

Why Bankruptcy Can Still Help Businesses Trapped by Merchant Cash Advances

By Daniel Staeven, Esq.

A recent bankruptcy ruling confirms that when a lender has a judgment, options still remain for small businesses

Running a small business carries many complexities, and those can intensify when a struggling company looks for funding to keep operations going. And if a bankruptcy scenario arises, there can be traps lurking for those searching for financing help.

One common option for small businesses in Maryland and Washington, D.C. is turning to merchant cash advances, or MCAs, when they need money quickly and a traditional bank loan is out of reach.

On the surface, the pitch sounds simple and tempting: A funding company gives the business a lump sum today in exchange for a share of future sales. In practice, the business usually agrees to let the funder pull a fixed amount out of its bank account every business day or weekly through automatic withdrawals.

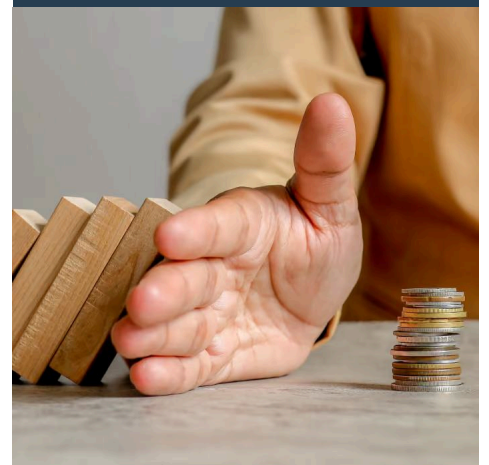
But there's a risk for small businesses. These arrangements can carry an effective cost far higher than a conventional loan. When sales slow down and the payments become impossible to keep up with, the funder often moves fast. They can file a lawsuit, obtain a judgment, or enforce a "confession of judgment" that the owner signed at the very start. Many owners assume that once the funder has a legal judgment in hand, the fight is over and nothing more can be done.

A recent decision from a federal bankruptcy court shows why that assumption can be a costly mistake.

A 2026 Decision Worth Knowing About

A June 2026 case is *Black Pearl Vision, LLC v. G & G Funding Group, LLC*, which

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carries important implications.

The debtor was a manufacturer that had signed an agreement labeled as a purchase of its future sales, commonly referred to as receivables. Over roughly six months, the company paid the funder far more than the loan it had received—paying out more than \$233,000 after taking in about \$192,000. The business eventually filed for Chapter 11 bankruptcy. But before that filing, the funder had already won a default judgment against the company in New York state court.

After the bankruptcy case began, the business asked the court to unwind the agreement and recover the payments as “constructively fraudulent transfers” under Section 548 of the Bankruptcy Code. In plain terms, that federal tool allows a financially distressed company to claw back money it paid out when it did not receive reasonably equivalent value in return and was insolvent at the time. It is a remedy built into federal bankruptcy law to protect a struggling business and its creditors.

The funder tried to have the case thrown out on technical grounds. It argued that the earlier state-court judgment had already settled everything and that the bankruptcy court had no business revisiting the deal. The court rejected each of those arguments. The reasoning came down to one key point: The power to unwind a fraudulent transfer under Section 548 does not even exist until a bankruptcy case is filed. Because that claim could not have been raised in the earlier state lawsuit, the prior judgment did not block it. The court also declined to treat the state judgment as having decided the deeper question—whether the deal was truly a sale of receivables or, in economic reality, a very expensive loan.

The funder did win one narrow point. The court held that this corporate borrower could not use New York’s criminal usury law as a sword to void the agreement outright. But that ruling was limited, and the heart of the case—the claim to unwind the payments—was allowed to move forward.

Why This Matters for Maryland and D.C. Businesses

First, a prepetition judgment is not necessarily the last word. Bankruptcy creates federal rights and remedies that simply did not exist before the case was filed. A funder that moved first and secured a judgment before bankruptcy has not necessarily locked in that victory for good.

Second, labels can be misleading. Whether an agreement is called a “purchase of future receivables” matters far less than how the transaction actually worked. Courts increasingly look past the paperwork to the economic reality of the deal, and that is a fact-heavy question that usually cannot be decided at the earliest stage of a case.

Third, the details of who signed matter. This ruling involved a corporate borrower. Individual owners who signed personal guarantees may stand on very different footing, and their rights deserve a separate look with legal counsel.

A note on where this applies: The decision comes from a bankruptcy court in North Carolina, and it is not binding on courts in Maryland or the District of Columbia. But it rests largely on Fourth Circuit and U.S. Supreme Court principles. Maryland sits within the Fourth Circuit, which makes the reasoning especially relevant here in these areas. The core federal principles—that avoidance powers arise only in bankruptcy and belong to the bankruptcy court—apply nationwide, including in the District of Columbia.



Subchapter V: A Practical Path for Small Businesses

For many small businesses drowning in merchant cash advance payments, Subchapter V of Chapter 11 is often the right tool. Subchapter V is a streamlined version of Chapter 11 designed specifically for smaller companies. It is generally faster and less expensive than a traditional Chapter 11. At the same time, it lets the owner stay in control of the business, and it provides a structured way to reorganize—and, where appropriate, challenge—burdensome obligations, including aggressive merchant cash advance arrangements.

To qualify under this, a business generally must fall under a set debt limit. That limit has been the subject of ongoing legislation at the federal level, so the current figure should be confirmed before relying on it. As of the date of this article, the current debt limit is \$3,424,000.

The takeaway for struggling businesses is straightforward. A merchant cash advance that once looked like the only option, and a judgment that once looked like the final word, may both be open to challenge once a business files for bankruptcy protection. The economic reality of the deal—not just its label—is what a bankruptcy court will examine.

How We Can Help

If your business is struggling under merchant cash advance payments—or if a funder has already obtained a judgment against you—there may be more options than you think. Frost Law represents businesses across Maryland and the District of Columbia in Chapter 11 and Subchapter V bankruptcy matters, on both the debtor and creditor side. For business owners in other areas, Frost Law may be able to help connect you with someone in your area.

The Frost team can review your agreements, assess whether payments may be recoverable, and help you chart a path forward. Please contact **[Daniel Staeven at Frost Law](#)** for further assistance, or visit our **[bankruptcy resource center](#)**.

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