

STOP LOSING, START PROTECTING

UCC Filings Reduce Financial Risk for Businesses

Every time you extend credit to your customer, you assume some calculated risk, right? Because you know **there are risks** associated with extending credit to a customer, and as a diligent credit professional, you take steps to mitigate that risk. You scrutinize their credit application. You carefully analyze and review credit history, the amount of outstanding debt, payment behaviors and you contact credit references. To limit exposure, you negotiate lower credit lines, pay for credit insurance, or require cash in advance, but there's a popular, simple, low-cost protection you may have overlooked: **UCC filings**.

WHAT IS ARTICLE 9 OF THE UNIFORM COMMERCIAL CODE?

Article 9 of the Uniform Commercial Code (UCC) governs secured transactions in personal property and provides an opportunity for trade creditors, like you, to secure accounts receivable, inventory or equipment by leveraging the personal property assets of your customer.

Under UCC Article 9, a security interest is an interest in personal property or fixtures and secures payment or performance of an obligation. Before extending credit, many creditors require their customers to enter into a Security Agreement. The customer pledges specific personal property as collateral to grant a security interest to the creditor. Then, in the event of customer default, the creditor can use the collateral to recover payment.

WHAT IS A UCC FILING?

A UCC filing, also known as a UCC Financing Statement or UCC-1, is a document filed with the Secretary of the State which serves as public notice of a creditor's security interest in certain collateral owned by their customer.

WHO SHOULD FILE UCCS?

Any business (i.e., creditor) extending credit to its customers should file UCCs:

- financial institutions
- factoring companies
- leasing companies
- suppliers
- distributors

WHY FILE UCCS?

Protection. Yes, in an ideal business relationship, bills are paid in full and on time - every time. But in a credit-based economy there is little chance for ideals.

In the event of customer default or bankruptcy, it is far better to be a secured creditor than an unsecured creditor.

ARE UCC FILINGS A GUARANTEE?

As with everything in life, there are no guarantees - with the exception of death and taxes. No, you are not guaranteed to be paid in the event your customer files bankruptcy; however, a perfected UCC filing will give you secured status, which will put you in the best possible payment position.

"The average **recovery rate for first lien debt was 72% and the median was 100%**. About 38% of the first lien debt received a full recovery. The average **recovery rate for the general unsecured claims was around 46% with a median of 41%**. About 18% of the general unsecured claims were fully recovered."

Source: *Bankruptcy Recovery Report - FY 2023, BankruptcyData.com*

TOP UCC FILING MYTHS DEBUNKED

Although this may seem disheartening, it's important to understand a properly perfected UCC is not a guarantee. To reiterate, the adage is true "...the only guarantees in life are death and taxes." However, UCC filings put creditors in the best possible position to get paid. Let's put a few UCC filing myths to rest.

IT WILL HURT MY SALES.

Becoming a secured creditor affords you the opportunity to extend greater credit limits, sell to marginal accounts and provide credit to accounts with limited credit history. A UCC filing is another tool that allows you to say "YES" to sales.

MY CUSTOMER'S BANK WON'T LET THEM SIGN, AND EVEN IF THEY DO, I'LL ALWAYS BE BEHIND THE BANK. I'LL NEVER GET PAID.

The bank should not have a problem with your customer signing the agreement. You may find you need to subordinate to a bank, but you will remain ahead of other secured creditors.

THE UCC FILING WILL HURT MY CUSTOMER'S CREDIT RATING.

UCC filings do not impair your customer's credit rating. The filings will appear on the credit report, but simply to provide confirmation that another creditor has a secured position.

IF I ASK MY CUSTOMER TO SIGN A SECURITY AGREEMENT, THEY ARE GOING TO BUY FROM A COMPETITOR THAT WON'T ASK THEM TO SIGN.

Credit and legal departments at companies throughout the country take advantage of the opportunity to incorporate security language within their contracts and credit applications; it's a basic risk mitigation tool. Reassure your concerned customer, the UCC filing simply allows you (the creditor) to be a secured creditor in the unlikely event they default on payment terms or file bankruptcy.

"Eh, it's not worth the money or the hassle."

NCS handles the entire UCC filing process.

We can assist in developing your collateral description, review your agreement to ensure it contains important aspects like the granting clause, pull the articles to confirm your debtor's name and jurisdiction, prepare and record the actual filing, monitor the filing for expiration and monitor your customer for changes with the Secretary of State.

Allow us to relieve you of the hassles.

UCC FILINGS VS. CREDIT INSURANCE

Suppliers have widely used credit insurance to protect their receivables, but credit insurance companies are cutting coverage and slashing policies to maintain their own balance sheets and profitability. While insurance companies deliver crippling blows to businesses' financial security, credit departments have been carefully reevaluating risk mitigation strategies, and it's brought UCC filings into renewed focus.

We'll let you in on the worst-kept insurance secret: insurance companies are in the money-making business, not the money-losing business.

To save the insurance company money, your policies are taking a hit. One source cited insurance coverage had been slashed by 15%, across all industries amid the pandemic, to balance their own books. 15%! **Can you afford the financial burden of lost coverage on your riskiest accounts?**

COSTS

The cost of filing a UCC is nominal compared to the premiums and deductibles for credit insurance.

Credit insurance premiums may range between 0.2% - 0.8% of your company's estimated annual sales. If your company sells approximately \$10 million a year, the annual premium to cover the entire AR could be \$20,000 - \$80,000. UCC filings cost approximately \$200 per filing and filings are in place for 5 years.

With UCCs, you don't have to deal with annual premiums, deductibles, etc. UCCs are a low-cost solution, ensuring you aren't throwing good money away.

UCCS DON'T JUDGE

A UCC isn't going to cease simply because your customer's risk profile changes.

Unlike credit insurance, UCC filings aren't judgmental. The state of Delaware isn't going to contact you and say "Listen, we see your customer's debt has grown, so we're going to have to unperfect your UCC." UCC filings will secure your receivables if you have properly perfected the security interest, regardless of your customer's creditworthiness or the economic climate.

PICK & CHOOSE

With UCCs, you choose the accounts to secure, you set the risk threshold, you're in control.

Credit insurance companies are in the business of making money – they aren't charity organizations. You will be required to insure good accounts to justify insurance on the riskier accounts. This way the insurance company collects premiums on the accounts that are likely to remain solvent, to make up for the money they will pay out on the accounts likely to default.

THE VALUE OF PUBLIC RECORD

Recording a UCC creates a public record.

Let's not forget the immense value of the public record. A public acknowledgement of the financial agreement can be invaluable in a volatile economy. As an example, if you have filed a UCC and your customer decides to sell its business without telling you, the UCC is there in the public record and can halt the sale, helping to ensure you are paid. Credit insurance doesn't do that.

*As insurance companies cut your portfolio coverage, consider supplementing coverage with UCC filings. You don't have to pick one or the other – it's not credit insurance **or** UCCs, it's credit insurance **and** UCCs.*

COMPETITIVE ADVANTAGE OF UCCS

A UCC filing can do more than protect your inventory, equipment, and receivables. Properly perfected UCCs can reduce your risk and give you the opportunity to expand your market share, by providing you with the security needed to sell to marginal accounts and increase existing customers' credit lines.

CREATE SALES OPPORTUNITIES

As you know, the business world is aggressively competitive. UCC filing is more than reducing risk; it's an opportunity to expand your market, by providing you with the security needed to sell to marginal accounts and by providing the added security needed to increase existing clients' credit lines.

NO COST TO YOUR CUSTOMER

All your customer needs to do is sign a Security Agreement. The costs associated with the UCC filing will be paid for by your company (and those costs are minimal). Your customer doesn't pay a dime!

MINIMIZED RISK MEANS FEWER WRITE-OFFS

Fewer write-offs lower the overall costs associated with your product.

Lower costs, mean you can sell at a lower price, maintain a stable profit margin, make your company more competitive, and open doors to a larger market share.

EVERYONE'S DOING IT

Your company is not the only company filing UCCs. Hundreds of thousands of companies throughout the country are too.

Did you know that mortgages, car loans, and lines of credit often have security language written right into the agreement? When you sign that document, the security language allows the lender to file a UCC.

SECURED CREDITOR

In the event your customer defaults or files for bankruptcy protection, a properly perfected UCC positions you as a secured creditor.

As a secured creditor, you are bumped to the front of the payment line and have the right to repossess your equipment or inventory.

If your customer never files bankruptcy and never defaults on payment, then it will seem as though the UCC doesn't even exist – it's like an invisible shield: it's there to offer protection if you encounter harm, but completely unnoticeable in a world of fiscal harmony.

UCCs are a simple part of everyday business. Smart, savvy businesses are securing their receivables, inventory and equipment.

Businesses who don't file UCCs are placing themselves at a competitive disadvantage. Take the opportunity to minimize loss and create opportunity.

WITH UCC FILINGS, YOU CAN COMPETE WITH CONFIDENCE.

NCS IS YOUR CREDIT ALLY

NCS Credit is the industry's only full-service provider. From UCC filings and mechanic's liens to commercial collections, we have it all under one roof.

Powered by our knowledgeable staff and fueled by technology, NCS will simplify your current process and deliver a best-in-class client experience.

With unparalleled industry expertise, we understand the complexities of commercial credit. We believe everyone should get paid for the work they do!



To learn more: 800.826.5256 | NCSsales@NCScredit.com