

Load

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What Is a Load?

A load is a [sales charge](#) or commission charged to an investor when buying or redeeming shares in a mutual fund. Sales charge commissions can be structured in a number of ways. They are determined by the mutual fund company and charged by mutual fund intermediaries in mutual fund transactions.

Common types of sales charges include [front-end loads](#) and [back-end loads](#). Funds with loads may be contrasted with [no-load](#) mutual funds.

KEY TAKEAWAYS

- A load is a sales charge paid by mutual fund investors to the brokers or agents who sell the fund to them.
- Front-end loads are incurred at time of purchase, and may carry lower net expense ratios as a result.
- Back-end loads are incurred when investors sell their fund shares, but these load amounts may taper off over time to zero after 10 years or more have passed.
- No-load funds are increasingly popular option that has no sales load on either end and are typically sold directly by the fund company or one of their partners.

An Introduction To Mutual Funds

How Sales Loads Work

A load is a sales charge that compensates an intermediary for distributing shares of a mutual fund. Loads vary by [share class](#) and are determined by the mutual fund company. Mutual fund companies structure sales charges by share class. They provide a sales charge schedule in the mutual fund's prospectus.

Loads can be front-end, back-end, or level. Front-end and back-end loads are paid directly to intermediaries by the investor and are not accounted for in the fund's [net asset value \(NAV\)](#) calculations.

Front End Load

Front-end loads are typically associated with [A-share](#) classes. This sales charge occurs when the investor buys the fund. Front-end loads can range up to approximately 5.75%. Investors may opt to pay up-front fees for several reasons. For instance, front-end loads eliminate the need to continually pay additional fees and commissions as time progresses, allowing the capital to grow unimpeded over the long-term. Mutual fund A-shares—the class that carries front-end loads—pay lower expense ratios than other shares pay. Expense ratios are the annual management and marketing fees.

Further, funds that don't carry up-front fees often charge an annual maintenance fee that increases along with the value of the client's money, meaning the investor may wind up paying more. In contrast, front-end loads are often discounted as the size of the investment grows.

On the downside, since front-end loads are taken out of your original investment, less of your money is going to work for you. Given the benefits of compounding, less money at the outset has an impact on the way your money grows. Over the long-term, it may not matter, but front-end-loaded funds are not optimal if you have a short investment horizon; you won't have a chance to recoup the sales charge through realizing earnings over time.

Back End Load

Back-end loads can be associated with [B-shares](#) or [C-shares](#). The back-end load is paid when an investor sells the fund. In class B-shares, the back-end load is typically contingent deferred which means it decreases over time. A back-end load can be a flat fee or can gradually decrease over time, usually within five to 10 years. In the latter case, the fee percentage is highest in the first year and decreases yearly until the specified [holding period](#) ends, at which time it drops to zero.

A back-end load should not be confused with a [redemption fee](#), which some mutual funds charge to discourage frequent trading that can sometimes interfere with the fund's investment objective.

Investors may automatically assume load funds are the better choice over no-load funds, but that may not be the case. Fees on load funds go to pay the investor or fund manager who does research and makes investing decisions on the client's behalf.

Other Fund Expenses

Any type of payment to an intermediary for distribution services can be considered a load. Mutual fund investors pay annual operating expenses which are accounted for in the fund's net asset value. A portion of the fund's operating expenses may include a [12b-1 fee](#), also called a level-load. This fee is paid by the mutual fund to the intermediary annually and is quoted as a percent of a share classes assets.

For example, the [Principal Equity Income Fund](#) offers investors A, C, and I shares. The A-shares have a front-end sales charge of 5.50% and a back-end sales charge of 1.00%. The C-shares have no front-end sales charge and a back-end sales charge of 1.00%. Both share classes have a 12b-1 level-load included with the fund's operating expenses. The A share class pays a smaller level-load than the C-shares at 0.25% since it offers higher front-end load compensation. The C share class charges a level-load of 1.00%. ^{1 2}

Investors may also incur [redemption fees](#). Redemption fees are not paid to intermediaries and therefore are not considered to be a load. These fees are charged on the back-end and help to compensate the fund for transaction costs incurred from short-term investors. Redemption fees may be charged if an investor redeems shares within 30 days to a year from their initial investment.

Sales Load Considerations

Sales charges are commissions agreed upon between mutual fund companies and intermediaries. They are typically charged by full service brokers and mutual fund distributors. Investors can potentially avoid sales loads by buying and selling mutual fund shares through a discount brokerage platform. Oftentimes, investors can also avoid sales loads by investing in mutual funds through a retirement plan.

Most mutual funds offer breakpoints, rights of accumulation and letter of intent options with sales load discounts. These discounts are associated with larger investments in the fund and are outlined in the fund's prospectus.

No-Load Funds

A no-load fund is a mutual fund in which shares are sold without a commission or sales charge. This absence of fees occurs because the shares are distributed directly by the [investment company](#), instead of going through a secondary party. This absence of a sales charges is the opposite of a load fund—either front-load or back-load—which charges a commission at the time of the fund's purchase or sale. Also, some mutual funds are level-load funds where fees continue for as long as the investor holds the fund.