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# Why a Merchant Cash Advance Can Be Bad for Your Small Business

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A merchant cash advance (<http://www.nerdwallet.com/blog/small-business/merchant-cash-advance-small-business/>) is a fast and easy way to get small-business financing. In fact, it may be too fast and easy. Rather than quickly

opting for an MCA, you should pause to consider whether a merchant cash advance is your best — or only — option.

An MCA is not a loan but an advance against future credit and debit card sales. You pay it back daily by sending a set percentage of that day's card sales directly to the lender. The annual percentage rate is 70% to 350%, much higher than small-business loans from banks or online lenders.

And if you're not careful, one merchant cash advance can lead to another and another, creating a debt spiral that can be hard to stop.

## The merchant cash advance dilemma: speed vs. cost

MCA providers stress the convenience and speed. CAN Capital, a leading provider of merchant cash advances, says the financing is "cash-flow friendly."

"You don't have to worry about fixed monthly payments during tough times, and there is no set maturity date," the company says.

The flexible repayment does make MCAs an attractive option for some small-business owners, says Deborah Sweeney, CEO of MyCorporation.com, which helps entrepreneurs set up a small businesses.

"The cash advance traditionally fluctuates directly with the merchant's sales volumes," she tells NerdWallet. "This gives a business owner flexibility with which to manage their cash flow, particularly during a slow season. When business is slow, the money withdrawn decreases, and increases during busier times."

But that convenience, other experts tell NerdWallet, is offset by a potentially huge risk: If you don't plan ahead, a merchant cash advance could lead you into a debt trap.

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“While they are fast and easily accessible, their short, short duration and very high effective rates drive many small businesses into downward cycles of reborrowing,” Sam Hodges, founder of online lender Funding Circle (<http://www.nerdwallet.com/blog/small-business/funding-circle/>), tells NerdWallet. “They take out more and more debt to roll over their repayment obligations.”

## MCA can begin to stack up

Candace Klein, chief strategy officer at alternative lender Dealstruck (<http://www.nerdwallet.com/blog/small-business/dealstruck/>) says: “We have seen many borrowers who make the mistake of seeking an MCA, which is a fixed financing option, for a revolving capital need, like payroll or inventory. Several months after taking the first advance, they find themselves in need of another.” The advances overlap and stack up, she adds, and eventually the business is in trouble.

Funding Circle and Dealstruck are among online lenders offering alternatives to merchant cash advances.

Craig Everett of Pepperdine University’s Graziadio School of Business and Management also sounds a cautionary note about merchant cash advances.

An MCA might work as a “one-time thing to get through a rough patch,” says Everett, a professor of finance. “If it becomes an addiction, then it will eventually destroy the value of the business.”

## MCA is ‘expensive money’

John Moore, professor of finance, economics and accounting at Walsh College in Michigan, calls merchant cash advances “expensive money.” “The entrepreneur should exhaust all its cheaper sources of financing first,” Moore says.

To give you an idea of other options, below we compare annual percentage rates and the speed of approval for some major online lenders. You can see more on NerdWallet’s small-business loans (<http://www.nerdwallet.com/blog/best-business-loans/>) page.

	<b>Cost of Funding (APR)</b>	<b>Approval Time</b>
Merchant Cash Advance ( <a href="http://www.nerdwallet.com/blog/small-business/merchant-cash-advance-small-business/">http://www.nerdwallet.com/blog/small-business/merchant-cash-advance-small-business/</a> )	70%-350%	Within 1 week
<b>OnDeck</b> (Read our OnDeck review ( <a href="http://www.nerdwallet.com/blog/small-business/ondeck/">http://www.nerdwallet.com/blog/small-business/ondeck/</a> .)	16%-98% on term loans; 13%-36% on lines of credit	Decisions within minutes, funding in as little as 24 hours
<b>Funding Circle</b> (Read our Funding Circle ( <a href="http://www.nerdwallet.com/blog/small-business/funding-circle/">http://www.nerdwallet.com/blog/small-business/funding-circle/</a> ) review.)	7%-26%	Less than 10 days
<b>DealStruck</b> (Read our DealStruck review ( <a href="http://www.nerdwallet.com/blog/small-business/dealstruck/">http://www.nerdwallet.com/blog/small-business/dealstruck/</a> .)	11%-22% +prime on lines of credit; 11%-28% on term loans	Prequalification in minutes, offer letter in 2-3 days, average of 10 days to funding

If you are considering a merchant cash advance, Moore recommends consulting a financial professional and developing “a cash-flow forecast that demonstrates the business’s ability to repay.”

If the analysis “cannot prove that the loan can be safely repaid within a reasonable time frame,” he says, “the business should not take out the loan.”

### Find and compare small-business loans

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#### Small-Business Loans for Women, Minorities, Veterans

- Women-owned businesses (<http://www.nerdwallet.com/blog/small-business/women-owned-businesses/>)

To find alternatives to merchant cash advances, NerdWallet has generated a list of the best small-business loans to meet your needs and goals. We gauged lender trustworthiness, market scope and user experience, among other factors, and arranged them by categories that include your revenue and how long you've been in business.

[Compare business loans \(http://www.nerdwallet.com/blog/best-business-loans/\)](http://www.nerdwallet.com/blog/best-business-loans/)

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To get more information about funding options and compare them for your small business, visit NerdWallet's small-business loans (<http://www.nerdwallet.com/blog/best-business-loans/>) page. For free, personalized answers to questions about financing your business, visit the Small Business (<http://www.nerdwallet.com/finance/financial-advisors/questions/small-business>) section of NerdWallet's Ask an Advisor page.

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Raquel Roman · 7 days ago

I've been in MCA industry for a long time and work for a direct lender. The "Cost Of Funding" in this article is completely incorrect. Legally alternative lenders cannot charge more than a 1.50 factor rate or 50% on the funded amount. I've sent many of my deals to OnDeck and their MCA programs are not 16%-98%, they are a publicly traded company and they DO NOT charge illegal interest rates. Also MCA's are not considered a loan so they do not have an APR it is a flat payback amount that does not change. Whoever wrote this clearly has no idea what they are talking about.

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MQ → Raquel Roman · 2 days ago

YES! Spot on! You said it all!

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