YOU FILED A UCC. YOUR CUSTOMER DEFAULTS. WHAT'S NEXT?

How Secured Creditors Enforce Their Right to Recovery

Filing is Vital; Enforcement Is Where it Pays Off

If you've filed a valid UCC-1, have a signed contract, and accurately described your collateral, you're in the driver's seat when a customer defaults. You don't have to beg for payment or write off losses.

You can:

- Repossess
- Resell
- Demand direct payment
- Leverage your position for priority cash

Know Your Rights. You're Not Powerless.

As a secured creditor, your UCC filing isn't just symbolic. It gives you enforceable legal rights under UCC Article 9, including the right to:

- Repossess tangible collateral (like inventory or equipment)
- Redirect payments on accounts receivable
- Get priority in liquidation or bankruptcy
- Use proceeds from sold collateral to satisfy the debt

Send a UCC Demand Letter

Your first move after your customer defaults is to send a demand letter. In your demand, you should include:

- Declaration of default under your security agreement
- Cease and desist language (e.g., stop selling inventory, unplug equipment)
- Cure period (usually 10 days) to allow payment before further action
- Scheduled repossession date if not paid
- Notice of intent to notify other creditors (especially your customer's bank)
- Attach a copy of your UCC Financing Statement

Sample Demand Letter

800.826.5256
NCScredit.com
729 Miner Road, Cleveland, OH 44143

NCS CREDIT
From Protection to Collection

Date: **06/19/2025**

Via Certified Mail & Email
The Best Electronics Stores
Attn: Ms. Smith
123 Main St., Cleveland OH 44118

Subject: Default Notice – Security Agreement Dated **01/23/2022**

Dear **Ms. Smith**,

This is formal notice that you are in default under the Security Agreement dated **01/23/2022**, secured by your inventory, equipment, and other business assets. You failed to make the required payment of **$50,575** due on **05/19/2025**.

Effective immediately, you must cease and desist from:

- Selling or transferring inventory,
- Using or relocating equipment,
- Disposing of any secured collateral.

You have 10 days from the date of this letter (**06/29/2025**) to cure this default by paying the full amount due. If not cured, we will proceed with repossession on **06/30/2025** and may notify your bank and other creditors of your default.

Enclosed is a copy of our UCC Financing Statement on file with the **Ohio** Secretary of State.

...rther action.

...ERVICES • EDUCATION & RESOURCES

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NCS Credit can send demand letters on your behalf.

[Contact us for help!]

Repossess. Yes, You Really Can!

In most cases, your customer will be compliant. But, if you are met with resistance, you may need to involve legal counsel.

If you've secured tangible goods, like inventory or equipment, you can legally repossess them after default, as long as there's no "breach of the peace" (e.g., no confrontation or threats allowed).

Resell the Goods or Leverage for Payment

Once repossessed, you have the right to sell the collateral through public or private sale, so long as the sale is commercially reasonable.

Proceeds from that sale go in this order:

1. Repossession costs
2. Legal fees (if any)
3. Amount owed to you
4. Any remaining funds go to junior secured creditors or the debtor

Lock in Proceeds & Receivables

Repossession isn't always possible, especially with intangibles like A/R. Fortunately, your UCC allows for another powerful move.

Instruct your debtor's customers to pay YOU directly.
Under UCC §9-607, you can:

- Notify your customer's account debtors (their customers) to remit payment directly to you
- Sue those customers if they fail to comply

This is a significant bargaining chip. Most businesses will do anything to avoid having you call or contact their clients.

Think Strategy

Sometimes you don't even have to repossess. You just need to show that you could. The key? Use what you've secured to disrupt operations without having to follow through. If repossession will interrupt their revenue, they'll prioritize you. Let's look at a couple examples.

A bar owner paid his bank immediately when they threatened to pull his liquor license held as collateral.

A component supplier with a PMSI used the threat of disrupting a manufacturing supply chain to force payment.

Follow the Rules

Don't color outside the lines. Follow the rules.

- Provide notice of disposition of collateral to other secured parties
- Keep clear records of repossessed inventory and sale prices
- Ensure sales are fair-market and commercially reasonable
- Respect the "identifiable condition" requirement (goods must not be altered or co-mingled)

Your status as a secured creditor gives you a distinct, powerful edge. Remember, with your UCC you can: repossess, resell, demand direct payment, leverage your position for priority cash.

That's the **power** of being a **secured** creditor. ***Use it!***

From UCC filings to collections, NCS Credit manages it all. Backed by experts and powered by technology, partner with the industry's only full-service provider.
Let us help you protect your receivables and get paid with confidence.
Contact us today!