Rise Alliance is a division of Second Wind Consultants, America's most trusted small-business restructuring firm and a proud partner of the Turnaround Management Association.

MCA Debt Relief Guide

- Inside Predatory MCA "Relief" Schemes
- Spot Red Flags
- Ask the Right Questions
- Choose a Path that Truly Protects You
- Get Real Relief

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> **Don't assume** that debt settlement companies are acting in (the business's) best interest— or are legitimate.
>
> — NYC Department of Consumer and Worker Protection

> I learned that some of these MCA 'solution' companies are just as **predatory** as the MCAs.
>
> — Norm Candelore, business owner

Introduction—MCA Debt Relief Schemes that Put Your Business at Risk ⚠

Before we begin, it's important to understand that there are two basic types of predatory debt settlement schemes facing businesses today.

One is the "Stall and Save" tactic—where firms instruct business owners to stop paying their MCA lenders while they save toward a future settlement.

The other is a newer tactic focused on "Payment Reductions of Up to 80%," which promises immediate cash flow relief through creditor negotiation. While payment reduction itself can be effective, this approach becomes dangerous when it relies solely on negotiation and leaves the business vulnerable if even one lender refuses to cooperate. Effective payment reduction must always be combined with structural and legal safeguards to ensure the business is protected, even if negotiations don't go as planned.

These two common "debt relief" schemes share the same critical flaw: they gamble with your business's survival by leaving you exposed if creditors don't cooperate. Real debt relief requires more than just negotiation or delay—it demands structural protection. Without it, your business isn't solving anything; it's risking everything.

Here's the Good News

When you understand how these internet-based relief schemes really work, you gain the power to protect your business. You'll know the red flags to watch for, the questions to ask and how to separate empty promises from real solutions. With the right partner—one who prioritizes legal protection, lender alignment and structural integrity—you can resolve your debt without risking collapse. Relief shouldn't leave you exposed. It should set you up to succeed.

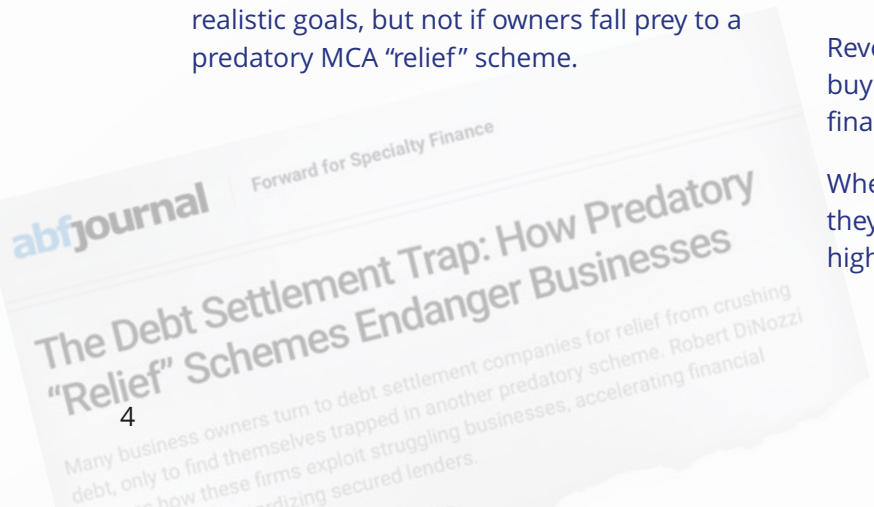
How Businesses Get Hooked (and Why It's a Mistake)

When business owners find themselves buried in debt—especially high-cost products like MCAs—they often turn to debt settlement companies for help. Unfortunately, many of these companies are just as predatory as the lenders that got them into trouble in the first place.

Business owners don't wake up one morning wanting to call a debt settlement firm. They call because they're desperate.

Here's what really happens before a business calls a settlement firm:

- MCA payments are eating all the cash flow—the business is still bringing in revenue, but the daily or weekly withdrawals are making it impossible to pay bills, payroll or vendors.
- No bank will lend to them—their credit is shot because they've been juggling multiple MCAs.
- Owners explore refinancing with MCA "reverse consolidation," only to discover this is just another, larger MCA product.
- They Google "business debt relief"—the first 10 results? Debt settlement firms advertising "instant relief" and "cutting business debt by 50%." These are realistic goals, but not if owners fall prey to a predatory MCA "relief" scheme.



Reverse Consolidation: A Misleading Form of MCA Refinancing

One increasingly common tactic marketed to businesses in distress is reverse consolidation MCA financing—a product often disguised as a form of debt relief. In reality, it's just another high-cost MCA that adds to the burden.

In a reverse consolidation, a business that's struggling to keep up with existing MCA payments is offered a new advance with longer terms and lower daily or weekly withdrawals. The pitch is simple: "We'll pay off your existing MCAs and give you breathing room." But behind the scenes, most of these deals come with sky-high factor rates, renewed personal guarantees, and are ultimately a new MCA position that piles more debt onto the business.

Reverse consolidations don't resolve MCA debt. They buy time at a premium, often worsening the very financial distress they claim to solve.

When a borrower enters a reverse consolidation, they're not restructuring—they're doubling down on high-cost debt with no path to recovery.

The Two Predatory Models You Must Recognize

1 Payment Reduction Only: A House of Cards

A newer trend in the debt relief market promotes massive payment reductions—up to 80%—through aggressive negotiation with MCA lenders. And in some cases, this may be partially true: certain MCAs might agree to modified payment terms.

But these firms rely on *every* MCA lender agreeing to revised terms. That's rarely the case in reality. If even one refuses, it can trigger a **UCC 9-406 Notice**—a devastating collection action that diverts a business's receivables directly to the lender.

Citing Section 9-406 of the UCC:

"[The secured party] also notified [the account debtor] that payments made to any party other than [the secured party] would not discharge [the account debtor's] obligations and liabilities with respect to its accounts receivable."

— Hodgson Russ LLP
in ABL Advisor

In Plain English:

A 9-406 notice tells your customers that the MCA now owns your receivables—and that paying you won't count. Most customers freeze payments rather than risk legal exposure (or having to pay the invoice twice), which instantly chokes off your revenue.

These firms have no plan to protect your business if that happens.

2 Stall & Save: A Trap that Leads to Collapse

This is the model that mirrors the playbook of traditional consumer debt settlement. It instructs business owners to stop paying their MCA lenders entirely and, instead, save toward a lump-sum settlement. The firm charges hefty upfront fees and begins diverting payments into a so-called "settlement fund"—an account that they control.

Here's what typically happens:

- ☒ **Step 1:** The business pays 15–20% of the enrolled debt as an upfront fee—before any creditors have been contacted.
- ☒ **Step 2:** The firm advises the business to stop paying lenders, telling owners to "trust the process."
- ☒ **Step 3:** Weekly payments are redirected to an escrow fund controlled by the settlement firm—or worse, commingled in the firm's operating account, leading to potential mismanagement or fraud.
- ☒ **Step 4:** MCAs don't wait. Receivables are frozen. Accounts are swept. Lawsuits are filed.
- ☒ **Step 5:** Months later—often after irreversible damage—a settlement offer is made, but the business may no longer be viable.

Payment Reduction Only: A House of Cards

A growing number of debt relief firms promise to **reduce MCA payments by up to 80%** through direct negotiation. The pitch is everywhere—search engine ads, social media and cold outreach—and it sounds like a tempting lifeline.

In some cases, it's partially true. **Some** MCA lenders may agree to temporary concessions. But these programs are fundamentally flawed—because they rely on a perfect outcome that almost never happens.

The Pitch Sounds Good—Until It Falls Apart

These firms structure their entire model around the idea that **all** MCA lenders will agree to modify payment terms. But what they don't say is this:

It only takes one lender to say no—and everything collapses.

If even one MCA won't cooperate, they can issue a **UCC 9-406 notice**, which instructs your customers to redirect payments away from you and send them to the MCA instead.

Citing Section 9-406 of the UCC:

"[The secured party] also notified [the account debtor] that payments made to any party other than [the secured party] would not discharge [the account debtor's] obligations and liabilities with respect to its accounts receivable."

— Hodgson Russ LLP

In plain terms, this tells your customers that **your revenue is no longer yours.** And most customers, confused or afraid of legal exposure, will stop paying altogether until it's resolved.

That means:

- X **Payroll can't be met**
- X **Rent or loan payments bounce**
- X **Vendors don't get paid**
- X **Confidence collapses internally and externally**

Your business grinds to a halt—**not because of operations, but because of a failed negotiation strategy.**

The Hidden Flaw in the Model

These firms **have no legal strategy** or structural mechanism to protect the business if a creditor turns hostile.

They rely on every MCA creditor agreeing to negotiate and to renegotiate payment terms. But if even one MCA creditor does not agree, and your business can't support current payment terms, the strategy fails. This is because it only takes default with one MCA creditor to trigger aggressive collections actions that cut off your cash flow.

That's Not a Strategy—That's Wishful Thinking.

Payment Reduction Only: A House of Cards

What Can Go Wrong

- They can't protect cash flow from an MCA 9-406 notice
- They do not insulate operating accounts
- They often don't even have internal legal support

A Real Strategy Prepares for "No"

If payment reduction is the goal, it must be paired with a legal and structural framework that **anticipates non-cooperation**. A single MCA lender can:

- Freeze receivables
- Drain cash from operating accounts
- Win a judgment against you without due process

Any one of these actions can bring a business down—even if others cooperate.

Reduced payments may help—but they cannot be your only strategy.

You Need More than Payment Relief

Any firm offering payment relief must also offer:

- **Contingency plans if a creditor says no**
- **An ability to help exercise your "right to reconciliation"**
- **A clear path to refinance, or full balance sheet restructuring**

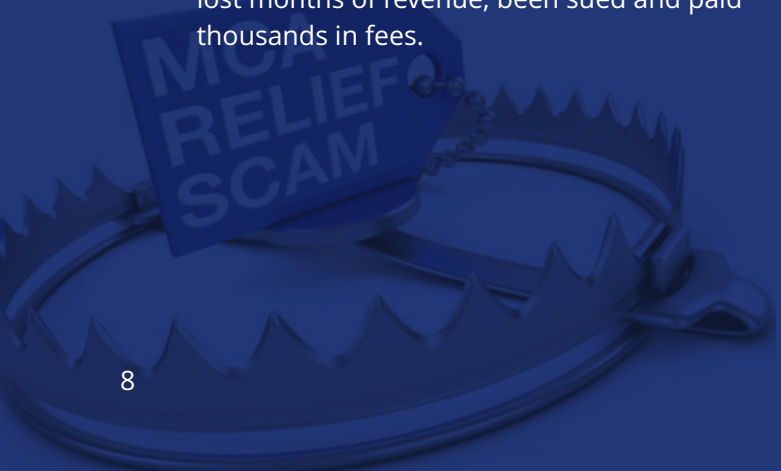
Stall & Save: The Trap that Leads to Collapse

The "Program" Designed to Fail

The truth is, most business debt "relief" companies do little to genuinely assist business owners. In fact, their contracts are designed to obscure a predatory business model that prioritizes extracting excessive fees while offering little to no actual debt relief.

Here's what happens after a business enrolls:

- **Step 1: Pay Upfront Fees**
  Before any negotiations happen, the business pays 15%-20% of enrolled debt—just for signing up.
- **Step 2: Stop Payments**
  The firm orders the business to stop paying lenders.
- **Step 3: Build Up Escrow (Slowly)**
  Payments are redirected into a settlement fund, but the firm controls the account.
- **Step 4: Wait... and Wait... and Wait**
  MCAs don't wait. Receivables are frozen. Accounts are swept. Lawsuits are filed.
- **Step 5: The "Settlement" Comes Too Late**
  By the time an offer is made, the business has lost months of revenue, been sued and paid thousands in fees.



Burying You In Fees

In addition to upfront enrollment, monthly and success fees, many settlement firms charge hidden fees that make recovery even harder.

Example

If a business enrolls $100,000 of MCA debt into a settlement program, here's what typically happens:

- **$15,000** is immediately paid as a nonrefundable upfront fee.
- **Up to $1,000 per month** in monthly program fees drain remaining cash flow while creditors grow more aggressive.
- If partial settlements eventually happen, the firm charges a **35% success fee,** or $8,750—cutting into any supposed "savings."
- If settlements drag on (which they often do), **extension fees** add thousands more. For a three-year timeframe, this looks like $36,000
- If a creditor doesn't respond quickly enough, the business can be hit with an **inactive debt fee** of **35%** of the enrolled amount. That's an additional $35,000 owed for circumstances entirely outside the business's control.
- If the owner tries to exit the program early, **early termination penalties** can add **2% per month** on the outstanding balance.

In total, a business could easily pay **$60,000 or more** in fees—often before any creditors are actually paid. Meanwhile, lawsuits, bank account freezes and receivables seizures escalate in the background.

Stall & Save: The Trap that Leads to Collapse

FEE TYPE	AMOUNT	WHY IT'S A PROBLEM
Upfront Enrollment Fee	15% of enrolled debt	Paid before any work is done.
Monthly Program Fees	Up to $1,000 per month	Drains cash flow while creditors go unpaid.
Success Fees	35% of negotiated savings	Reduces any real financial relief.
Extension Fees	1% charged monthly for the life of the settlement	Firms profit the longer they stall resolution.
Inactive Debt Fees	35% of original enrolled debt	Charged if a creditor doesn't respond within 120 days.
Early Termination Penalties	2% of remaining enrolled debt per month	Punishes businesses that try to exit the program early.

The Bottom Line

- **The longer you stay, the more you owe.**
- **If a creditor never settles, you're penalized.**
- **If you try to leave, you face steep penalties.**

This is Not a Rescue Plan.

It's a business model designed to profit from keeping yours in distress.

Real Debt Resolution: Restructuring & Protection

Real Relief Doesn't Risk Your Business

Unlike tactics that focus solely on delay or promises of negotiation, legitimate restructuring fixes the core issues and protects the business during the process.

At Rise Alliance, our name is our methodology. RISE: Restructure, Insulate, Strategize and Emerge.

Each part of this model reflects the real steps necessary to protect, stabilize and ultimately restore a distressed business:

- **Restructure**: Creditor negotiations ease payment burdens *and* structural mechanisms shield the business from lawsuits and 9-406 notices.
- **Insulate**: Safeguard receivables, revenue streams and operating accounts to protect against legally unwarranted aggressive creditor actions.
- **Strategize**: Set the business up for a full financial reset, with a plan to refinance predatory debt or execute an Article 9* restructuring if needed.
- **Emerge**: Build a foundation for sustainable growth, with operational KPIs, cash flow management and financial monitoring to prevent future over-leverage.

Cash flow relief alone isn't enough. Without structural protection, one uncooperative creditor can unravel everything.

Real restructuring prepares for that—and prevents disaster.

* See page 20 for more on Article 9 restructuring.

Ask Questions Before Signing

If you're considering engaging a debt relief company, ask these critical questions first:

- **How do you get paid—and when?**
  If a firm profits regardless of success, its incentives are not aligned with yours.
- **What happens if a creditor refuses to negotiate or sues?**
  Real solutions must include protective structures, not just negotiation.
- **Do you use legal tools to protect the business during the process?**
  Or are you simply hoping creditors cooperate?
- **Can you show a track record of full debt resolution, not just payment delays?**

If you can't get clear, confident answers to these questions, walk away.

Read the full list: Excerpted from ABL Advisor Article on page 12

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You Only Get One Shot

Most distressed businesses get one chance to choose the right partner. Choosing wrong doesn't just delay recovery—it can eliminate the possibility of recovery altogether.

- The stakes are high. A misstep isn't just expensive—it can cost you your business.
- Don't fall for the illusion of easy relief.
- Ask the hard questions.
- Know the risks.
- Demand a solution that protects your business, not just your payments.

	STALL & SAVE	NEGOTIATE ONLY	REAL RESTRUCTURING
Strategy	Stop paying and save or lump sum	Ask all lenders to reduce terms	Legal/business tools to restructure
Creditor Reaction	Fast lawsuits, 9-406 notices	If one refuses: 9-406 notice	Protected via structural planning
Receivables Risk	High	High	Minimal or fully protected
Outcome	Asset freezes, lawsuits	Lost receivables, revenue freeze	Operations preserved

Next: What the Experts Are Saying

Following this guide, we've included independent articles from two leading secured finance journals—ABF Journal and ABL Advisor—that expose predatory MCA relief schemes and outline what business owners must understand before taking action.

ABL ADVISOR

April 03, 2025, 07:00 AM
By: ABL Advisor Staff Writer

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What Business Owners Need to Know About "MCA Debt Relief" Firms

The 10 Questions Business Owners Must Ask Any "MCA Debt Relief" Firm — Before They Sign!

A guide you can share with borrowers to protect them from false promises, predatory fees, and deeper financial trouble.

If your borrower is drowning in merchant cash advances (MCAs), they're not alone—and they're not without options. But not every so-called "debt settlement" company will actually help your borrower. These firms often create more problems than they solve, leaving business owners worse off and lenders wondering what happened to a once-performing credit.

Help your clients protect themselves by encouraging them to ask the following 10 critical questions. This guide can help preserve borrower relationships, protect your collateral, and avoid preventable portfolio deterioration.

1. "Reduce your MCA payments by up to 80%"? Sounds great—but what happens when just one MCA says 'no'. Yes, payment reductions are possible. But negotiation is only half the battle. If even one MCA refuses to settle, they can trigger a UCC 9-406 notice—legally hijacking receivables and cutting off cash flow overnight. That's game over. Most so-called relief firms don't even know what a 406 notice is—let alone how to defend against it. If the model assumes 100% creditor cooperation, it's one rejection away from collapse.

2. Do you have a plan if the negotiated payments are still unaffordable? Even settled balances can lead to payments the business still can't afford. Defaulting on a settlement sends the business back to square one—only now with less time and fewer options. If the firm doesn't have a follow-up strategy, that borrower is likely headed to a bankruptcy attorney.

3. What does your firm do to help me qualify for traditional funding so I can get rid of MCAs altogether? A true solution means becoming conventionally financeable again. If there's no pathway to further ABL, factoring, revenue based working capital lines, or SBA qualification, the business remains trapped in high-cost capital—barely surviving, never growing.

4. Do you require a nonrefundable enrollment fee before even speaking to creditors? Some firms bury a 15% "enrollment fee" into their contracts—charged upfront, based on the full enrolled debt amount, and completely nonrefundable. That's before a single creditor is even contacted.

Legitimate restructuring firms do not require large, upfront payments just to get started. In fact, the FTC prohibits debt relief companies from charging fees before settling or renegotiating at least one debt. If the firm's business model depends on front-loaded payments, that's a red flag—and you may be paying for hope, not results.

In recent years, many debt settlement firms have realized they can't get away with blatant upfront fees, and while some still try, others have adapted by using their 'no upfront fee' policy as a selling point to appear legitimate. In reality, they've simply shifted their profit model — leaning harder into the more obscure, deceptive clauses.

5. What kinds of hidden or back-end fees do you charge—beyond the obvious? Even if a firm doesn't charge an upfront fee, that doesn't mean they're transparent. Many debt relief contracts are loaded with back-end fees designed to extract maximum profit with minimal results. Key examples include:

> **Inactive Debt Fees:** A flat percentage of your enrolled debt, even if the creditor is never contacted or no settlement is reached. One real-world example: a $100,000 MCA balance was charged $35,000 in fees with zero creditor outreach.

ABL ADVISOR

April 03, 2025, 07:00 AM
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Settlement Extension Fees: For each month a creditor takes longer to accept payment terms, some firms charge an additional 1% of the total debt. A $100,000 debt with a 36-month repayment period could rack up $36,000 in fees—on top of the actual payments.

Success Fees on Reductions Only: Many firms charge 35% of the "savings" they negotiate—but the math doesn't always add up. Example: if they reduce your $100K debt to $75K, they may claim $25K in savings and charge $8,750 as a "success" fee. Now combine that with extension fees, and the cost of the settlement could be greater than the debt "relief" itself.

Early Termination Penalties: If the business owner cancels—even due to firm failure—they may be hit with penalties like "2% of remaining enrolled debt per month in the program." A business that enrolled $500K and cancels after two months could owe $20,000 on top of any prior fees, even if the firm delivered no results.

Ask for a complete, itemized fee schedule upfront and have them walk you through real examples. If they won't, that's your answer.

6. Is your success fee based on closed deals—or just activity? Some firms define "success" as a creditor merely responding. That means the business pays for activity, not outcomes. Make sure success = actual settlements.

7. How do you protect me from UCC 9-406 notices hijacking my receivables? MCAs don't need a court order to redirect revenue. A single 9-406 notice sent to a customer or factor can collapse a business's cash flow in a day. If a relief firm has no legal or structural strategy to prevent this, they are not protecting the business.

8. What's your strategy for handling personal guarantees and judgments? Most MCA contracts include personal guarantees and some even include confessions of judgment. If the relief firm only negotiates the business debt, the owner may still be left personally exposed.

9. If things escalate legally, will your firm back me—or hand me off? If an MCA sues during the process, will the firm represent the business or abandon them? If they don't handle litigation defense, they're only there when it's easy.

10. Can you show me real results from people you've helped? Reputable firms will have real case studies, testimonials, and examples of impact. If they can't show proof, they probably don't have any.

Bottom Line for Lenders

Educating your borrowers protects both sides. Share this guide with clients under MCA pressure to help them avoid predatory traps, protect cash flow, and get back to real funding relationships—like yours.

For lenders finding themselves in the role of trusted advisor to a business owner in MCA distress, ABL Advisor has identified the following companies for referral:

Second Wind Consultants. The clear leader in the MCA resolution space by far. Second Wind's approach typically involves balance sheet and entity restructurings under Article 9.

Rise Alliance. Offers transparent settlement work and cash flow relief, while avoiding the issues and questionable practices outlined in this article. Rise Alliance works with small businesses who may not need a full corporate restructuring, but need new payment terms and a path to conventional refinance. One of very few legitimate settlement options in the lower middle market.

Lawrence Financial. Nationally recognized commercial finance brokerage and loan advisory. Lawrence Financial will work with potential borrowers to qualify for refinance, or otherwise advise on restructuring options.

Breakout Finance. Established junior debt and senior secured debt provider, representing a robust option for MCA refinance and revenue based working capital lines.

abfjournal

March 14, 2025
By: Robert Dinozzi

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The Debt Settlement Trap: How Predatory "Relief" Schemes Endanger Businesses and Lending Relationships

Many business owners turn to debt settlement companies for relief from crushing debt, only to find themselves trapped in another predatory scheme. Robert DiNozzi exposes how these firms exploit struggling businesses, accelerating financial collapse while jeopardizing secured lenders.

When business owners find themselves buried in debt — especially high-cost products like Merchant Cash Advances (MCAs) — they often turn to debt settlement companies for help. Unfortunately, many of these companies are just as predatory as the lenders that got them into trouble in the first place.

For asset-based lenders (ABLs), business debt settlement schemes can accelerate a borrower's financial deterioration — disrupting cash flow, triggering default, and expediting liquidation. This poses a direct risk to secured lenders who rely on predictable cash flow and collateral value to protect their positions, leading to avoidable losses and limiting workout options.

The Truth About Business Debt Relief Companies

The truth is, most business debt "relief" companies do little to genuinely assist business owners. In fact, their contracts are often designed to obscure a predatory business model that prioritizes extracting excessive fees, while offering little to no actual debt relief.

Ahead, an inspection of some of the industry's common contract clauses reveals why these firms often have zero incentive to even contact creditors, let alone negotiate settlements or make payments. That is because as written, their contracts often ensure that the less they do, the more fees they earn.

At the same time, while they typically promise to negotiate settlements and provide financial relief, their primary 'strategy' is most often to stall creditors by advising business owners to stop making payments and instead save money for a future lump-sum settlement. What is sold as a structured plan is, in reality, a delay tactic designed to maximize their earnings at the business owner's expense.

This 'stall and save' tactic is not only ineffective but incredibly dangerous when dealing with MCA lenders. Stalling will invariably trigger aggressive collection tactics, including lawsuits, frozen bank accounts, and even the interception of receivables — putting businesses in an even worse situation than before or forcing them to shut down altogether.

Even more reckless are firms that advise businesses to default on their contractual payment obligations. This not only worsens immediate financial consequences but can also lead to civil tort and fraud claims. Worse still, these reckless strategies don't just harm the borrower — they destabilize entire lending ecosystems.

For ABLs and factors, debt settlement schemes create unexpected repayment disruptions, whether through diverted funds sitting in settlement accounts or aggressive MCA collection actions draining cash flow. This increases the likelihood of loan defaults and forces lenders into crisis management rather than proactive portfolio oversight. What starts as a business owner's misguided attempt at relief quickly ripples into a broader financial threat for secured lenders and investors.

While real debt restructuring solutions certainly exist for distressed debtors, business owners must be cautious of deceptive debt settlement firms. Many of these companies disguise themselves as nonprofits, claim legal backing, or suggest government affiliation to lure in struggling businesses. As the NYC Department of Consumer and Worker Protection warns: "Don't assume that debt settlement companies are acting in (the business's) best interest — or are legitimate."

In this highly profitable industry, the marketing pitches are sophisticated and refined, making it difficult for business owners to identify help from harm.

The Business Debt Relief Industry's Dark Side

According to the Federal Trade Commission (FTC), many debt settlement firms use deceptive marketing, promising massive savings while failing to deliver real relief. In 2023, an FTC official referred to some debt relief operators as "legal loan sharks" who take advantage of businesses in crisis.

The Government Accountability Office (GAO) has also warned that business debt settlement programs often leave companies deeper in debt. Their report found that "in some cases, small businesses end up owing more money than when they started the program due to accumulating fees and interest."

These warnings are not just theoretical — business owners who turn to debt settlement firms often find themselves trapped in a cycle of worsening debt and financial instability. Debt settlement companies market themselves as a lifeline, but their approach typically follows the same predictable and risky formula.

Rise Alliance, a small business restructuring firm based in New York City, has seen firsthand how these 'stall and save' tactics leave business owners worse off. Because the business debt relief model is built around a strategy that is both ineffective and dangerous, it also raises concerns about bad faith practices.

"I would never advise a business to simply stop paying MCA lenders. It's a recipe for disaster. Owners contact us all the time after getting caught up with these debt-relief outfits. Sometimes we can help. But if MCAs have swept their operating accounts and intercepted their receivables, it's usually too late," says Gerard Celmer, COO, Rise Alliance.

Because debt settlement companies are neither restructuring firms nor financial advisories, they have no means or methods of protecting a business' cash flow from the collections actions they are precipitating. At the same time, their contracts are designed to pile fees on top of this harm regardless.

"Getting out from underneath MCA debt is a matter of restructuring and refinance, not wishful thinking and promises," added Celmer.

For business owners, recognizing how these companies operate, understanding their contract terms, and being aware of alternative solutions can be the difference between survival and failure.

The Impact on Secured Lenders and ABLs

For asset-based lenders (ABLs) and factors, the consequences of their borrowers engaging with business debt relief firms can be severe. When MCA-burdened companies enter these misleading "relief" programs, they often stop making payments to all creditors — not just their MCA lenders. This disrupts cash flow, triggering defaults, impairing collateral, and increasing the risk of a full-blown business failure.

More concerning, these debt relief firms typically lack the expertise to properly assess restructuring options that could preserve enterprise value. As a result, by the time a secured lender becomes aware of the situation, the borrower may have already suffered frozen accounts, aggressive legal action, or operational collapse, leaving lenders with diminished recovery prospects. Proactive secured lenders and ABLs should educate borrowers on the risks of debt relief firms and encourage them to seek legitimate restructuring solutions before predatory tactics push them past the point of no return.

By intervening early, lenders can steer distressed borrowers toward viable restructuring options that preserve both the business and the lender's recovery prospects. In some cases, lenders may even be able to facilitate structured solutions that improve the borrower's financial position while protecting their own collateral interests.

abfjournal

March 14, 2025
By: Robert Dinozzi

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Predatory Contracts: How They Work

If a debt settlement company asks a business owner to sign a contract, they must be sure to read the fine print. Many firms bury harmful terms deep in their agreements. Here are some of the biggest red flags:

1. Requiring Large Upfront Fees

A legitimate business debt restructuring firm won't charge thousands of dollars before taking any action. But many firms often include clauses like this in their contracts:

'The client agrees to pay a non-refundable Enrollment Fee equal to 15% of the enrolled debt amount upon signing this agreement.'

If a business is already struggling with debt, handing over a large lump sum doesn't make sense. The FTC warns that it is illegal for business debt relief firms to charge fees before they've settled or renegotiated at least one debt.

In recent years, many debt settlement firms have realized they can't get away with blatant upfront fees, and while some still try, others have adapted by using their 'no upfront fee' policy as a selling point to appear legitimate. In reality, they've simply shifted their profit model — leaning harder into the more obscure, deceptive clauses that follow.

2. Delaying Creditor Negotiations Until You Save a Lump Sum

Many firms instruct businesses to stop paying their creditors and instead deposit money into an escrow account. Their contracts often contain language like:

'Settlement offers will be presented to your creditors once your settlement account accumulates 20% of the enrolled debt.'

This is one of the most dangerous clauses because it directly leads to legal action. MCA lenders do not wait — they seize assets, freeze accounts, and intercept business receivables. By the time the firm acts, it's often too late.

Even more troubling, many of these firms require that escrow accounts be held in their name rather than the business owner's. This not only strips the business of control over its funds but can also give rise to serious legal claims, including tortious interference and fraud. By inserting themselves between the business and its creditors under the guise of "relief," these firms create even greater legal exposure for their clients — turning an already precarious situation into a legal minefield.

3. Claiming Specific Debt Reductions

Be cautious of business debt relief companies that claim they can reduce your debts by a fixed percentage before negotiations begin. Their contracts may include language such as:

'Our program aims to settle your enrolled debt for an approximate 57% reduction of your principal balance.'

No company can guarantee a settlement amount before speaking with creditors. MCA lenders, in particular, rarely accept major reductions or long-term payment plans because their business model relies on aggressive collection tactics. Any company making these promises is misleading you.

4. Hidden Fees That Inflate Costs

Some firms hide their true fees deep in their contracts, using terms like "inactive debt fees," "settlement extension fees" and "success fees." Consider each and how they impact any potential savings or relief:

4.1 "Inactive Debt Fees"

"If within 120 days of a settlement offer, a creditor fails to respond to our settlement efforts, we are entitled to reclassify the debt to an 'inactive' status, which will incur a resolution fee of 35% of the original enrolled debt balance."

These hidden charges mean that even if a creditor never agrees to a settlement, the business still owes the firm thousands in fees.

For example, if a business enrolls $100,000 in debt and its creditor either refuses to settle or is never even contacted, the business could be charged $35,000 in "inactive debt fees." This deceptive clause incentivizes the so-called settlement firm to avoid contacting the creditor altogether — allowing them to collect a 35% fee after 120 days of

inaction. Instead of finding relief, business owners seeking help often end up with even more debt. Unfortunately, this predatory tactic is a fundamental part of many 'debt relief' business models.

4.2 "Settlement Extension Fee"

"For each additional month a settlement's payment terms are extended, an added 1% of the total debt will be charged as a settlement extension fee."

In this example, if the creditor insists on payment in full over 36 months you would be paying an extra $1,000 per month in extension fees, adding up to $36,000 in fees — without reducing your actual debt.

4.3 "Success Fee"

Many settlement firms claim they are entitled to 35% of any negotiated balance reduction — framing it as a "success fee."

Let's break this down with real numbers:

Suppose a settlement firm negotiates a 25% reduction on a $100,000 debt, seemingly saving the business $25,000. At first glance, this might look like a win.

However, when you factor in:

- $36,000 in extension fees
- 35% of the $25,000 reduction ($8,750) as a success fee

The total cost to the business owner? $44,750 in fees — on an original $100,000 debt — just to achieve "relief" of $25,000.

Instead of finding financial relief, business owners can end up paying nearly double what they were "saved," making these settlement arrangements anything but a real solution.

5. Early Termination Penalties That Lock a Business In

If the debt relief company isn't delivering on its promises, the business owner might try to cancel. But many firms make it expensive to leave, using clauses like:

"Should the client terminate the program early, client agrees to pay an early termination fee equal to 2% of the remaining enrolled debt for each full or partial month in the program."

Let's say a business enrolled $500,000 in debt into a program, paying an upfront enrollment fee and expecting assistance. After two months, the MCA lender froze their accounts and seized their receivables, leaving them unable to continue operations. Realizing the debt relief firm had done little to prevent this outcome, the business owner decided to cancel.

With a cancellation penalty of 2% per month, the firm would charge:

$500,000 × 2% × 2 months = $20,000

This means the business, already shut down and out of funds, would still owe the debt relief company an additional $20,000 — on top of any fees already paid. These penalties ensure the company profits even when its service fails to protect clients from financial disaster.

What Real MCA Debt Resolution Looks Like

There are real solutions to unsupportable MCA and other business debt. Unfortunately, too many business owners under stress are taken in by predatory business debt relief firms without understanding the difference. One of the most misleading options business owners encounter is so-called MCA consolidation. While it's often marketed as a form of refinancing, it's usually just another predatory loan in disguise.

Beware: MCA 'Consolidation' Schemes

Some businesses, desperate for relief, turn to so-called MCA consolidation loans, believing they are refinancing their debt into a more manageable structure. In reality, these schemes are often just another high-cost MCA disguised as a solution. Instead of reducing the business's burden, these "consolidation" agreements frequently come with:

- More aggressive repayment terms, sometimes requiring daily or even multiple daily withdrawals.

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- Higher total payback amounts, often stretching the business' distress further instead of solving it.

- Personal guarantees or confessions of judgment (COJs), which can lead to rapid legal enforcement and asset seizures.

Many debt relief companies claim they can "consolidate" MCA debt, but if the new loan carries the same predatory terms — or worse — it's not a real solution. Business owners should be extremely cautious of any firm promoting MCA consolidation without offering a clear path to true financial recovery.

What Works: A Restructuring Plan for MCA Debt

A business should instead turn to a nationally recognized small business restructuring firm — one that works with creditors, including MCA lenders, to alter repayment terms, relieve short-term cash flow pressure, and guide the business toward long-term financial stability. Secured lenders can also be a valuable resource, as many have experience navigating distressed situations and may offer refinancing options or restructuring guidance that avoids the pitfalls of debt relief firms.

For lenders, actively working with a borrower through an Article 9 restructuring or other structured workout can salvage a distressed credit while preserving or even expanding the lending relationship under more sustainable terms. By engaging early, at the first signs of an eroding credit, lenders can help steer borrowers away from predatory settlement firms and toward real solutions that preserve enterprise value and repayment capacity.

Successfully navigating financial distress requires a comprehensive approach — one that prioritizes long-term stability over short-term fixes. Experienced turnaround professionals and lenders recognize that only a holistic restructuring plan can help a business recover from an unsupportable debt position.

When dealing with MCAs, this often means renegotiating repayment terms as a critical first step to ease cash flow. From there, a restructuring firm might work with the business to produce and demonstrate several months of auditable financials and performance based on the newly adjusted terms. The goal? To qualify the business for lower-cost traditional funding and refinance out of high-cost MCAs.

In other cases, an Article 9 restructuring may be the best path — allowing the business to remove MCAs from its balance sheet while positioning it for conventional financing.

Ultimately, every situation is unique and requires a tailored approach. However, there are key factors that always distinguish a legitimate restructuring plan from predatory 'debt relief' practices.

A legitimate restructuring plan will always:

Engage with MCA lenders immediately, rather than stalling or advising a business to stop payments, which only invites legal action.

Negotiate altered repayment terms that keep a business operational while avoiding lawsuits, account freezes, and collection actions.

Provide short-term cashflow relief, allowing the business to stabilize and avoid further distress.

Position the business for responsible refinancing, helping it qualify and transition from high-cost MCAs to conventional, lower-cost financing with the SBA, asset-based lenders, or non-MCA revenue-based lenders.

Beyond the MCAs, underlying operational or management issues often brought about the demand for taking them on. So a holistic turnaround plan involves more than just getting out of MCAs but also addressing the issues that led an owner to them in the first place.

Another hallmark of a true debt restructuring firm is likely clear evidence that the firm has a history of working alongside major banks, corporate law firms, financial advisories and other reputable institutions and professional organizations. Simply put, business owners must do their due diligence if they want to make sure they find a trusted advisor, not a boiler room telemarketer.

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The Bottom Line: What Works vs. What Makes Things Worse

Business owners facing financial distress must look past the sales pitches of debt relief firms and understand the risks. The traditional debt settlement model — stalling creditors and collecting high fees — often leaves businesses in worse shape than before.

By working with a reputable small business restructuring firm that collaborates with major financial institutions, turnaround experts, and legal professionals, a business can escape the cycle of high-cost MCA debt without facing legal battles, bankruptcy, or shutdown.

Before signing with any firm, business owners must take the time to do their research, read contracts carefully, and ask hard questions. The wrong decision can leave a business owner deeper in debt and with fewer options than before.

If a business owner becomes overwhelmed by MCA debt or other business loans, they should consult with a small business restructuring expert before committing to any debt relief program. Taking the right steps now can mean the difference between recovery and financial ruin.

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Article 9 Restructuring: What is it? How does it work?

For CPAs, CFOs and other trusted advisors, understanding this path when a client is faced with insolvency is important.

Business debt relief under UCC Article 9 involves an out-of-court, cooperative restructuring that preserves a business operation in a new, debt-free operating entity, as reported by Bloomberg Businessweek and ABF Journal.

Specifically, an Article 9 restructuring involves an asset sale, conducted cooperatively between a business owner and the bank, to give the business a clean balance sheet in a new legal entity. Given the alternative of closure and liquidation, business debt relief through an Article 9 restructuring benefits creditors as well; who will recover more when a business is preserved and relaunched, than they would if it were liquidated. This is why the Article 9 restructuring is generally a cooperative process, netting a higher recovery value for creditors, and benefiting all parties over the alternative.

Context is important in order to understand why the bank would (perhaps counter-intuitively) cooperate in a process that removes debt from a business. It's important to remember that when a bank liquidates a business, this is a last resort. Not only do banks recover very little from auctioning off used business assets, but they must spend time and money in order to do so. Recovery value is nominal and uncertain.

Furthermore, it is very often the case that a deficiency balance will remain after liquidation. There is commonly a personal guaranty on any remaining deficiency, leaving former business owners forced to meet the liability personally or file a personal Chapter 7 bankruptcy. When a business is liquidated, creditors left with personal guaranties benefit very little when their guarantor has become personally insolvent. Very often, these defaulted loans are "charged off" to a third-party debt collector, with creditors, again, recovering pennies on the dollar.

Through the Article 9 restructuring process, the business operation is transferred into a new legal, debt-free entity. Business debt remains behind in the previous (and insolvent) operating entity. By result, the business is separated from the debt, and therefore, the distress threatening its viability. This gives the business a real second chance, and gives creditors the chance to recover more than they would in the alternative scenario of closure and liquidation.

Debt relief through a UCC Article 9 restructuring might be considered a kind of compromise in this context. By removing debt from the business, the bank's guarantors will continue to earn. In that way, personal guaranties on loans removed from the business can be settled in a way that is affordable, but also in excess of what the bank would recover if the business failed.

Is This Bankruptcy? No.

Restructuring under UCC Article 9 can be understood as an alternative to bankruptcy. Unlike a bankruptcy filing, the Article 9 process is out-of-court, does not require lawyers, and is executed as a private negotiation between borrower and lender. A little more context is required here as well.

In a Chapter 11 bankruptcy filing, the intended outcome

is the preservation of the business and full repayment to all secured creditors. The business submits a plan to repay its obligations over a five-year period. The system was designed to give an overleveraged business a second chance, while also facilitating recovery for creditors, but there is a glaring problem: It doesn't work very well. The vast majority of small and medium-sized businesses stand very little chance of successfully completing a Chapter 11 plan. There are many reasons for this, including the expense, time and loss of control over operations.

Approximately 90 percent of small and medium-sized businesses (SMBs) who attempt a Chapter 11 plan will fail, being kicked out and often converted to a Chapter 7 liquidation. From the bank's point of view, this is the worst of outcomes. Not only are they back in the liquidation scenario, but they had to incur even more expense and time in the process. So when a business owner attempts a Chapter 11 plan as a last resort, despite the considerable expense and low likelihood of success, the bank is forced to invest further time and money.

A Cooperative Solution Preserves the Business: Debt Relief Through Article 9 Restructuring.

With borrower consent (from the business owner), the bank can elect not to liquidate at auction, but instead to 'sell' the assets into a new operating entity. Typically, this restructuring will involve an 'asset-based loan' to facilitate the purchase of the business assets from the bank.

In the process, all other debt is removed from the business operation, as it is given a clean balance sheet. Only the business assets and operations transfer into the new operating entity.

Simply put, think of it as the bank selling the assets to the new entity, rather than at auction. When assets are liquidated at auction, the business is ended. When assets are sold into a new operating entity, the business is preserved. A preserved business can keep producing value, and this is how even creditors benefit from a UCC Article 9 restructuring of an otherwise insolvent business.

Personally guarantied debts may still remain in the old operating entity, along with other unsecured debts, vendor debts, etc. But by preserving the guarantor's business, and their ability to earn from it, all creditors can recover more through reasonable settlements, than they would if the business were liquidated. Beyond that, there is an obvious benefit to vendors who preserve relationships with the business, and to employees who preserve their jobs.

In Conclusion

Debt relief through a UCC Article 9 restructuring can be understood as a cooperative solution designed to preserve a business and benefit all parties over the alternative of closure and liquidation. UCC Article 9 restructurings arose as an out-of-court alternative to bankruptcy, whereas bankruptcy has failed both creditors and owners the majority of the time. By providing for a cooperative solution, Article 9 relief can ensure the survival and renewal of a business, while also ensuring creditors recover more than they would in liquidation.

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RISE Program

Our restructuring solutions work for businesses of all sizes, not just the largest corporations deemed too big to fail. Whether you're a small business with outstanding SBA obligations, or an enterprise-level company with a complex board of directors, we create a single, clearly outlined path to resolution.

We resolve unsupportable debt and restore cash flow using tools that go beyond negotiation. When necessary, we implement structural protections—like Article 9 balance sheet restructurings—to shield your business from lawsuits, bank levies or UCC 9-406 interference.

Restructuring
This preserves business value to the benefit of all parties including business owners and their creditors. As a pragmatic alternative to more debt, bankruptcy or failure, restructuring offers the most ethical and certain path to resolving distress while preserving businesses, jobs and economic activity.

Insulate
We immediately protect operating accounts, receivables and customer relationships from a legally unwarranted creditor disruption. Even if a lender turns hostile, your revenue continues uninterrupted, and vendor and client trust remains intact.

Strategize
This is where long-term stability begins. We assess the true health of your business and craft a custom strategy—whether that means refinancing out high-cost debt or executing a full corporate balance sheet restructuring to rebuild a clean, fundable capital structure.

Emerge
The RISE Program will settle the majority of your debt, resolve your personal guaranties and allow you to emerge from distress.

After restructuring, your business operates on a solid new foundation. We remain by your side—tracking KPIs, strengthening operations and ensuring you stay on a path of sustainable growth, never again vulnerable to over-leverage or predatory capital.

Rise Alliance is the MCA settlement and personal guarantee resolution division of Second Wind Consultants.

Our Mission

At Rise Alliance, a division of Second Wind Consultants, our mission is to resolve distress in a way that protects the business itself—because protection preserves value for owners, creditors and communities alike. We believe every business deserves a transparent path forward, not the false promises and value destruction of conventional debt relief schemes. By uniting the nation's largest network of lenders, attorneys and restructuring professionals, we deliver resolutions that resolve personal guarantees, safeguard operations and restore the freedom to grow. We are driven by the conviction that preserving value is not only a financial solution, but a moral obligation.

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