Law Firm Financing: Everything You Need to Know

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Most people find it difficult to talk about finances. Law firm financing is an especially uncomfortable discussion topic for lawyers and legal professionals. But law firm financing is critical for lawyers and legal professionals to learn and talk about, especially when running and managing a law firm.

In this blog post, let's find out why law firm financing is vital to a law firm's success, what your firm's financing options are, and the best types of loans for law firms. With this knowledge, let's take a step together towards financial competency.

*Ready to access fast, flexible **law firm financing?** Clio Capital evaluates your firm's payment performance to deliver pre-qualified funding with one transparent flat fee. Check your eligibility today.*

What are the benefits of law firm financing?

Law firm financing vs. law firm loans

Your accountant or Certified Public Accountant (CPA) friend will tell you law firm financing has the power to improve your firm's cash flow. They're right—the benefits of law firm financing are significant, partly because this financing structure is uniquely tailored for lawyers and attorneys.

For example, banks won't acknowledge unearned contingency fees as collateral. Bank loans can take a long time for lawyers to secure. But traditional bank loans would not work if your firm needs capital quickly.

Law firm financing and non-recourse capital

Law firm financing allows attorneys and law firms to get paid for future income by using **non-recourse capital**, as explained below.

What is non-recourse capital? It's also known as non-recourse finance. Non-recourse capital is a type of commercial lending that allows the lender to receive payment only from the project's profits the loan is funding. The lender can't receive payment from any other

assets of the borrower. Another benefit is the borrower does not make fixed payments.

When it comes to getting paid, law firms face unique challenges. Depending on the lawyer's financial situation and area of practice, applying for law firm financing could help solve the problems around law firm collections.

Grow your law firm faster with law firm financing

Your firm's growth depends on what resources you have to scale your business. Law firm financing can help. In particular, external law firm funding can provide you with the capital required to invest in practice management software, hire a paralegal, build a virtual law firm, and more.

Improve your law firm's cash flow

Your firm requires consistent cash flow for hiring, marketing, client intake and acquisition, and more. Good cash flow is also essential for growing your firm. Pausing marketing campaigns and other business operations due to cash flow problems can have detrimental effects on future business. Law firm financing can help you ensure you have enough funds to maintain revenue-generating activities.

According to the 2023 *Legal Trends Report*, inefficiencies in billing and collections (like delayed payments and unbilled work) can significantly impact cash flow and limit a firm's ability to reinvest in growth.

Reduce financial risk for your law firm

With high interest rates, taking out a more traditional loan can be risky. In fact, interest rates can be anywhere from 27% to 60%. And oftentimes, the interest rate is compounded monthly.

Offer your clients a better client-centered experience

With more working capital—thanks to law firm financing—you can provide clients with the option of flexible payment options, also known as alternative fee arrangements. Unbundled legal services, subscription-based models, and fixed fee billing structures are all examples of alternative fee arrangements. Specifically, according to the most recent *Legal Trends Report*, over half of potential clients would prefer to pay their lawyers using modern service delivery models, like flat fees or subscriptions, yet only 31% of law firms offer these payment options.

How do you finance a law firm?

You can finance a law firm with law firm financing—also known as law firm funding. Law firm financing is a financing structure specifically created for lawyers and legal firms. Some of the best ways to finance a law firm include law firm loans like Small Business Administration (SBA) loans, business loans, and private equity. In addition, you can finance a law firm through credit cards, lines of credit, revenue, and personal cash.

Read on for more information on the best loans for law firms and what your firm's financing options are.

Good debt vs. bad debt for law firms

Not all debt is created equal. When used strategically, financing can fuel growth, but when misused, it can create long-term financial strain. Understanding the difference between good debt and bad debt is essential before taking on any form of borrowing.

What good debt looks like for law firms

Good debt is an investment that generates a return for your firm. It helps you increase revenue, improve efficiency, or expand your client base.

Examples of productive debt include:

- Hiring staff (e.g., associates or paralegals) to increase billable capacity
- Funding litigation costs for contingency cases with strong expected returns
- Investing in legal technology to improve efficiency and reduce administrative work
- Marketing and client acquisition efforts that drive new business

In many cases, these investments can pay for themselves over time by increasing revenue or improving your firm's utilization, realization, and collection rates.

What bad debt looks like for law firms

Bad debt, on the other hand, does not generate a meaningful return and can create ongoing financial pressure.

Examples of bad debt include:

- Covering ongoing operational deficits without a plan to improve profitability
- Funding partner draws or distributions without corresponding revenue growth
- Luxury or non-essential expenses that don't contribute to client service or firm performance
- Relying on high-interest credit to manage poor cash flow habits

How to calculate ROI before borrowing

Before taking on debt, ask: will this investment generate more revenue than it costs?

To evaluate this, consider:

- Expected increase in billable hours or case volume
- Impact on collection speed and cash flow
- Cost of borrowing (interest rates, fees, repayment terms)
- Time to break even

If the numbers don't clearly support a return, it may not be the right time to borrow.

Common debt options for law firms

Law firms typically rely on a mix of financing options, including:

- Working capital lines of credit for short-term cash flow needs
- Term loans for larger, one-time investments
- Revenue-based financing tied to future earnings
- Specialized options like Clio Capital, designed specifically for law firms

👉 Want to reduce your reliance on debt altogether? Download our free guide *How to Improve Cash Flow at Your Law Firm*, to learn how to improve cash flow, attract more clients, and build a more predictable revenue pipeline.

What are your law firm's financing options?

Personal cash

Cash savings, retirement funds, and home equity loans are some ways you can financially support your law firm using personal finances.

Putting personal money—opposed to other forms of financing—into a business has its advantages and disadvantages. If you have the financial means, using personal money is a great option so long as you are careful. No matter your circumstance, you need to carefully assess the risk of putting personal money into your firm.

You also need to be aware of tax implications if you finance your firm using your own money. We recommend working with a small business financial expert if you do choose to finance your law firm with personal cash. These financial experts can help you take advantage of any grants, low-interest financing, or tax incentives you're eligible for in your state.

Revenue-based financing

Revenue-based financing allows firms to raise capital by pledging a percentage of future revenues in exchange for money invested. Law firms give a portion of earned revenue to investors at a pre-established percentage until the firm pays part of the original investment back.

What are the pros of revenue-based financing? It's often faster than other law firm financing options. Also, some revenue-based financing firms will allow you to pay based on monthly cash flows.

Lines of credit

Like a small business loan, an unsecured line of credit gives a law firm access to money to address any business expense. In comparison, small business loans require law firms to put a lump-sum payment into the account when opening. Then, law firms need to provide monthly payments to the small business loan account. With lines of credit, firms need not necessarily provide monthly payments.

For example, a small business line of credit involves a credit review and annual renewal. It's revolving, like a credit card—this means interest starts accumulating once you remove funds. Also, you can borrow up to the amount you pay (except for interest) again as you pay your balance. Similar to a credit card, the lender will set a limit on the amount you can borrow.

Credit cards

Nearly half of all small businesses in the US use personal credit cards. And according to MasterCard® research, many of those small businesses fail to separate business and personal expenses. A significant risk to using a personal credit card to finance your business is that you are personally liable for any debt you acquire. While the lower interest

rates of a credit card might be enticing, your firm might not be generating lots of revenue at the start. And racking up credit card debt might exempt you from other options of borrowing in the future.

Law firm loans

Newer firms might not qualify for business financing. Banks will want proof of business credit and assets as collateral—if you don't have this, there are other options. Besides the traditional business loan, you can take out a personal loan from a bank. Or asking friends and family is another option, although this is not feasible for many law firm owners.

Regardless of your financial situation, you can choose from many different loans, each with its unique advantages and disadvantages. Let's discuss these different loans in more detail below.

What are the best loans for law firms?

Choosing the best loans depends on how much capital your law firm needs and the amount of time you will take to repay it. Law firm financing offers many advantages because of its specific structure to attorneys and their legal work. The best types of loans for law firms include Small Business Administration (SBA) loans, business loans, working capital loans, and business acquisition loans. We'll go into more detail about these types of loans below.

What types of loans are the best loans for law firms?

Small Business Administration (SBA) Loans

Pros: SBA loans often have the reassurance of interest rate caps.

Cons: SBA loans can include long loan closing processes and significant collateral requirements.

Business loans from a financial institution

Pros: If you already have a good relationship with a bank, they might be able to offer you additional financial services and other perks if you take a loan from them.

Cons: New business owners can find it tough to qualify for loans through banks. Also, the application processes are usually long. Additionally, your assets are at risk if you can't pay the loan back.

Working capital loans

Pros: Borrowing and repaying is quick—you won't need to plan for repayments for months or years. **Cons:** Just like acquiring a traditional business loan from a financial institution, you might have to use collateral if you can't pay the loan back. Additionally, the lender may charge you high interest rates. Shop around to avoid getting trapped with high interest rates.

Private equity

Pros: Private equity firms can help you assess all areas of your business. Of course, this can also be a con (see below). Additionally, private equity firms have vested interests because they have investors to pay back. Ultimately, these private equity firms will want the best for your firm in terms of revenue generation. You can also often secure much more financing from private equity firms than other institutions.

Cons: It is up to you to ensure you don't sacrifice providing a client-centered experience for law firm revenues. Better yet, show the private equity firm how prioritizing the client's needs will support reliable business growth.

While securing more funds is a big win, this money comes at a cost. In some instances, you might have to give up management control or ownership stakes. The equity firm might steer you away from your law firm goals based on your values and beliefs.

Short-term loans

Pros: In most cases, you can count on receiving your loan quickly. Another advantage—short-term loans are easier to qualify for and have shorter applications.

Cons: Short-term loans usually come with high interest rates, creating a higher likelihood of incurring debt and require frequent payments.

Accounts receivable financing

Pros: Accounts receivable financing (e.g., such as factoring agreements or merchant cash advances) doesn't require you to use collateral to secure money.

Cons: Rates for this kind of financing are likely higher than others. Be sure to go through lengthy contracts for this type of financing thoroughly: Depending upon the terms of the contract, your clients, banks, and other "account debtors" may be contacted and told to pay the creditor directly. This can create confusion and cash flow problems.

Business acquisition loans

Pros: This is another financing option that doesn't require collateral. Business acquisition loans are helpful long-term solutions, unlike some of the fast, short-term financing options mentioned above. You can also get approved fast–sometimes in as little as 24 hours.

Cons: Lenders will require cash flow and credit score checks. Interest rates can vary, so be sure to shop around to get an idea of the average interest rates. Occasionally, business acquisition loans will require you to verify that you've pursued other types of financing before. Or they may also require you to prove if there was an owner of the firm before you—you'll need to show proof that they no longer have any stakes in the business.

Know your short and long term financial goals

When starting and running a law firm, you need a written financial plan to forecast critical financial aspects of your business. Having a comprehensive law firm business plan will also help you understand your expected cash flow. A business plan may also include information about the financial health of your firm. The more objective and accurate information you have in these plans, the better prepared you are to select the best law firm financing framework for your firm.

This is a big project, so working with financial advisors and accountants with proven success with small business owners is a great idea. Preferably, you'll work with financial vendors who've worked with attorneys who also started their own firms

Some non-profits or other organizations also offer valuable resources, business plan templates, and even discounted services to lawyers looking to start their own small businesses.

Law firm financing is integral to expanding your business

When it comes to law firm financing, you need to investigate all of your options. Take your time making the best financial decision for you, your law firm, and clients. This guide to starting your own law will help you identify what you need to do when getting your law firm

up and running.

Get familiar with the various financing options outlined above, and talk to professionals. Finding a legal mentor who has started their own firm is also an excellent way to learn about their challenges and wins.

Ready to grow your law firm with predictable, performance-based financing? ***Clio Capital*** *provides funding in as little as two business days—without collateral or compound interest. See if you're pre-qualified today.*

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