

MERCHANT CARD RECEIVABLES FINANCING

Advancing merchants cash against credit card payments they expect to receive in the future began in the U.S. in the late 1980s led by processing and membership companies including Litle & Co., Clever Ideas, and Transmedia Network (once known as iDine and now known as Rewards Network). Those companies focused almost exclusively on restaurants and catalogers — merchant categories where credit card payments account for a large percentage of total sales, and where cash flow problems come up regularly due to the seasonality of business, the time it takes for a new restaurant to catch on, etc.

Today, merchants looking for cash from their credit card accounts receivables include a variety of small business owners in the hospitality and retail sectors who need working capital or money to pay taxes, but cannot qualify to borrow from traditional lenders. No longer is it necessary for them to be a client of a particular processor or a member of a closed system of merchants.

Other interested merchants are businesses that can readily qualify for a bank loan, but want an alternative funding source that doesn't require them to wait four weeks or longer for a bank loan to be processed. Retailers that sell goods at considerable mark-up, for example, can pay the premiums the cash advance industry

charges and still come out ahead. Selling future credit card receivables makes the most business sense for merchants that need cash right away in order to close a deal on which they'll make money.

The 14 companies listed here provided \$750 million in cash advances to just under 40,000 merchants last year. The typical advance was \$19,000. Some companies will advance up to \$1 million, but most top out at about half that amount. Technically, these companies do not lend money, and none of the recipients are referred to as borrowers. **Cash advances against future credit card receivables are structured as an asset purchase, not a loan. An exception is Credit Cash. It makes loans for as low as 6% that start at \$150,000 and go up to \$3 million. Repayment terms can extend for two years.**

Getting the word out about this form of alternative financing is the largest obstacle facing this industry. Explaining how the payback works proves to be the most difficult part of the marketing process.

Companies that sell credit card receivables authorize their acquiring processor to send payments to the cash advance company at a discounted fixed percentage of each transaction until the advance has been paid back in full. Most credit card advance companies

listed here only handle Visa and MasterCard receivables. A few also handle American Express and Discover. The discount rates they charge range from 10% to 30%. Most transactions are in the 26% range.

Business owners do not personally guarantee to repay funds received from cash advance companies. Future receivables that don't come through need to be written off as losses, and these typically range from 5% to 12%.

Almost all of the companies listed here pay commissions to independent sales organizations for referrals of their merchant clients. Most report that their business has at least doubled over the last three years, helped in part by high renewal rates with existing customers. Estimates are that only a quarter of the potential market has even heard about this kind of financing.

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