

# The Myths & Facts of UCC Filings

No, a properly perfected UCC is not a guarantee. The old adage is true "... the only guarantees in life are death and taxes." However, a properly perfected UCC puts creditors in the best possible position to get paid.

Let's dispel a few myths about UCCs!

"It will hurt my sales!"

Becoming a secured creditor enables you 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" instead of a red stamp of "Credit Rejected."

"It'll never work. I'll always be behind the bank & never get paid."

Bank relationships change - i.e. refinance. You may find you need to subordinate to a bank, but you will still remain ahead of other secured creditors.

"My customer's bank won't let them sign the security agreement."

The bank should not have a problem with you being a secured creditor, however, the bank may request that you subordinate.

"The UCC filing will hurt my customer's credit rating."

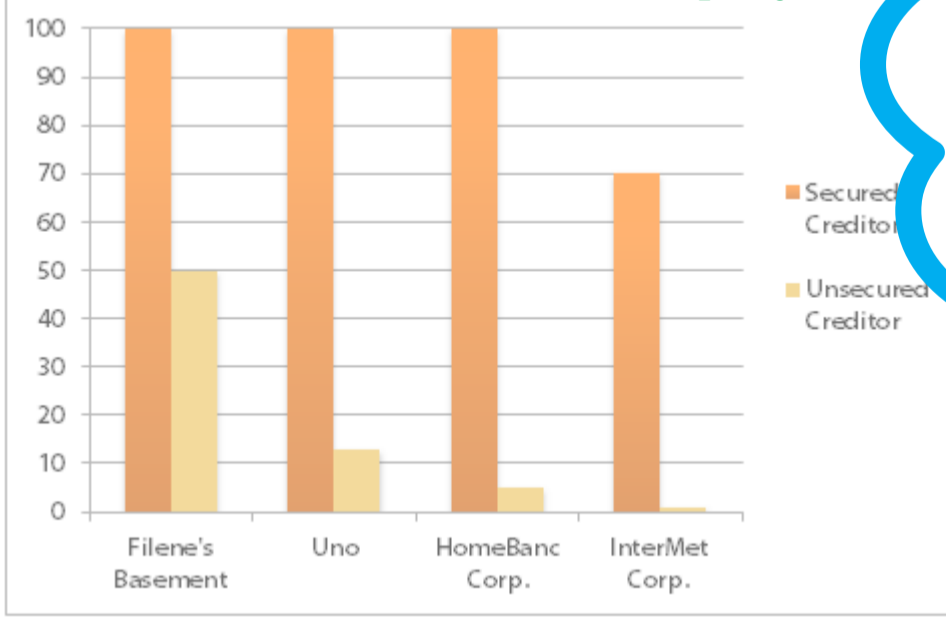
UCC filings do not impair your debtor's credit rating. The filings will appear on the credit report, but simply to provide confirmation that another creditor has a secured position or that you pledged collateral for trade credit.

"If I ask my customer to sign a security agreement, they are going to leave me & buy from a competitor that won't ask them to sign a security agreement."

Are you 100% sure your competitors are not filing UCCs or, at the very least, including security language in their agreements? The legal departments at companies throughout the country take advantage of the opportunity to incorporate security language - it is a basic risk mitigation tool.

Reassure your concerned customer that the UCC filing simply allows you (the vendor) to be a secured creditor in the unlikely event they file bankruptcy.

## Do Creditors Really Get Paid When Their Customer Files Bankruptcy?



Yes, creditors really do get paid - although every bankruptcy exit plan is different. Let's take a look at a few bankruptcy cases, which demonstrate the immense benefit of being a secured creditor rather than an unsecured creditor\*.

100% > 50%, 13%, 1%

In the bankruptcy for Filene's Basement, the secured creditors received 100% of their claim & unsecured creditors received 50% of their claim

In the bankruptcy for Uno, the secured creditors received 100% of their claim & the unsecured creditors received 13% of their claim

In the bankruptcy for HomeBanc Corp., the secured creditors received 100% of their claim & the unsecured creditors received 1-10% of their claim

In the bankruptcy for InterMet Corp., the secured creditors received 70% of their claim & the unsecured creditors received 1% of their claim

70% > 1%

\*The information presented here illustrates that secured creditors are in the best possible position to get paid. However, this assessment does not guarantee a payout in future bankruptcies.

NCS 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 & jurisdiction, prepare and record the actual filing, monitor the filing for expiration & monitor your customer for changes with the Secretary of State.

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Sources: <http://www.prnewswire.com/news-releases/initial-distribution-made-to-creditors-in-filenes-basement-bankruptcy-84478857.html>, <http://nrr.com/corporate/uno-restaurant-holding-exit-bankruptcy>, <http://www.prnewswire.com/news-releases/initial-distribution-made-to-creditors-in-filenes-basement-bankruptcy-84478857.html>, <http://www.bloomberg.com/apps/news?pid=newsarchive&sid=agkK76NSFRNg>