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PUBLISHED: JULY 9, 2026

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# Merchant Cash Advances: What Every Commercial Banker Should Know

The commercial lending landscape is changing—and not always in ways that benefit traditional banks. One of the fastest-growing threats to bank loan portfolios is the merchant cash advance (MCA), a financial product that has exploded in popularity among small and mid-sized businesses desperate for quick capital. For commercial lenders, understanding how MCAs work, how they undermine existing lending relationships, and what can be done about it is no longer a niche concern. It is essential practice.

## What Is a Merchant Cash Advance?

An MCA is a transaction in which a business receives a lump-sum cash advance in exchange for the MCA provider's "purchase" of a set amount of the business's future receivables. The total repayment obligation is determined by a "factor rate." If a business receives a \$50,000 advance at a 1.2 factor rate, it owes \$60,000 in total—regardless of how quickly it repays. Repayment occurs through a "holdback rate," typically a percentage of daily or weekly revenue collected until the full obligation is satisfied. For example, a 15% holdback rate on \$10,000 in daily sales means \$1,500 flows to the MCA provider each day, and the business retains \$8,500.

MCAs are typically structured as commercial purchases of future receivables—not loans. This allows providers to sidestep many of the consumer and commercial lending regulations that govern traditional financing. But their practical effect is often indistinguishable from a high-cost loan. Effective annual percentage rates (APR) on MCA products commonly range from 40% to 350%.[1] Despite this, businesses flock to MCAs because of their speed and accessibility. Approval rates run between 70% and 80%, far above typical bank approval rates. Providers accept credit scores as low as 500–550, no collateral is required in over 90% of transactions, and funds can be in a borrower's account within days.[2]

## **The MCA Market: By the Numbers**

The scale of the MCA industry commands attention. The global MCA market reached \$19.65 billion in 2025 and is projected to grow to \$20.99 billion in 2026 and \$26.87 billion by 2030, representing a compound annual growth rate of 6.4%.<sup>[3]</sup> The businesses most likely to use MCAs are the same businesses that populate many community and regional bank loan portfolios: retail trade operations account for 20–25% of MCA usage, and restaurants and food service businesses for 18–22%, with construction, personal services (such as gyms and salons), and transportation and logistics rounding out the leading industries.<sup>[4]</sup>

Perhaps most telling for lenders are the performance statistics. MCA default rates are estimated at 15% to 20%—compared to just 1% to 2% for SBA loans and 3% to 7% for conventional bank loans.<sup>[2]</sup> Factor rates typically range from 1.1 to 1.5, with established businesses facing rates of 1.2–1.3 and higher-risk borrowers facing rates of 1.4–1.5, plus origination fees of 1–5% on top.<sup>[5]</sup> And unlike most conventional loans, there is typically no discount for early repayment. Adding further risk, approximately 25% of MCA users are simultaneously obligated under two or more advances—a practice known as “stacking”—which significantly elevates the probability of default.<sup>[5]</sup>

## **How MCAs Threaten Your Loan Portfolio**

For banks with existing lending relationships, an MCA that a borrower enters into without the bank’s knowledge can rapidly erode the bank’s legal and practical position. The threats are concrete. First, the MCA siphons cash directly out of the business before it can be applied to bank obligations—through daily ACH debits of MCA transactions, or through a processor payment split at the point of sale in roughly 70% of cases.<sup>[6]</sup> Second, because MCAs are structured as receivables purchases, the MCA provider gains practical control over cash and receivables that the bank may hold a legal lien on, effectively subordinating the bank’s position in fact. Third, a borrower who has sold or pledged its future receivables to an MCA provider may no longer have sufficient collateral to support the bank’s loan. Finally, and perhaps most practically, a business hemorrhaging 15–20% of its daily revenue to one or more MCA providers is a business at serious risk of defaulting on every obligation it carries.

## **Protecting Your Institution: At the Outset**

The best opportunity to protect a lender’s position against MCAs is at loan origination, and several strategies are available.

***Underwriting and Collateral.*** Hard collateral matters more than ever. Lenders should carefully analyze how collateral changes form over the life of the loan—from inventory to accounts receivable to cash—and ensure a perfected lien at each stage. The more margin-thin the business, the more vigilant underwriting must be.

**Loan Covenants.** Loan documents should explicitly prohibit the borrower from entering into any transaction that pledges or sells future receivables, from agreeing to any processor split arrangements with third parties, and from incurring additional debt without prior disclosure. Lenders should also require borrowers to disclose all payment processors used and consider requiring minimum liquidity covenants to ensure the borrower retains sufficient operating cash. A carefully drafted covenant should trigger a default automatically if the borrower violates any of these provisions.

**Control the Cash.** Lockbox arrangements and deposit account control agreements (DACAs) are among the most effective tools available to lenders. Routing the borrower's cash through the bank ensures that receivables cannot be quietly diverted to an MCA provider before the bank has visibility into what is happening.

**Guaranties.** Personal guaranties from all key decision-makers, and springing guaranty provisions that activate if the borrower enters into an MCA agreement, serve both as deterrents and as recovery tools if things go wrong.

**Borrower Education.** Many borrowers who turn to MCAs do not fully appreciate the cost, the risk, or the contractual consequences. Proactively educating clients about effective APRs that can reach 350%, the covenant defaults that would result, and the personal guaranty exposure they face is both sound client service and smart risk management.

### **When an MCA Is Already in the Picture**

When a bank discovers that a borrower has already entered into an MCA, the options become more complex but are not exhausted. The first step is to assess whether the MCA is genuinely a receivables purchase or, under applicable state law, a disguised loan subject to usury restrictions or other regulations—an analysis that turns on factors such as who bears the risk of loss if receivables go uncollected, whether a reconciliation mechanism exists, and whether the agreement contains events of default characteristic of a loan. Courts have scrutinized MCA agreements on these grounds, and recharacterization as a loan can dramatically change the priority landscape under the Uniform Commercial Code.

Legal remedies available to a bank in an MCA dispute include seeking emergency injunctive relief to halt the diversion of cash, pursuing claims for tortious interference with contract, conversion of collateral, and fraudulent transfer under the Uniform Fraudulent Transfer Act, and exploring UCC Article 9 foreclosure as a mechanism to transfer the business's assets to a new entity free of the MCA encumbrance. In a Chapter 11 bankruptcy, lenders may want to object to cash collateral motions that propose to pay MCA providers, argue that MCAs are not entitled to adequate protection, and ensure that any cash collateral order is airtight with respect to cash sweeps and processor splits. Legislative developments are also worth monitoring. For example, in 2025, Texas enacted H.B. 700, which

prohibits automatic debits from a customer's deposit account unless the party holds a perfected lien in the account, and other states have begun requiring MCA-specific disclosure and registration regimes.

## Join Us on July 29

This article is for educational purposes only and is intended as an introduction to a topic that is growing in complexity and has consequences for commercial lenders. On July 29, 2026, we will present a comprehensive program exploring these areas in greater depth: MCA mechanics and market statistics, loan documentation and covenant strategies, monitoring and enforcement tools, and the full range of litigation and restructuring options available when an MCA threatens a bank's position. We encourage commercial lenders and their counsel to join us.

Register Now

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[1] Source: <https://www.crestmontcapital.com/blog/merchant-cash-advance-statistics> (last visited June 16, 2026) (citing effective APR ranges, approval rates, collateral and credit score statistics, and default rate comparisons).

[2] Id.

[3] Steven Burnett, Merchant Cash Advance Industry Statistics 2026: Growth Insights, CoinLaw.io (Mar. 5, 2026), <https://coinlaw.io/merchant-cash-advance-industry-statistics> (citing The Business Research Company).

[4] Source: <https://www.crestmontcapital.com/blog/merchant-cash-advance-statistics> (last visited June 16, 2026) (citing industry usage breakdowns).

[5] Id. (citing factor rate ranges, origination fees, and stacking statistics).

[6] Id. (citing ACH debit frequency); see also Steven Burnett, Merchant Cash Advance Industry Statistics 2026: Growth Insights, CoinLaw.io (Mar. 5, 2026), <https://coinlaw.io/merchant-cash-advance-industry-statistics> (noting approximately 70% of MCA transactions involve a payment processor split).