

The Difference Between Interest Rates and Factor Rates

Factor rates and interest rates are both ways of expressing the cost of borrowing money, but they have some differences and here are some of the key points potential borrowers should know.

- Factor rates are expressed as decimals (e.g., 1.2) and interest rates as percentages (e.g., 20%).
- Factor rates are applied only to the original amount borrowed and act as a flat fee for borrowing, which is then incorporated into the loan repayment schedule.
- Interest rates “compound,” which means the amount of interest owed is calculated based on the remaining balance. The amount paid in interest varies somewhat through the life of the loan.
- Factor rates are fixed and do not fluctuate during the life of the loan. Borrowers know up front exactly how much they’ll pay back, whether they pay early or on time.
- Interest rates can be either fixed or variable. Fixed interest rates stay the same throughout the loan term, while variable interest rates can change depending on market conditions.
- Factor rates are most common on short-term loans and alternative funding options, such as invoice factoring and merchant cash advances.
- Interest rates are most common on longer-term loans and lines of credit, such as traditional small business loans, SBA loans, commercial real estate loans and equipment loans.

Factor Rates Pros Are...

- Easy to calculate and understand--just multiply the loan amount by the factor rate to get the total cost of borrowing.
- Fixed and do not change during the loan term--you know how much you must pay back from the start.
- More accessible for businesses that need fast, flexible funding options such as Invoice Factoring and Merchant Cash Advances.

Factor Rates Cons Are...

- Usually more expensive than interest rates, especially for longer-term loans and factor rates does not decrease as you pay off the loan balance.
- May come with additional fees and charges that are not included in the factor rate, such as origination fees or processing fees.

Interest Rates Pros Are...

- Usually lower than factor rates, especially for longer-term loans. The interest rate reflects the annual cost of borrowing and decreases as you pay off the loan.
- More standardized than factor rates, as they include all the fees and charges associated with the loan. An APR is a clearer picture of the cost of borrowing.
- More common and familiar than factor rates, as they are used for most types of traditional financing, such as small business loans, SBA loans, lines of credit, and equipment loans.

Interest Rates Cons Are...

- Harder to calculate and understand than factor rates because they involve compounding and amortization. Will need a calculator or formula to calculate the total cost of borrowing.
- Not fixed and can change during the loan term. If you have a variable interest rate and your monthly payments can fluctuate depending on market conditions. If you have a fixed interest rate, payments can vary subject to the payment schedule.
- Less accessible than factor rates, as they require higher credit scores and more documentation to qualify for. They also take longer to process and approve than alternative funding options.

Types of Businesses We Can Finance

Restaurants
Elderly Care Facilities
Big Box/Retail
Wholesale or E-Commerce
Trucking Companies
Beauty Saloons

Construction Companies
Medical Professions
Service Industries
Packaging
Rental Properties
Installation Experts

Home Health Care
Landscaping Companies
Automotive Repairs
Staffing Companies
Dental Offices
Barber Shops and More....

Tri-State Funding Group and David Allen Capital

Revenue-Based

24-Hour Cash Advance Options From...

\$2,000 to \$2,000,000!

No Collateral Required

3-5 Minute Online Application

3 to 18 Months Repay Terms

No Large Monthly Payments

Minimum FICO Credit Score of 500

In Business For 3 Months or Longer

Approval Decisions as Fast as 1 Day

Funds Deposited Within 24 to 72 Hours

Other Revenue-Based and Traditional Collateral-Backed Options
Plus, Other Business Services Also Available

Independent Agent



Tri-State Funding Group

If You Need Business Funding--We Can Help!

DAC

David Allen Capital, Inc.
Independent Agent

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