

**Best Practice Recommendations White Paper**  
**Produced by**  
**The North American Merchant Advance Association (NAMAA)**  
**April 2009**

Summary:

The ability for merchants to obtain working capital by selling their future debit and credit card receivables has become very common in recent years. This particular form of alternative financing has become known as a merchant cash advance (“MCA”). The actual providers of the working capital are commonly referred to as merchant cash advance providers or merchant funding companies.

The North American Merchant Advance Association (“NAMAA”) was founded in 2006 as a 501c non-profit industry association and is currently comprised of 11 merchant cash advance providers. One of the mission statements of the association is to establish best practices for the merchant cash advance industry. Below you will find a summary of the best practices that NAMAA recommends.

**NAMAA Member Best Practices Recommendations**

**No. 1 – Provide Clear Disclosure of Fees** – NAMAA recommends that all merchant agreements should clearly state the amount of future receivables purchased from the merchant (typically known as the “payback amount”), the amount the receivables are being purchased for (typically known as the “funding amount” and is the amount of working capital the merchant will receive), and the daily withholding amount from a merchant’s future sales. The merchant’s daily withholding amount from future sales should not change.

There are some brokers/agents/resellers of merchant cash advances that charge upfront closing fees or consulting fees to a merchant (typically a % of the amount of money the merchant will receive in exchange for selling their future receivables), some as high as 5%-10% of the funding amount received by the merchant. NAMAA does not condone these closing fees and recommends that merchant cash advance providers make it clear to the merchant that the fees are being charged and paid directly to the broker/agent/reseller and not the MCA provider. If being charged by the broker/agent/reseller, these fees should be clearly documented.

**No. 2 – Provide Clear Disclosure of Recourse** - A true merchant cash advance product is a purchase of future credit card/debit card receivables (commonly known as factoring) and is not a loan product. One of the main distinctions between a merchant cash advance and a loan product is a merchant cash advance does not include an absolute obligation of repayment. . Rather, MCA providers assume the risk of business failure (as well as many other risks). NAMAA recommends that all providers offering a factoring product make it clear to the merchant that there is no personal recourse to the merchant if the

agreement is not violated. It should also be made clear to the merchant in the event that they do violate the performance guarantee of the agreement (e.g., no longer use the designated credit card processor of the MCA provider exclusively, sell their business without paying off the balance due to the MCA provider, etc.) that they will be held personally accountable for the balance of their merchant cash advance.

**No.3 – Be Sensitive To A Merchant’s Cash Flow** –NAMAA recommends that the industry take into strong consideration the cash flow of a business when determining the percentage of future credit card/debit card sales to deduct from the merchant to payback their merchant cash advance. While each MCA provider has their own underwriting model of what a particular industry can afford, NAMAA has seen providers in previous years take as much as 15% of a merchant’s cash flow. It has been proven over time that the lower the withholding percentage in relation to gross sales paid to the merchant cash advance provider, the less chance of a merchant defaulting on their merchant cash advance.

**No. 4 - Marketing Materials Disclosure** – As a best practice for those members offering a merchant cash advance factoring product, marketing materials, including but not limited to the marketing company’s website, should disclose that a merchant cash advance is not a loan product.

**No. 5 – Monitor Your Sales Agents/Brokers** –NAMAA recommends that merchant cash advance providers monitor the sales and marketing practices of their sales agents/brokers to make sure they are accurately representing to the merchant the terms and conditions of the advance (e.g, requiring them to lease credit card processing equipment in order to receive a merchant cash advance).

**No. 6 – Proper Payoff Of Outstanding Merchant Cash Advance Balances** – NAMAA recommends to its members that in the event a NAMAA member decides to provide working capital to a merchant with an existing balance with another MCA provider (whether they are a NAMAA member or not), that the balance of the existing merchant cash advance be sent directly to the MCA provider that the merchant has an open balance with and the balance of the proceeds sent to the merchant. This payoff method should be adhered to rather than providing the full advance to a merchant and relying on the merchant to pay off their balance with their previous merchant cash advance provider.

The North American Merchant Advance Association (NAMAA) strongly recommends to businesses seeking a merchant cash advance that they work with a merchant cash advance provider that is a NAMAA member. Members of NAMAA have made a commitment both financially and ethically to uphold best practices to ensure the merchant cash advance product can help a merchant’s business. They have also vetted potential fraudulent and/or unscrupulous sales agents/brokers/resellers of the merchant cash advance product. Members of The North American Merchant Advance Association

proudly display the association's logo on their website and have passed NAMAA's vetting process to become an association member.