

The Uniform Commercial Code (UCC), is a set of laws pertaining to commercial transactions, that is accepted by all U.S. states. When a bank or other financial entity makes a collateralized [loan to a business](#), it files what is known as a UCC-1 financing statement with the Secretary of State's office, in the applicable state. The letter serves as official public notice "that one person claims an interest in someone else's property, usually as collateral for a debt." ([State of Tennessee Business Services Division](#)) The form may be filed in more than one state, depending on how the property and/or the business are situated.

What is a UCC lien?

A UCC lien benefits the lender by establishing "priority in case of debtor default or bankruptcy." ([California Secretary of State](#)). A UCC lien is good for five years only. To retain priority status, it must be renewed, or continued, after five years. A lender can file a UCC lien against a particular piece of equipment, for example, a piece of heavy machinery, or against all of a business' assets.

In instances where multiple lenders finance the same small business and place UCC liens against the same collateral, whomever is first is prioritized. All others will be in an inferior position, ranked based on submission date. If you anticipate accepting funding from multiple lenders, it may be wise to work out priority status with all parties before taking the offers. Once a lender has established priority, it is difficult at best to get that entity to cede its position to another.

Once the loan is satisfied, it falls to the borrower to request that the lender notify the Secretary of State, by filing to terminate the lien. Each state has an amendment form that includes a termination option. Do not forget this step - request the termination and make sure it is accomplished.

More from the Resource Center: [What is APR?](#)