Which is Better? Invoice Factoring or the MCA Lenders?

Description

Ken Yager contributed to this article for the Commercial Finance Association.

> It would appear that MCAs are maturing into their position in the finance world. As they do that, it would appear that mostly the rules of the wild west dominate for the time being. Eventually states' attorneys and maybe the US government might come up with some "protection" rules. Until then it is a shoot out.
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> As a turnaround consulting firm focused exclusively on lower middle market and small businesses, we have become subjected to the dark underside of the MCA market more and more. I hear about well structured MCA deals, but obviously from our perspective we do not get to see those deals. So my opinion may be somewhat biased. What I can tell about MCAs is that it is a product that can serve a purpose. The problem we are seeing is user education. And by "user' I mean not only the borrowers, but also the MCAs themselves.
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> The MCA premise is that they can predict a company's cash flow with limited data and algorithms, lowering the time and cost of underwriting. The presumption is that the past will repeat itself. Yet, responsible MCAs mention that this product is more like a project finance tool. By its very nature something is going to change from the use of MCA capital. So the future is important to the MCA, but it appears to be a question not asked by the MCAs that we have run into. More interestingly, the MCAs we have dealt with are as shocked (but somewhat prepared) when their client cannot repay the loan. This creates an ugly tension that is not necessary to play out so often. That tension and the resulting down side are what is tarnishing the MCA market.

Read the full article here.

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