The True Cost of a *Merchant Cash Advance*

How factor rates hide a 60–150% APR, why stacking spirals, and the questions to ask before you sign.

Ten minutes now can save you six figures later. Read it before you take the money — or before you take the next one.

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I An MCA is not a loan — and that is the whole trick

A merchant cash advance is legally a **purchase of your future revenue**, not a loan. The funder buys, say, $140,000 of your future receivables today for $100,000 in cash. Because it is a sale and not a loan, it sidesteps state usury caps and truth-in-lending disclosure — there is no APR printed anywhere on the contract, by design.

What you see instead is a *factor rate*: a small-looking number like 1.40. It means you pay back 1.40× what you received. On $100,000 that is $140,000. It sounds like "40%." It is almost never 40%.

> *The factor rate is quoted once. The APR is what you actually live with every single business day.*

II The factor-rate illusion, in real numbers

The reason 1.40 is not 40% is **time**. A 40% annual rate would give you a full year to repay. An MCA takes its cut every business day, usually over six to twelve months — so you are paying that same $40,000 premium in a fraction of the time. Compress the same dollars into fewer months and the true annualized cost explodes.

Here is a typical advance, run honestly:

WHAT THE CONTRACT SAYS	WHAT IT ACTUALLY MEANS
Amount funded	$100,000
Factor rate: 1.40	Total payback: $140,000
"Cost": $40,000	Premium paid: $40,000
Term: ~189 business days	Daily debit: ~$741
Holdback: fixed daily ACH	You lose ~$741 every day it clears
	≈ 92%

A $100,000 advance at a 1.40 factor, repaid over ~9 months

THE TELL

Ask a funder for the APR and most will say "we don't work in APR." That is the point. A 1.40 factor over 6 months is roughly a 130% APR; over 12 months, roughly 65%. Same factor, wildly different real cost — and the shorter the term, the worse it is for you, not better.

III Why stacking spirals — and how

good businesses end up with five

The daily debit is the trap. It comes out whether or not you had a good day. When a slow week makes the debit hurt, the funder's answer is another advance to cover the shortfall — a second position "stacked" on the first. Now two daily debits clear against the same account.

Each new position shortens your cash runway, which triggers the next one. Owners who started with a single, survivable advance routinely end up with four or five, each one bought to feed the last. This is not a discipline failure — it is the product working exactly as designed.

> *By position three, you are not running a business. You are running a collections schedule that happens to have a business attached.*

POSITION	ADVANCED	FACTOR	DAILY DEBIT
#1	$100,000	1.40	~$741
#2	$60,000	1.45	~$518
#3	$40,000	1.49	~$397
≈ $1,656 / day			

How three stacked positions drain a single account

IV The warning signs you are already in trouble

If more than one of these is true, the math has already turned against you and the cost of waiting compounds daily:

- ✓ Daily or weekly ACH debits leave the account before you can plan around them.
- ✓ You have taken a new advance primarily to make payments on an old one.
- ✓ Two or more positions are debiting the same bank account.
- ✓ You are timing deposits and payroll around when the debits clear.
- ✓ A "renewal" was offered right as the first advance was halfway paid — resetting the fee clock.

THE RENEWAL TRAP

Funders love to "renew" at the halfway mark. It feels like relief — a fresh chunk of cash — but it pays off the old balance and charges the full factor again on the new, larger amount. You just bought the same money twice.

V The way out is arithmetic, not hope

Almost every stacked position can be replaced by a single, longer-amortization facility — a consolidation refinance or a term loan — that retires the daily debits and leaves one predictable monthly payment in their place. The relief is immediate and measurable: the difference between what the debits took each month and what one facility costs is cash back in your account, every month, starting the month you close.

Using the three-position example above, the combined debits consume roughly **$33,000 a month**. A consolidation facility covering the same balances might cost on the order of **$14,000–$18,000 a month** — freeing $15,000 or more every month to actually run the business.

> **WHAT BREATHING ROOM LOOKS LIKE**
>
> One monthly payment instead of a daily bite. A term measured in years, not weeks. Cash that lands in your account and stays there long enough to make payroll, buy inventory, and take the next order. That is the entire goal — get the daily debits off your neck.

VI Seven questions to ask before you sign anything

Whether it is a new advance or a refinance, make the other side answer these in writing. Honest capital survives the questions; predatory capital changes the subject.

- ✓ What is the effective APR, expressed as an annual percentage? (If they won't say, that is your answer.)
- ✓ Is this a loan or a purchase of receivables? What law governs it?
- ✓ What is the total dollar payback, and over how many business days?
- ✓ Is there a confession of judgment or personal guarantee buried in the terms?
- ✓ What happens on a slow week — can the debit be reduced, or does it clear regardless?
- ✓ What is the prepayment cost? Do I still owe the full factor if I pay early?
- ✓ If I refinance this in 90 days, what will it have cost me to have taken it at all?