CREDIT & COLLECTIONS
HANDBOOK

C2C Resources has helped over 25,000 businesses collect their accounts receivable.

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Handbook

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INTRODUCTION:
Why this eBook?

For some people, the business of Collections can conjure some pretty unflattering images. And the reality is, in your own business, you don't want to be the stereotypical collections bully who stars in your customer's worst nightmare. Quite the opposite! You want a business relationship that has positive staying power even if there are rough spots. Wouldn't it be nice if you didn't have to deal with collecting on bad debts … *ever*?

At C2C Resources, we help our clients minimize the need for our services by teaching them how to effectively collect in-house, which is why we've created this eBook. While that may seem counter-productive to the health of *our* business, we think differently.

At C2C Resources, we help our clients minimize the need for our services by teaching them how to effectively collect in-house…

For one thing, Collections will always be a necessity. Even in a healthy economy, the need for Collections services remains. There will always be occasional bumps in the road for some customers as well as scammers who don't want to honor their commitment. And besides, it's in our best interest to teach others what we know, even if it spares you the need for our services. In the event that you end up needing an agency, you'll want a company you can trust. We believe our approach helps us earn that trust.

We hope this eBook helps you navigate the Collections waters.

SECTION ONE

In-House Collection Strategies

There are many things to consider when operating a business. Among the long list of considerations is how to handle past due accounts. Like so many things, being prepared with an action plan *before* you need it is smart business.

While there's no magic formula for eliminating bad debt altogether, you can *minimize* your bad debt overall! A solid Credit and Accounts Receivable policy can help you do an effective job up--front in managing how and when credit is extended and how and when to follow up on past due accounts.

Establishing the credit worthiness of your potential client is of paramount importance when managing your Accounts Receivables. But even if you do everything right in making credit decisions, you're still likely to end up tackling the challenge of unpaid invoices.

A well-thought-out collections plan has the potential to minimize your past due accounts and perhaps even spare you the need for outside assistance. The following information can help you to do just that.

CHAPTER ONE:

CREDIT WHERE CREDIT IS DUE

Extending Credit to Your Customer

Among the many decisions you face as a business owner, one of the big ones is to whom you grant credit and how much you agree to grant. Pretty much everything affects your bottom line in some way. The risks involved in extending credit rank high on the list of things you must take into consideration.

What will your terms be? Where's the limit for you? It comes down to this question: How big of a risk can your business afford to take?

While there may be many factors in your situation that will determine the answer to this question, your profit margin certainly plays the most significant role. If your profit margin is high, you may be comfortable accepting a higher rate of bad debt in order to increase your sales. If your profit margin is low, bad debt may leave too big a ding in your armor to take much of a risk at all. Only you can make these determinations as *you* formulate your policies. But once your policy is in place, you'll be better able to tackle the credit extension decision on a customer-by-customer basis.

CHAPTER ONE:
CREDIT WHERE CREDIT IS DUE
Extending Credit to Your Customer continued

Most people know the basic pieces of information needed when establishing credit with a new customer. This information is gathered through a Credit Application (we've provided two in this book) and typically includes:

2. Business name and officer(s) names.
2. Type of entity (i.e., partnership, sole proprietorship, S-Corp, etc.)
3. Address of business and length of time at that address and phone number(s)
4. Banks where business accounts are kept, including phone number and address
5. Credit references
6. Applicant's accountant

Once the above information is gathered, it must be then processed and verified. The larger the credit limit, the deeper you need to investigate. Start with calling references but since applicants typically give their best references, ask other people in your professional network about any experience with the applicant. Among the best-known companies for additional information gathering are InfoUsa, Experian, Cortera and Dun & Bradstreet. After you've collected and verified the information, there's another step you can take.

If you're entering into a relationship with a business that processes a meaningful amount of sales by way of Credit Cards, then there's something more you can do right from the beginning of your business relationship.

This tip may prove to be an invaluable tool to you in the course of your relationship.

Consider requesting two to three months worth of Merchant Statements from your new customer. Make this request right from the start, when the customer is most amenable to the idea. Here's why you want to do this:

The information found on your customer's Merchant Statements give you a baseline of their business as it pertains to Credit Card sales. At the beginning of your relationship, there's not much you need to do with these documents other than keep them on file. Down the line however, if you encounter slower payments or non-payment from your customer, those baseline documents will come into play. By comparing the original set of statements, with a set of current ones, you'll be better able to verify any claims made about those late payments. Are credit card sales down? Merchant Statements can help you verify this claim and, added with any other information you gather, can help you determine the next and best action.

Granting credit is risky, no matter how much up-front work you do! Even if you do everything correctly, there will likely be times when you must play the role of a Collector. It's not the fun part of your business, we know, but there are ways to make the process less painful and, if done right, you may even enrich your relationship with some of your customers.

For more information on extending credit, visit **here** to download out complimentary eBook, **How to Extend Business Credit**.

CHAPTER TWO:
RECOMMENDED COLLECTION TIMELINE

Once you've established your Credit policy, it's time to develop an Accounts Receivables policy. When that's done, our best advice for timely collections is this: Stick to your policy like glue!

From this point on, it's helpful to have a prescribed plan or a timeline in which to send collection notices and make phone calls for past due accounts. A timeline will help you collect in an organized, fair and reasonable manner avoiding too few contacts that don't communicate the seriousness of the matter or too *many* that can be just as counter productive.

Sending the right amount of reminders at the right time can lead to successful debt recovery. The following is a timeline we've built based upon a 30-day credit term. Of course, you'll need to adjust the timeline to match your credit terms.

Day 0....Send Invoice

Day 15...For new customers or large invoices, a pro-active call to confirm that they received your invoice and that the shipment is correct is a good way to avoid a dispute later and to make sure your invoice is in line for payment.

Day 35...Past Due reminder notice

Day 45...Send Past Due follow up notice on smaller accounts or make initial past due call on larger accounts. If time permits on smaller accounts, a call is better than written communication at this stage.

Day 55...Initial past due call or follow up call depending on day 45 action

Day 65...Termination of credit notice or send a 60-day demand notice

Day 80...Final Demand phone call

Day 90...Final Demand letter

Critical to the success of this timeline is *follow up*. If your client makes a promise, *follow up* if they fail to follow through. If things get to the point that a Final Demand letter must be sent, stay true to the actions you state in it. If you say that you're turning the debt over to a 3rd party collection agency, *do it*. If you do not take the action that you've promised, you'll lose credibility with the customer in future collections efforts.

CHAPTER THREE:
COLLECTION CALLS

In dealing with a difficult challenge like debt collections, there are two sides of the fence: Your side and your debtor's. Both sides of the collections fence represent real people with real challenges.

You sit on the collector's side with your own set of challenges, one of which is to resolve the overdue bill at hand. So, as the collector, what can you do on YOUR side to get that money paid while at the same time, retaining the customer?

Many things enter into this equation, but one key component is also profoundly simple: It's found in the ways you express respect throughout the process. Most positive outcomes happen as a result of how we handle ourselves when attempting to collect a debt.

It's important to note that typically, when your customer owes you money from past due accounts, the reality is, he owes other people, too. It's not that he can't pay YOU. He probably can! It's that he can't pay *everybody – therefore*, he's paying nobody. You want to be that *one person* your customer decides to pay over the many other creditors making the same demand. It's important to stand out from the crowd. While other collectors may be busy screaming and making threats, you remain professional, respectful and amenable to the ways he might resolve the debt. If you had to make a choice, whom would you rather pay?

A great starting point for any collection call is to set out to extend 3 courtesies during the conversation. By doing these 3 things, you're likely to gain the same respect your customer sees you giving and thereby come to a resolution more quickly.

1. The Courtesy of Listening

The more you understand the situation your customer is facing, the better you'll be able to help resolve the matter. Give them the time they need to fully explain. Take notes and repeat the problem back to them to be sure you understand. Your time spent listening communicates respect while at the same time provides you with the information you need to resolve the matter.

2. The Courtesy of Calm Professionalism

Most customers truly want to pay you. Their debt is a burden they'd like to unload. When you listen, you'll quickly learn who falls into that category. These are the kinds of customers who typically respond well to helpful, useful solutions or agreements and will appreciate your business even more when you work with them to find those solutions. Regardless of how your customer responds, calm professionalism will serve you well. If things heat up – keep your cool. Your calm responses can often defuse an escalating conversation and bring it back around to a resolution that works for both you and your customer.

3. The Courtesy of Firm Flexibility

Flexibility opens you and your customer to options in tough situations. This can be a relief to you both, because the fact is, while a same-day resolution is desirable, it's not always possible. To be flexible means you have more ways to figure this thing out. Stay firm on the terms you ultimately do agree upon and put it in writing. If an extensive payment plan seems to be the best resolution, follow through on your end to ensure the terms are met. Your customer will appreciate your balance of firm flexibility. In the end, it helps to relieve them of the stress of that particular outstanding bill.

If you keep these three things top of mind, you'll be off to a good start when making your first call.

CHAPTER THREE:
COLLECTION CALLS continued

The First Collections Call Strategy – (Day 45)

Making collections calls can be one of the most challenging aspects of operating a business. Past due accounts can even pile up simply because debt collection calls are awkward and uncomfortable to make. But you can ease some of your own apprehension just by preparing for the debt collection calls before you make them.

Do these things before you pick up the phone:

1. Make a list of excuses

Make a list of the most common reasons and excuses for non--payment you've heard in the past. Then, make a list of your best possible responses. What worked before? What didn't? Go ahead and rehearse your responses out loud.

For example, it's not at all uncommon to hear the old--standby, "the check is in the mail." And it's GREAT if it is. But since you don't know for sure, you'll want to press for a resolution. Consider a response like, "Great! May I have the check number, amount and date sent so I can make sure it posts correctly?" With a response of this nature, you'll not only be taking a helpful tone but you'll also be moving toward a speedy debt recovery.

Obviously, disputes and cash flow objections will be a common issue. Read chapter five for tips on handling this.

2. Know the specifics of the past due account

Make sure you have the following things at your fingertips in advance of the collections call. Having this information will help you maintain control during the course of the conversation.

How much is owed?
What are the terms of the sale?
What did they purchase?
When was the payment due?
Are there other open invoices beyond what you're calling about?
What is their payment record with you?

3. Prepare to listen with a positive attitude

A positive disposition and upbeat voice often help to set a good tone for a past due account call. Take a few minutes to think positively and prepare your self for a professional, pleasant and respectful conversation. Be prepared to give your customer the time she needs to explain the circumstances.

CHAPTER THREE:
COLLECTION CALLS continued

The First Collections Call Strategy – (Day 45)

Take notes during the call, jotting down any promises made or reasons for delay. Keep those notes in your customer's file and then follow up according to your timeline should those promises be broken.

Your demeanor during a call is everything. Remember your goal: To collect the money owed the same day if possible AND retain the customer. You're more likely to accomplish both by being prepared with the information you need and by keeping a positive, professional attitude.

The following script may help you in preparing for a first time collection call.

Initial Collection Call Example Script

On this call your approach may vary depending upon the tenure and history of the client. On larger or more established accounts you will not want to push for payment the same day if they have promised to pay the invoice or get it in line for payment.

Hello [customer name] this is [your name] with [your Company name]. I was just calling to follow- up on [invoice#_____] for [$ _____]. According to my records it is [XX] days past due. Since we have still not received payment, I wanted to make sure that there is no problem with the invoice and if there is no problem, determine when payment will be made. (If it's an established or larger customer, you may want to rephrase: "According to my records, there is a balance outstanding.")

If this is a new customer or a previously late customer, end the call with:

Great! As you know our terms are net 30 and we try to make sure all of our customer's accounts are kept current with full purchasing power. I will look for the check in the mail over the next few days.

For the larger or more established customer, end the call with:

Great! I appreciate your help and will look for it in the mail over the next few days.

If it is scheduled for payment later or if the customer is vague about his aim toward resolution, then you might respond with:

As you know our terms are net 30 and this invoice is now [XX] days old. Is there anything that can be done to expedite this payment and get it in the mail today?

CHAPTER THREE:
COLLECTION CALLS continued

Second Collections Call Strategy – (Day 55)

Chances are, when you make a second collections call, it's because a promise has been broken. If you've followed our suggested timeline, you've sent an email or two, made a call and still see no resolution. In the course of your last call you may have been told, "The check is in the mail" or "I'm mailing it today". Whatever is the case, there you are, still waiting for a payment that's been promised.

It's time to make another call.

First calls are typically friendly reminder calls. And while all the rules of respect and professional engagement apply for second calls (and any follow up for that matter), it's necessary to step--it--up a bit, so to speak. The situation is serious and in fairness to you and your business, payment is expected.

Take note in the following script of the more serious tone.

Broken Promise Call Example Script

Hello, [customer name] this is [your name] with [your Company name]. I am calling regarding [invoice #] for [$$]. When we spoke on [date] you had indicated that a payment would be made on [date] in order to bring your account current.

If customer says payment is in mail:

Great! Can you tell me when that check was put in the mail?

If the date mailed is beyond 5 business days then respond with:

I wonder if there is a problem on our end because that check should have reached us by now. Can I confirm the address you mailed it to and to whose attention? Do you happen to have the check number as well?

At this point, let the customer know that you will research on your side and if not found or received in the next few days you will contact them to stop pay and reissue. It is more likely that the check was mailed later than the date they stated or not at all. You have simply provided them an opening to avoid embarrassment. Call again if you don't receive a check within a couple of days to have them issue a new check. Request a faxed copy of the check and if you accept ACH payments, it is best to suggest handling it that way on this follow up call.

If customer has not made payment:

It is important that we get this resolved today in order to avoid your account being placed on credit hold. [Suggest ACH payments if applicable. If not, ask for a fax of the check that is being sent in the mail.]

It is important to validate your customer's intentions with some type of immediate payment or action so you avoid further waiting.

CHAPTER THREE:
COLLECTION CALLS continued

Final Demand Call – (Day 80)

You've sent emails. You've made calls. You've extended courtesy and respect and still no payment. You're frustrated by this point, and understandably so.

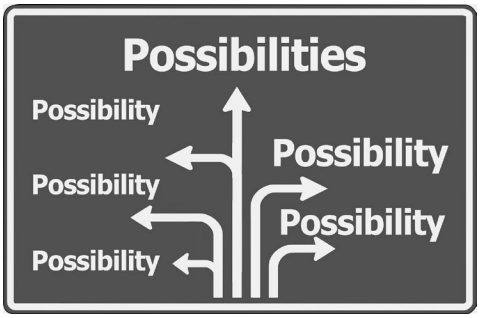
Your final call should be a short one. You've already heard the reasons and excuses. You've already verified the claims and you've already done your best to work with this customer. So, what's left?

Because you're likely pretty annoyed at this point, it's more important than ever to prepare yourself mentally before you pick up the phone. You know enough about the situation to know your customer is under significant financial stress, so there's no point in allowing your frustration to get the better of you and make matters worse.

Set your own stage for the call by remaining calm, respectful and professional, while firmly stating the facts of the situation. Your customer deserves to know what action you intend to take should they be unable to resolve the debt as a result of the final call.

Final Demand Call Example Script

Hello, [customer name] this is [your name] with [your Company name]. I am once again calling regarding [invoice #] for [$$]. I am concerned since this account is seriously past due. I am hopeful that we will be able to resolve this account today since we are almost at the point that our policy requires us to refer this to a 3rd party.



Your customer at this point may respond in a variety of ways. If they claim the check is in the mail or they promise to pay that same day, then follow the steps that are outlined in the second collection call. If they refuse, then send out your final demand letter. We suggest this be sent via U.S. Postal service to set it apart from the emails you've sent previously.

If they claim a cash flow problem (see chapter 5), then try to establish a reasonable payment plan that requires some type of immediate payment and defined payment of the balance. If your customer needs your product, you might consider allowing them to purchase on COD once a certain portion is paid off. If they are having trouble with other vendors, the need for your product may be a good incentive for them to put your bill at the top for resolution.

After this call, you're back in the waiting game to see if your customer follows through. If not, you need to follow through with the action you said you'd take. If you stated that you would involve a 3rd party, then take that action. It's imperative that you do what you say you'll do so that you'll be taken seriously should this issue arise again.

CHAPTER FOUR:
COLLECTION NOTICES

Just like collection calls, collection notices need to make a reasonable progression from friendly reminders to a more serious tone. The very first notice is best approached under the assumption that the invoice is past due simply because of an oversight. With each contact, the tone becomes more serious. It's acceptable to mail notices, but it's more common to use email and save the regular mail for the final demand.

Collection notices have two goals:

1. To get you paid
2. To keep customer good will

Collection notices typically go to two types of customers:

1. Those who have hit a tight spot, but really do want to pay
2. Those who are facing a failed business, who have given up and are unlikely to pay

The first customer probably wants to be current every bit as much as you want to be paid. Just like your first collection phone call, your initial notice should be of a friendly reminder nature in the hopes of retaining and furthering your existing positive relationship. Often, a little nudge will get you a check so you can close the file and move on to other matters.

The First Notice (Day 35)

You need the invoice number, the amount of the invoice and the date the payment was due to craft a solid collection notice. There's no need to delve into the reasons you need to be paid. This is true in any past due communication. You need to be paid because you provided goods or services. That's business and your customer operates from that standpoint, too. All you need for your notice is the facts.

Refer back to our Collections Timeline to help you decide when to make a call, when to send a notice and when to begin using a more forceful tone. Naturally, starting out with a friendly reminder notice is a fair and professional beginning. Without the benefit of understanding the circumstances surrounding the past due account, it's best to assume it's a simple oversight that a friendly reminder notice will help to resolve.

CHAPTER FOUR:
COLLECTION NOTICES continued

The First Notice (Day 35)

To help you craft your initial reminder, consider the following example notice as a guide:

First Notice Example

Dear [Customer name],

Thank you for your recent business. We look forward to a continued business relationship.

I just wanted to send you a quick reminder regarding invoice number [0000] for [$$] which is now past due. If payment has not already been sent, please send your payment today in order to keep your account current.

Should you have any questions or problems regarding the invoice, please give me a call. Thank you for your attention to this matter.

Sincerely,
[your name]

Notice that the tone is friendly but professional. The matter is serious and you don't want that fact to get lost in the words you choose. But at the same time, you don't want to do anything other than assume an oversight in your first communication.

Taking a friendly reminder stance when making your first contact about a past due bill is a great way to initiate action while promoting good will with your valued customer.

CHAPTER FOUR:
COLLECTION NOTICES continued

The Second Notice (Day 65)

The Collections process can be a frustrating one. You start with an overdue invoice. That's aggravating enough. So, you send a friendly reminder notice in the hopes that a letter alone will prompt the desired action: a check in your mailbox. When that doesn't work, you pick up the phone, listen to the reasons, score a few promises and then you wait some more.

In some cases, what happens during the process of collections with any given customer will determine if you really want to keep doing business with them at all. But if you do, you'll want to make a reasonable progression in your tone from friendly to serious with a balanced number of notices and calls.

Consider using something similar to the following to exact a more serious tone.

Second Notice Example

Dear [Customer name],

We do value your business, but are concerned that your past due balance of [$$] has not been paid.

Our credit policy requires that we place your credit privileges at [your company name] on hold until payment is received on the outstanding balance.

We do not make these decisions lightly, but it is important that we are fair to our business and that we require our customers to honor their commitment to our credit terms. Please give me a call if there is a problem in sending your check for the past due balance today. Thank you for your attention to this matter.

Sincerely,
[your name]

Should you find that your notice and phone calls don't solicit the response you desire, you'll be left with no choice but to send the final demand letter.

CHAPTER FOUR:

COLLECTION NOTICES continued

The Final Demand Letter (Day 90)

It's certainly the hope that you'll never get to the point of needing to send a Final Demand Letter, but in the event that you do, we recommend sending it through the regular mail service. As previously stated, this will set it apart from the email notices you've been sending, which will put a further sense of urgency on the matter.

By the time you get to this point, you've likely sent quite a few notices and made a number of calls. Naturally, you've heard every reason and excuse for non--payment and you've reached the end of what you feel you can do in-house.

A Final Demand Letter is a short one. Your conversations with your customer have already run their course to no avail so, you're left with the fact that you must turn the account over to a third party for collections if the final date is passed without payment. The following is an example of a Final Demand Letter:

Final Demand Letter Example

Dear [Customer name],

Despite our continued requests and patience, your past due balance of [$$] remains unpaid.

We have reached the point that unless the balance is paid in full or satisfactory payment arrangements are made by [final date], we will refer your account to our collection agency.

This is not a step we like to take but you have failed to honor your commitment to us when we extended your company credit. We did our part and are hopeful that you will do your part now. I am sure you will agree that a good credit rating is important for business. This is our final request for cooperation.

Sincerely,
[your name]

Often times, the mention of a collection agency is enough to garner the reaction you want: a check in the mail. Sometimes, it's not. If the date you cited in your letter comes and goes without a check in the mail, then you must follow through and contact your collection agency.

CHAPTER FIVE:
HANDLING DISPUTES AND CASH FLOW OBJECTIONS

Disputes and cash flow will be your most common reasons for non-payment.

Disputes

Disputes that are brought to your attention early are more likely to be valid. But regardless of when your customer raises a dispute, it is important to listen to their story before responding and then act quickly to resolve the matter.

It's not unusual for a dispute to involve only a *portion* of an invoice rather than the entire amount. In those cases, focus on getting the undisputed part paid immediately, then focus on further investigation of the disputed portion.

Quick attention to a dispute is key to maintaining customer good will and to getting paid. The more quickly you respond, the more quickly you'll be able to determine if it is just a stall tactic or a valid claim. In the course of your conversation, take special note if a customer claims that their salesperson told them something that differs from your payment terms or price. Based on your relationship with your salesperson, you'll likely know immediately if the customer's claim is a possibility.

If you determine that your customer's claims are valid, you may decide to make a reasonable modification to the invoice while clearly explaining future policy or pricing. If the dispute is not valid, calmly explain your position and request payment.

Cash Flow

Your customer's business can and possibly will experience temporary cash flow problems from time to time. Your willingness to work with them during lean times can lead to a good long--term relationship. Your goal is to validate your customer's claims so you can work toward a solution that is fair and reasonable to you both.

Start by listening fully to what they have to say about the situation. Let them take the time they need to give you the full version. From there, explain that you understand their situation and that your company has a policy to work with good customers who experience temporary cash flow problems. This may help to set your customer at ease.

In the course of your conversation, allow them to propose a workable payment solution that includes the details of where this money will come from. If the timeframe is reasonable, then accept the plan and confirm it in writing. Ask that they acknowledge the plan by signing it as well. The amount of the invoice and history of the customer are also variables that you will need to consider. Usually, payment--installments made over a 2 to 6--week period that includes a same--day payment is considered a reasonable agreement, and one you should take. Keep in mind that if you agree on a schedule of payments, ask for post dates before you end your conversation. If it's going to take longer, then you'll need more information that you'll then need to verify.

CHAPTER FIVE:
HANDLING DISPUTES AND CASH FLOW OBJECTIONS continued

Once you feel satisfied that you have the details, it's time to validate your customer's story. Start first by talking to other creditors. Is the story consistent? Your next step is to talk to your customer's bank. If it's a small bank or if it happens to be the same one that you use, you might be able to verify over the phone whether or not a check would clear if your customer were to issue you one.

If your customer does a meaningful amount of business through credit card sales, then request the last 6 months worth of Merchant Statements. This will tell you how much money is acquired through monthly credit card sales and if sales have dropped. It's even better if you have Merchant Statements on file from their initial Credit Application to compare to.

The knowledge you gain through these two phases will help you determine if the cash flow claim is valid and if a payment plan is the best option or if things are far worse.

From all of the information you've gathered through understanding and validating the story, you'll be better equipped to answer the big money question for yourself:

Do they or do they not have the money to clear the debt they have with you?

If your conclusion is that the business is viable, but going through a temporary cash flow problem, then establishing an extended payment plan over several months might be your best option. As always, getting a down payment and small payments weekly is more preferred than larger payments monthly.

If your conclusion is that your customer really has no money (or a very limited amount) to pay you and if you believe there's a strong likelihood that your customer won't be able to financially honor an extended payment plan, then it's time to consider a settlement. Once your customer realizes this is the action you plan to take, it may be motivation enough for your customer to clear your debt with whatever limited funds they have or can muster up by some other means.

While taking a settlement isn't the best scenario, it's not the worst, either. Worst case would be not getting paid *anything*. And we'd all agree on this point: getting paid *something* is always better than getting paid nothing.

CHAPTER SIX:
SKIP TRACING

When collecting on a debt commercially, the term skip tracing is really a bit of a misnomer. Skip tracing is actually the pursuit of an *individual*. Commercial Collection Agencies aren't just looking for individuals. They are typically in pursuit of companies, instead. Therefore, a more appropriate term would be *investigating*.

When we launch an investigation for a client, we start with a simple Internet search for the most basic of information: names, addresses and phone numbers for the company in question. Once that information is gathered, we contact the Secretary of State. This is how we learn if the company is a sole proprietorship, a partnership or a corporation.

That's important to know because, with a sole proprietorship, the individual is liable. If it's a corporation, only the corporation is liable unless you have a personal guarantee. Don't forget to comb through the Credit App from the client. It offers useful information like banks, vendors, landlords and phone numbers.

In the course of our investigation, we set out to learn the following 5 things about the company:

1. **Names of officers and directors**
   Cut to the chase and find the decision maker. That's usually an officer.

2. **Name of the registered agent**
   Every company has one. He or she is responsible for the legal documents.

3. **All known addresses**
   The branch headquarter location is the main address we want.

4. **Present status**
   Are they active or dissolved? If active, the individual has the corporate veil of protection. If the debt was incurred after dissolution, it becomes a sole proprietorship and therefore, collectible from the individual.

5. **Date of incorporation**
   If the debt was incurred before the date of incorporation, it becomes a sole proprietorship and therefore collectable from the individual.

There are many databases that collectors use to gather information besides the four mentioned in Chapter 1. Free online sources are a great place to start, like Blackbook, Manta, Corporation Wiki, NetOnline and of course, yellow and white pages.

Paid services like Accurint, Hoovers, CBC Innovis, Master Files and First Data's FastData offer more detail. When we pull a report from a database, we collect every phone number ever used, names of relatives and neighbors, associates and social networks. Armed with the above information, we can save time by locating the person/s responsible, right from the very beginning bringing a more timely resolution.

SECTION TWO

Collection Agencies and Industry Solutions

Even with a solid in--house collection policy in place, it's still possible to find yourself in need of a 3rd party Collection Agency. But make no mistake about it; all Collection Agencies are not created equal! There are important things to know before you partner with one.

CHAPTER SEVEN:

COLLECTION AGENCIES ARE NOT A COMMIDITY

It can be tempting to choose a collection agency that offers the lowest rate, but collection services are not a commodity.

One agency may take on a case at a rate of 15% while another may quote a rate of 30%. Either way, if the collector collects zero on the debt, the outcome is zero … for you and for them. The rate you care about isn't the rate the agency charges – it's the net recovery rate that matters.

While it may be tempting to select a Collection Agency based solely on the rate they'll charge you, there are legitimate reasons why some companies charge more. Consider this:

Licensing

Agencies that are licensed are held to a high standard of conduct and operate within the boundaries of the law. They also invest in the resources it takes to monitor their collectors. This is added protection for you and your business. Licensing isn't cheap. *There is time and money involved in the process of obtaining and maintaining the proper licensing.*

CHAPTER SEVEN:
COLLECTION AGENCIES ARE NOT A COMMIDITY continued

Experience

Collectors with years in the business produce a more profitable and consistent outcome for their clients. They have long since learned what works and what does not, which saves time and gets clients paid. *Experienced collectors cost more but the return is greater. For instance, at C2C Resources, our average collector has over 18 years experience.*

Account Management

It's not uncommon for agencies to spend their time on the easier and big money accounts while turning the difficult accounts over to an attorney. Why? Because they increase your rate when an attorney takes over. Basically, they pour their time and resources into the easy accounts while still getting paid for the more difficult ones they don't even work on! In the end, the rate you paid won't be the one you start with. Agencies that assign 3 – 4 collectors to work each account ensures that the more difficult accounts get the attention they need but they do require more resources.

An agency that has a dedicated team that focuses on small balance accounts and limits the number of accounts a collector works is an agency worth considering. These agencies have learned something valuable in the industry. They've learned that by working small accounts with efficiency, they have a better overall relationship with their client. This caliber of agency fully expects to lose money on smaller accounts. They know that by keeping a big picture perspective, their client relationships across the board will be balanced and solid and therefore, long-term and profitable. *It's a fact: it costs more money in the short--run to use this strategic approach to collections but over time, it's a more profitable approach for both the agency and the client.*

Remittance

Agencies should remit quickly. If you're considering a Collection Agency that holds onto your money (only remitting monthly) then re-consider. You should be collecting interest on your money. And yes, it DOES cost an agency to remit weekly. *The ones that do will cost more to partner with but they will get your money in your hands more quickly.*

Communication

Keeping you informed is critical to the process of collections. Agencies that invest in personnel and technology are able to deliver a high quality of communication. *Software and personnel costs money, but is another important and crucial expense for an agency.*

In the end, your choice of a Collection Agency comes down to the dollars that come back to you and not their percentage rate. When interviewing an agency, ask them if they are licensed. What is the experience level of their collectors? How do they handle small balance accounts? How often do they remit? How many collectors touch each account? How many accounts are assigned to each collector? What are their communication policies? The answers will help you understand their rates so you make the best decision when choosing an agency.

CHAPTER EIGHT:
THE IMPORTANCE OF LICENSING

Licensing is critical when shopping for a Collection Agency. There are a number of reasons why this is true. Let's start with the most important one:

It's the law.

Laws were designed to eliminate abusive practices in the collecting of debt as well as to protect the money that the agency collects on your behalf. The laws ensure that agencies operate in a professional and ethical manner with both you and your customer.

While each state may have different laws, some requirements may include: registration and testing of agency personnel, audit of collection procedures and letters, agency bonds, and most importantly trust procedures and audits to make sure that your money is safe.

Your reputation is affected.

The Collection Agency you partner with becomes a reflection of your business. You operate your business professionally and honestly – You should expect your Collection Agency to do the same, conducting itself with respect and courtesy in the course of collecting a debt on your behalf.

You may be liable.

Agencies that don't adhere to the laws become a major liability to you and your business. If a legal issue should arise with your debtor, he or she can sue you both based on the actions of your Collection Agency. And without licensing, there's no one making sure the agency 'plays by the rules'.

Over 20 states require commercial collection agencies to be licensed to do business in their state. Surprisingly, very few agencies pay attention to these laws. To find out if an agency is licensed, ask for a copy of their state issued certificate. States with licensing requirements issue them to compliant companies, so producing it shouldn't be a problem. If they are unable to do so, request that they TELL you the requirements for the state in which you are doing business. If the person on the other end of the line is stumped by that question, they probably aren't in compliance and it's time for you to move on.

Partnering with a licensed agency is one important way you can protect your business.

CHAPTER NINE:
STRATEGIC THOUGHTS FOR FINANCE & COLLECTION FEES

Many credit application agreements include terms that add finance charges in the event that a customer is delinquent. Collection charges may also be applied if the account is placed for collection. Sometimes when a client is placing an account for collection with a collection agency they will include finance and collection charges. Based on our experience, we often advise that this is usually not productive and in many cases has the opposite effect. Here is our guidance when it comes to this matter.

1. Adding finance and collection charges is only an option if you have a written agreement with your customer that allows for these charges.

2. Even with a written agreement, some states do not allow these charges (especially collections charges) to be added. In these states, it can only be added by a court order.

3. If permitted by the state and added, it often has the opposite effect, diminishing the debtor's willingness to pay. Typically, your debtor owes more people than just you and he lacks the funds to pay everyone. All things being equal, the one not seeking fees is the one that gets paid.

4. Our advice is to not seek these fees at the collection agency level, but only seek them if it becomes necessary to pursue through litigation. At that point you are already in for a long fight, so there's no real downside. Of course, during our communication with your debtor, we'll point out that you will seek these costs through the courts if you decide to pursue this in litigation.

We understand this is a frustrating area and you are right in wanting every penny owed to you for product or service provided by your company. However, our goal is to give you the best advice to maximize recovery and avoid litigation when dealing with business entities with limited dollars.

In the end, however, these are your dollars therefore, your agency should handle your account any way you request if permitted by law.

CHAPTER TEN:
MANAGING THE LITIGATION PROCESS

It goes without saying, but we'll say it anyway; when it comes to resolving a commercial debt collection dispute, do whatever you can to avoid litigation. In cases where litigation is inevitable, it's important to know what to expect.

Litigation is a lengthy process

The entire process of litigation is a series of fits--and--starts. To make matters worse, the financial situation of your debtor can deteriorate during the process. Take a look at the following legal flow. Each of the wait days listed is just an approximate but a generally reasonable estimation of the time it will take to get through each of the stages.

The following is by no means a complete list of the stages you may go through. Snags at any point, like stall tactics or a counter claim, can change the trajectory entirely and add months or even years to your process. But this list will give you a little peek at what you could be facing.

- Attorney review, make demand, prepare suit: 30 days
- Serve the debtor: 15 - 45 days if served on first attempt, 60 - 90 days if more attempts are necessary
- Time for debtor to answer: 30 days
- File/Receive default Judgment if debtor does not answer suit: 60 - 150 days then proceed to Execution Stage
- File/Decision for Summary Judgment if debtor does answer suit: 90 -120 days
- If Summary Judgment Denied then Continue Discovery, Mediation, wait for Trial date: 90-120 days
- Judgment Granted/Appeal: 60 days
- Execution if assets identified: 60 - 120 days
- Post Judgment Discovery if assets not identified: 60 - 120 days then Execution once assets identified

Assuming the debtor has identifiable assets and if a default judgment route is an option, the process can still take 9 months to a year to complete. If you go to trial, the best--case scenario will probably take about a year and half.

It would be very difficult to keep this chapter a reasonable length if we were to outline ALL the possible ways litigation can be delayed. Every action or inaction on your debtor's part can add its own set of paperwork and delays. But here's the thing: no matter what comes your way in litigation, at the end of the process, you'll STILL be negotiating.

So, we're back to our original advice – work with your debtor every way possible to come to a resolution BEFORE you consider litigation.

CREDIT APPLICATION EXAMPLE ONE

CREDIT APPLICATION

Date: _____ Credit Limit Requested: $_____

Company Information

Full Legal Name _____ Phone# _____

DBA (if different) _____ Fax# _____

Address _____ Email _____

City _____ State ____ Zip Code _____

Website _____

Type of Company: ____Corporation _____ Partnership _____Limited Liability Company

____ Sole Proprietor _____ Other (specify)_____

Federal Tax ID# or Social Security Number _____ How long in business?_____

State where incorporated _____ Number of employees _____

Ownership Information

Please complete the below information for all officers, partners, members and owners. Please attach a separate sheet of paper if more space is required.

Name	Title	Ownership%	Home Address	Home Phone #

Bank Reference

Name of Bank: _____ Bank Address _____ Phone # _____

Contact Name: _____ Account# _____ Type of Account: _____

CREDIT APPLICATION EXAMPLE ONE

Trade References

Please list three significant business relationships.

Name	Address	Phone #	Contact

Mortgage Holder/Landlord Information

Do you rent or own premises that the business occupies? _____ Years at location: _____

Mortgage Holder/Landlord Name: _____ Contact Person: _____

Address: _____ Phone#: _____

(1) Has the company or any officer, partner, member, or owner ever filed for bankruptcy? Yes/No (If yes attach detail)

(2) Has your company or any company that any officer, partner, member or owner been associated with as an officer, partner, member, or owner ever had credit with us before? Yes/No (If yes under what name_____).

By signing below, I certify that I have the authority to bind the company to this agreement, and that I agree to creditor's terms of sale of _____, I also agree and accept that the credit limit and credit terms maybe changed or withdrawn at the sole discretion of the creditor. Creditor shall include creditor subsidiaries, related companies, and assigns.

The information given herein is offered as part of a request by the applicant for an extension of credit for commercial business use. The information provided is represented by the applicant to be true, correct and complete. The Applicant authorizes Creditor to investigate all credit references and other sources pertaining to our credit and financial responsibility. The undersigned authorizes its banks and trade creditors to provide Creditor with complete information for the purpose of credit evaluation. The applicant understands that all past due balances will be subject to a _____ per month finance charge. The applicant further agrees to pay a _____ collection charge in the event of default, if the account is placed with a collection agency or attorney.

Applicant Company Name:

Signature: _____ Title: _____ Date: _____

Print Name: _____

Personal Guarantee

In consideration of any credit extended, the undersigned will personally guarantee full and prompt payment of all indebtedness of _____ owed to _____. This personal guarantee shall remain in force until its revocation is received by certified mail to the address and attention of_____ _____. Revocation shall not affect indebtedness incurred prior to receipt of written notice. [Kentucky residents-If Guarantor is a resident of the Commonwealth of Kentucky, this guaranty shall be limited to amounts not exceeding $_____ for a duration of not more than _____ years from the date it is signed.]

Individual Signature: _____ Date: _____

Print Name: _____ Social Security Number: _____

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CREDIT APPLICATION EXAMPLE TWO

CREDIT APPLICATION

Date: _____ Credit Limit Requested: $_____

Company Information

Full Legal Name _____ Phone# _____

DBA (if different) _____ Fax# _____

Address _____ Email _____

City _____ State ____ Zip Code _____

Website _____

Type of Company: ____Corporation _____ Partnership _____Limited Liability Company

____ Sole Proprietor _____ Other (specify)_____

Federal Tax ID# or Social Security Number _____ How long in business?_____

State where incorporated _____ Number of employees _____

Ownership Information

Please complete the below information for all officers, partners, members and owners. Please attach a separate sheet of paper if more space is required.

Name	Title	Ownership%	Home Address	Home Phone #

Bank Reference

Name of Bank: _____ Bank Address _____ Phone # _____

Contact Name: _____ Account# _____ Type of Account: _____

CREDIT APPLICATION EXAMPLE TWO

Trade References

Please list three significant business relationships.

Name	Address	Phone #	Contact

Mortgage Holder/Landlord Information

Do you rent or own premises that the business occupies? _____ Years at location: _____

Mortgage Holder/Landlord Name: _____ Contact Person: _____

Address: _____ Phone#: _____

(1) Has the company or any officer, partner, member, or owner ever filed for bankruptcy? Yes/No (If yes attach detail)

(2) Has your company or any company that any officer, partner, member or owner been associated with as an officer, partner, member, or owner ever had credit with us before? Yes/No (If yes under what name_____).

By signing below, I certify that I have the authority to bind the company to this agreement, and that I agree to creditor's terms of sale of _____, I also agree and accept that the credit limit and credit terms maybe changed or withdrawn at the sole discretion of the creditor. Creditor shall include creditor subsidiaries, related companies, and assigns.

The information given herein is offered as part of a request by the applicant for an extension of credit for commercial business use. The information provided is represented by the applicant to be true, correct and complete. The Applicant authorizes Creditor to investigate all credit references and other sources pertaining to our credit and financial responsibility. The undersigned authorizes its banks and trade creditors to provide Creditor with complete information for the purpose of credit evaluation. The applicant understands that all past due balances will be subject to a _____ per month finance charge. The applicant further agrees to pay a _____ collection charge in the event of default, if the account is placed with a collection agency or attorney.

Applicant Company Name:

Signature: _____ Title: _____ Date:_____

Print Name: _____

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