repayment**. For example, a **1.3 factor rate** on a \$50,000 advance means you **owe \$65,000** in total repayment ($50,000 \times 1.3$). This full amount is **fixed from day one**, regardless of how interest stops accruing if you repay early.

[\[ebcapitalgroup.com\]](#), [\[attorney-newyork.com\]](#) [\[liminallending.com\]](#) [\[attorney-newyork.com\]](#) [\[attorney-newyork.com\]](#), [\[attorney-newyork.com\]](#)

- **Repayment via daily/weekly remittance:** MCA agreements specify a **remittance method**. Often it's either a **percentage of daily credit/debit card sales** ("split withholding") or a **fixed daily/weekly ACH draft** from your bank account. Many modern MCAs **use fixed ACH payments** – meaning the business's bank account is debited a fixed amount each business day or each week **automatically**. If sales are strong, you pay off quickly (the daily percent or fixed amount keeps coming out); *but if sales slow down, you still owe the same daily amount under many ACH-based MCAs*, which can strain your cash flow. (In a true percentage-of-sales MCA, payments adjust with revenue, but those are less common now.) [\[liminallending.com\]](#)
- **Fast funding & minimal paperwork:** Because MCAs are repaid from your revenue, **approval is based on sales volume and cash flow**, not heavily on credit score or collateral. **Providers often just review recent bank statements or card processing history**, not full financials. **Funding can be very fast** – offers may come within hours and funds in a day or two after signing, **much faster than bank loans** (which can take weeks). This speed makes MCAs attractive for urgent needs (e.g. emergency repairs or time-sensitive inventory). [\[ramp.com\]](#) [\[monetafi.com\]](#), [\[monetafi.com\]](#) [\[ramp.com\]](#), [\[ramp.com\]](#)

Legal/regulatory note: Because an MCA is a "**purchase of receivables**" rather than a loan, it typically **isn't subject to usury laws** that cap interest rates. **Providers usually don't disclose an APR** (interest rate) because legally it's not a loan, and **federal Truth in Lending Act** rules don't require APR disclosure on commercial transactions. However, **some U.S. states (e.g. California, New York, Virginia, Utah, Georgia)** have recently enacted laws requiring **standardized cost disclosures for MCAs**, including an *estimated APR* for transparency. This trend aims to give business borrowers a clearer sense of the true cost, which MCAs historically obscured by quoting only factor rates. [\[liminallending.com\]](#) [\[liminallending.com\]](#), [\[monetafi.com\]](#)

Cost Structure: Factor Rates vs. Interest (True Cost with Examples)

MCAs are one of the most expensive forms of financing. The **factor rate** (often **1.1 to 1.5**) might sound like a 10–50% markup, but because MCAs are repaid quickly and through fixed increments, the **effective annual percentage rate (APR)** is **much higher**. Key points on cost: [\[attorney-newyork.com\]](#), [\[attorney-newyork.com\]](#)

- **Total repayment is fixed:** You pay back a predetermined total. *Example:* An MCA of **\$50,000 at a 1.30 factor** requires **\$65,000** repayment ($\{50,000\} \times \{1.3\}$). The difference (**\$15,000** in this case) is the financing fee or "cost" of the advance. This doesn't *sound* like a 100%+ charge – until you consider how fast it's repaid. [\[liminallending.com\]](#)
- **Short repayment period:** MCAs are typically **3 to 18 months** in duration, often around **6–12 months**. Continuing the example, if that \$65,000 is collected over ~6 months via daily payments, the **implied APR exceeds 100%**. You're paying a 30% premium (\$15k on \$50k) in half a year, which annualizes to a triple-digit rate. [\[attorney-newyork.com\]](#) [\[liminallending.com\]](#)
- **Concrete example with daily payments:** Say you get **\$50,000** and owe **\$65,000** over **6 months** (~130 business days). That's roughly **\$500 per day** deducted. You don't have the full \$50k for the whole period (it's being paid down daily), so if you compute the **annualized cost of capital**, it may be well over **100% APR**. *Shorter payback = higher APR*. Indeed, **effective APRs for MCAs commonly range ~40% on the low end up to 350% (or higher)** in extreme cases. By contrast, **bank loans** for small businesses are often in the **6%–12% APR** range. [\[liminallending.com\]](#) [\[attorney-newyork.com\]](#), [\[attorney-newyork.com\]](#)
- **Fees and holdbacks:** Many MCA providers **charge fees** on top of the factor. There might be an **origination fee (e.g. 2–5%)** deducted from the advance, plus possible **processing or admin fees**. These reduce the net

cash you receive and effectively *increase* the cost (since you still repay the full factor amount). For example, a 2% fee on that \$50k means you only get \$49k but still owe \$65k, boosting the effective rate. Also, if the MCA uses a pure *percentage of sales* (a “**holdback**” **percentage**, say 10–20% of daily card sales), slower sales will extend how long you pay (increasing the time to repay, though not the total amount). [\[ebcapitalgroup.com\]](#), [\[ramp.com\]](#) [\[ramp.com\]](#) [\[ramp.com\]](#), [\[ramp.com\]](#) [\[RIVER SUPP...y tomorrow | Outlook\]](#) [\[ebcapitalgroup.com\]](#), [\[ebcapitalgroup.com\]](#)

Bottom line: Always convert the factor and term into an estimated **APR** or total dollar cost **before** signing an MCA. The **table below** summarizes key differences between MCAs and common small-business loan types, including typical costs: [\[liminallending.com\]](#)

Aspect	Merchant Cash Advance (MCA)	Traditional Bank Loan	SBA Loan (7(a) or Microloan)	Online Term Loan (Fintech Lender)
Eligibility & Requirements	Flexible – Approvals based on sales volume & bank deposits ; lower credit scores okay [ramp.com] . Minimal paperwork (recent bank statements) [monetafi.com] . Often <i>no specific collateral</i> required (though UCC liens and personal guarantees common) [liminallending.com] , [ramp.com] .	Strict – Need good credit , >2 years in business, solid financials, collateral. Extensive documentation (tax returns, financial statements) [monetafi.com] .	Moderate – Still requires fair/good credit and documentation, but government guarantee (up to 85%) helps approval. Personal guarantee required; lengthy application process.	Moderate – Easier than bank: typically need ≥1 year in business, decent revenue (> \$100k/yr), mid-range credit (~600+). Less paperwork than bank, no hard collateral usually.
Speed of Funding	Very Fast: Approval & funding often in 24–72 hours if docs provided [ramp.com] .	Slow: Weeks to 1–2+ months for approval and disbursement [ramp.com] .	Slow: Similar to or longer than bank (several weeks to months) due to SBA procedures.	Fast-Moderate: Faster than banks – many online lenders fund in days to ~1 week .
Cost (Rates & Fees)	Highest cost: Factor rate 1.1–1.5 (repay \$1.10–\$1.50 per \$1) [attorney-newyork.com] . Effective APR often 40%–350%+ depending on term [attorney-newyork.com] , [attorney-newyork.com] . Fees: Origination or other fees often taken from advance [ebcapitalgroup.com] . No interest savings for early payoff [attorney-newyork.com] (cost is fixed).	Lowest cost: APR ~6–12% typical [attorney-newyork.com] , [attorney-newyork.com] . Additional fees (origination ~1–3%) may apply, but interest accrues over years, not flat. Can save interest by paying early.	Low-Mid cost: APR ~8–15% (often tied to prime) [attorney-newyork.com] . Longer terms up to 10–25 years (SBA 7a). Fees capped by SBA guidelines; prepayment generally allowed with minimal penalty.	Mid-High cost: APR ~15–50% (though can reach ~99% for weaker profiles) [attorney-newyork.com] . Terms typically 1–5 years. Fees vary; some charge origination 2–5%. Early payoff may save some interest (varies by lender).

<p>Repayment Method</p>	<p>Daily or weekly automatic remittances from sales or bank account [liminallending.com]. If pegged to sales %, payments vary with revenue (somewhat flexible term); if fixed ACH, <i>same amount each day/week</i> regardless of sales [liminallending.com]. No monthly billing – it’s continuous until fully repaid.</p>	<p>Monthly installments (or quarterly) by invoice/ACH. Fixed schedule over loan term.</p>	<p>Monthly installments (SBA microloans may allow more flexible schedules).</p>	<p>Daily/Weekly/Monthly – many online loans use weekly or bi-weekly ACH payments for smaller loans, or monthly for larger terms.</p>
<p>Flexibility & Terms</p>	<p>Short-term only (generally 3–12 months, occasionally up to ~18) [attorney-newyork.com]. No benefit to early payoff (total owed doesn’t change) [attorney-newyork.com]. Generally <i>no restrictions</i> on use of funds. Some contracts have “reconciliation” clauses (promise to adjust if sales drop), but <i>you must request it</i> and it may be hard to exercise [liminallending.com].</p>	<p>Longer-term (1–10+ years). Can prepay and save interest. Often used for major investments, expansion, etc. Use of funds may be specified or covenanted.</p>	<p>Long-term (up to 10–25 years with SBA). Prepayment sometimes allowed after certain period. Intended for broader business growth uses.</p>	<p>Medium-term (typically 1–5 years). Prepayment policies vary by lender; some allow with minor fees.</p>
<p>Risks & Protections</p>	<p>High risks: Cash flow strain due to daily/weekly obligations [liminallending.com]. Stacking risk (multiple MCAs) can lead to unsustainable debt [liminallending.com]. Contracts often favor funder: may include confession of judgment, personal guarantee, and blanket UCC liens [liminallending.com]. Limited regulation and fewer borrower protections (not overseen like consumer loans) [ramp.com], [ramp.com].</p>	<p>Lower risk financing: payments are predictable monthly. Regulated by banking laws and clear contracts (Truth in Lending disclosures). If secured, collateral can be seized on default. Personal credit impact if guaranteed.</p>	<p>Lower cost/risk due to government backing, but personal guarantee means personal assets on the hook if default. Highly regulated; lenders must follow SBA rules.</p>	<p>Moderate risk: higher rates and shorter schedules can strain finances if cash flow is tight. But loan structure means at least interest cost stops if repaid early. Still subject to lending laws and standard legal processes for default.</p>

Table: Comparison of Merchant Cash Advances vs. Traditional Small-Business Loan Options. [[ramp.com](#)], [[attorney-newyork.com](#)]

Key Risks and Downsides of MCAs

While MCAs can **plug a short-term funding gap quickly**, they carry **significant risks** that business owners need to weigh carefully:

- **Very high cost of capital:** As shown, MCAs often have **triple-digit effective APRs**. This **shrinks profit margins** on any project funded with an MCA, and can lead to paying **much more** than a conventional loan would cost for the same amount. It's critical to ensure that **whatever you use the MCA funds for generates a return larger than the financing cost**, otherwise the debt can erode your business. [[liminallending.com](#)], [[attorney-newyork.com](#)] [[attorney-newyork.com](#)], [[attorney-newyork.com](#)]
- **Daily/weekly cash flow drain: Constant remittances** (daily or weekly) mean **less free cash** for other expenses. Even if payments are a percentage of sales, *you effectively have a new "tax" on every sale until the advance is repaid*. If there's a **slow week or off-season, fixed ACH payments won't adjust**, risking overdrafts or missed obligations. Many business owners underestimate how difficult it can be to manage daily deductions – it requires **careful cash flow monitoring** to ensure you don't shortchange payroll, rent, or suppliers. [[liminallending.com](#)], [[ebcapitalgroup.com](#)] [[ebcapitalgroup.com](#)], [[ebcapitalgroup.com](#)]
- **Debt cycle and stacking:** If one MCA isn't enough or starts to strain cash flow, some businesses take **additional MCAs (second, third, etc.)** to stay afloat – known as **"stacking"**. *Each new MCA adds another daily/weekly payment*, compounding the pressure. Alarmingly, **some funders even advertise MCAs "up to 7th position"** (meaning they're willing to give you a seventh concurrent advance). This **spiral is highly dangerous**: juggling multiple MCA payments can consume most of your revenue, leading to a near-impossible situation where **you're borrowing repeatedly just to pay the previous advances**. Once in this cycle, it's very hard to break without drastic measures. [[liminallending.com](#)] [[ebcapitalgroup.com](#)], [[ebcapitalgroup.com](#)] [[RIVER SUPP...y tomorrow | Outlook](#)] [[liminallending.com](#)], [[liminallending.com](#)]
- **Onerous contract terms:** MCA agreements often include provisions that heavily favor the funder:
 - **Confession of judgment (COJ):** You may unknowingly agree that the funder can obtain a court judgment against your business *immediately upon claimed default, without a trial*. This was a common practice in the industry, though **New York banned COJs for out-of-state MCA deals in 2019** after abuse cases. [[liminallending.com](#)]
 - **Personal guarantee:** Many MCAs require the business owner to personally guarantee repayment. This means if the business can't pay, the owner's personal assets and credit are at risk – *even though MCAs are "business" financing, you might still be personally on the hook*. [[liminallending.com](#)]
 - **UCC lien on business assets:** The funder often files a **UCC-1 lien** on your business assets. This secures their interest and can **block you from getting other financing** or selling assets until the MCA is satisfied. [[liminallending.com](#)]
 - **No early payment benefit:** As noted, **paying off an MCA early typically doesn't reduce the cost**. You usually still owe the full factor amount, and some contracts even have **prepayment penalties or fees** if you try to pay early. [[ramp.com](#)], [[ramp.com](#)]
 - **Limited relief if revenue drops:** Some MCA contracts have a **"reconciliation" clause** where if your sales are much lower than expected, *you theoretically can adjust the payment schedule*. However, in practice these adjustments are often at the funder's discretion and can be hard to renegotiate. [[liminallending.com](#)]
- **Lack of standard protections:** Because MCAs operate outside traditional lending laws, **standard borrower protections and transparent disclosures might not apply**. This can allow **predatory practices** by

unscrupulous providers. *Warning signs of a high-risk (predatory) MCA* can include **extremely high factor rates** (e.g. requiring payback well beyond 1.5×), **no real link to sales volume** (fixed payments with no adjustment – meaning the funder takes no risk if your business slows), **multiple concurrent advances (stacking)**, **insistence on a COJ**, and **excessive fees or opaque terms**. In fact, authorities have started to crack down on the worst actors: *for example, in 2025 the New York Attorney General won a judgement against an MCA company that had charged the equivalent of 400%+ interest with no chance for reconciliation, reclassifying those advances as illegal loans in violation of usury laws.* [[ramp.com](#)], [[ramp.com](#)] [[attorney-newyork.com](#)], [[liminallending.com](#)] [[attorney-newyork.com](#)], [[attorney-newyork.com](#)]

When Might an MCA Be Appropriate (or Not)?

Given their **high costs and risks**, MCAs should generally be viewed as a **last-resort or special-case financing option**. Most businesses will be better served **pursuing other financing first** (like bank loans, **SBA loans**, **lines of credit**, **invoice factoring**, or **even business credit cards**). However, there are a few scenarios where an MCA **might make sense**: [[liminallending.com](#)], [[ramp.com](#)]

- **Urgent, short-term need with high ROI:** If you have an **immediate cash need that is critical to operations or a time-sensitive opportunity** – for example, **covering payroll to avoid missing a cycle**, **repairing essential equipment**, or **buying discounted inventory for an upcoming sales season** – and **you expect a fast revenue bump or return** on that investment, the *speed and ease* of an MCA can be worth the cost. Essentially, if **not getting the funding right away would severely hurt your business or make you miss out on a profitable opportunity**, an MCA's quick funding may justify its price *in that specific case*, provided you've calculated that you can handle the payback. [[ramp.com](#)], [[ramp.com](#)]
- **Strong, steady cash flow (especially card sales):** MCAs work best for businesses that **consistently generate high daily revenues**, particularly **credit/debit card sales** (e.g. restaurants, retail shops, ecommerce). Steady sales means the daily/weekly payments are more predictable and less likely to choke your cash flow. A company with **stable daily receipts** can sometimes absorb an MCA without derailing operations *if the advance is sized modestly relative to sales*. [[ramp.com](#)], [[ramp.com](#)] [[ebcapitalgroup.com](#)]

On the other hand, you generally **want to avoid** MCAs for:

- **Long-term projects or slow ROI investments:** It's usually a **bad idea to use an MCA for long-term needs** (like expanding facilities, major marketing campaigns, or hires that take time to pay off). The financing is too expensive and too short-term in structure for such uses – **cheaper options (term loans, equipment financing, etc.) are more appropriate**. [[ramp.com](#)] [[ebcapitalgroup.com](#)], [[ramp.com](#)]
- **Plugging chronic cash shortfalls:** Using an MCA **just to cover ongoing losses or declining sales** is dangerous. If your revenue is already down, taking on a daily payment can accelerate a downward spiral. An MCA won't fix an underlying structural problem; it might only delay it while adding debt. [[ebcapitalgroup.com](#)], [[ramp.com](#)]
- **Businesses that actually qualify for cheaper credit:** If you have the credit profile and time to get a bank loan, SBA loan, or even a lower-rate online loan, **those will almost always be far cheaper than an MCA**. It may take more effort or paperwork, but the savings in interest and the flexibility of monthly (rather than daily) payments can be life-saving for your cash flow. [[ebcapitalgroup.com](#)], [[ramp.com](#)]

Regulatory outlook: Regulators are increasing scrutiny of MCA practices. Some states now require **clear cost disclosures**, and extreme cases of predatory MCA contracts have been litigated (as noted with New York's actions). Still, the MCA industry is **not uniformly regulated**, so **buyer beware** – *due diligence is on you as the borrower*. If

considering an MCA, **read the contract carefully**, estimate the true cost (use an MCA APR calculator if necessary), and **consult a financial advisor or attorney** if possible. [\[attorney-newyork.com\]](http://attorney-newyork.com), [\[attorney-newyork.com\]](http://attorney-newyork.com)
[\[liminallending.com\]](http://liminallending.com)

Conclusion

Merchant cash advances can provide fast, easy funding for small businesses when traditional options aren't accessible. **However, they come at a steep price and with unique risks.** In the U.S., MCAs are legally a **sale of future sales**, not a loan, which is why **their costs are quoted as factor rates and they bypass interest rate caps.** **The true cost**, once annualized, **is often in the dozens or hundreds of percent**, making MCAs one of the **most expensive financing methods available.** **Frequent (daily/weekly) repayments** can **strain cash flow**, and **contract terms** like confessions of judgment or personal guarantees impose additional **legal risk.** **Use MCAs sparingly** – typically **only for urgent short-term needs with a clear, near-term payoff** that outweighs the cost. **Explore all cheaper alternatives first**, from **SBA loans** to **lines of credit** to **invoice factoring.** If you do proceed with an MCA, go in **with eyes open**: understand the *total dollar repayment*, how it will affect your *daily cash*, and what your *plan is to repay without needing another advance.* In summary, **MCAs are a lifeline in a pinch but often a "last resort" option** – a tool best used **very cautiously** and with full awareness of its cost and consequences.

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