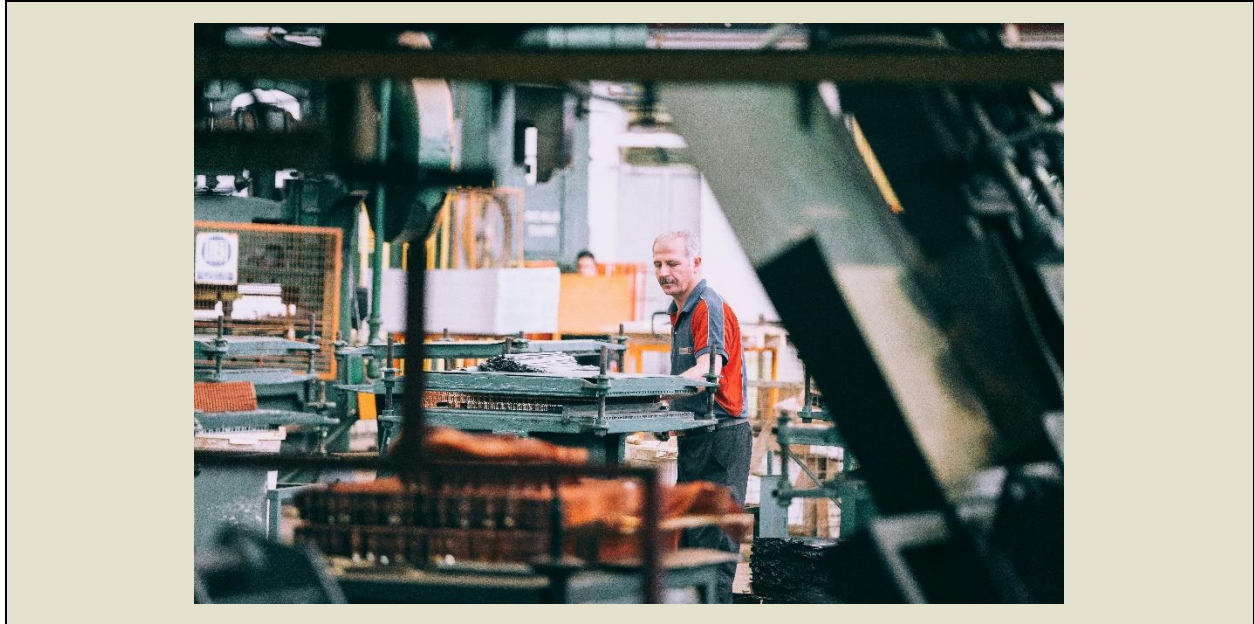




# When Fast Capital Creates a Slow Problem: The Merchant Cash Advance and the Net 50 Rule

*A case study in working capital structure, MCA refinance, and what lenders actually require*



## THE BUSINESS

A manufacturer with \$10.5M in trailing revenue and ~\$1.4M in normalized EBITDA. Consistent customers, real history. Monthly net operating cash flow: ~\$115,000. A working capital gap of \$400K–\$600K opened when a key contract stalled. Three MCA positions were taken in sequence while the bank's 45-day process ran its course.

## HOW THE STACK WAS BUILT

Position	Monthly Withdrawals
MCA #1 — \$250K advance / \$325K payback	~\$65K/mo
MCA #2 — \$300K advance / \$390K payback	+\$50K/mo
Combined after Position 2 — cash flow breakeven	\$115K / \$115K
MCA #3 — \$200K advance / \$260K payback	+\$40K/mo
<b>Total monthly withdrawals vs. cash flow</b>	<b>\$155K vs. \$115K</b>

Monthly shortfall after all three positions: ~\$40,000. The business was no longer covering obligations from operations. It was bridging one position with another.



## THE NET 50 CONSTRAINT

When the owner sought conventional financing, total MCA balances had reached ~\$975K–\$1,050,000. A lender applied a standard underwriting rule: post-closing, the business must retain at least 50% of net cash flow.

Metric	Figure
Net monthly cash flow	\$115,000
Max allowable debt service (50% retention)	\$57,500/mo
Annualized supportable debt service	\$684,000
Loan supportable at current rates	\$650K–\$750K
<b>Required MCA payoff</b>	<b>&gt;\$1,000,000</b>

**Structural gap:** \$250,000–\$350,000. Not a lender problem. A capital stack problem.

## HOW IT RESOLVED — FOUR STEPS

<b>1</b>	<b>Negotiate the payoffs.</b> Two MCA positions settled at ~\$540K vs. ~\$715K combined original payoff — a \$175K reduction. This required credible takeout capital, direct borrower engagement, and several weeks of written offers and counteroffers. The funders moved because the alternative was worse.
<b>2</b>	<b>Right-size the senior facility.</b> New senior loan: \$700K. Monthly debt service: ~\$52K. Retained cash flow: ~\$63K. Retention rate returned above 50%.
<b>3</b>	<b>Close the remaining gap through ownership.</b> ~\$100K–\$200K that didn't fit the structure was addressed through owner capital, investor call, new partner, or friends and family. No version where it disappears.
<b>4</b>	<b>Stabilize operations.</b> Receivables tightened. Production runs adjusted to margin. Vendor terms reset. None of this changes the capital structure directly. It supports it.

## WORKING WITH SHŌKUNIN

Shōkunin operates at the intersection of mediation and advisory, facilitating MCA settlement negotiations directly while coordinating with business attorneys on legal components: agreement review, UCC filings, confession of judgment clauses, and settlement documentation. We quarterback the attorney relationship. That means scoping what needs legal attention, preparing the financial narrative before it reaches counsel, and keeping billable hours focused on legal mechanics. The business owner gets one point of contact managing the process.

If your business is carrying MCA positions and conventional financing hasn't penciled out, the issue is usually sequencing, not eligibility. Reach out before your next lender conversation.

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*Shōkunin, Inc. does not provide legal advice.*

*Engage qualified counsel for MCA agreement review and settlement documentation.*