

## It's Your Money Money Lending Is For Banks

By Kyle Seeback

*Every day of credit you extend is working capital out of your pocket.*

*Every dollar of bad credit you extend is working capital out of your pocket.*

You've spent years working and developing your business. You have put in place a marketing strategy, a business plan, a proper management structure and a disaster recover plan just to name a few. Developing all of these systems, procedures and structures is important. However, did you know that accounts receivable (the mismanagement thereof) is one of the main contributing factors to business failure. Despite this being well documented, many businesses – large and small – do not have a proper system in place to:

- a) collect money owed;
- b) prevent questionable accounts receivable being booked; and
- c) avoid receivables from aging beyond any hope of collection.

While collecting receivables is important, the old adage *"An ounce of prevention is worth a pound of cure."* is definitely appropriate. As a lawyer, I am amazed at what I see in the lack of proper credit policies and the amount of debt local companies are forced to write off each year.

### Rule # 1: Know Your Customers

Most of us would never lend money to complete strangers without some form of a due diligence and security check. As you are well aware, financial institutions require a stack of forms and applications be completed in order to obtain any type of loan or line of credit. Banks do this for good reason:

- They need to be sure that any potential borrower has the resources to repay the money loaned.
- They want to have as much information as possible to help them collect the money if there is a default.

In business, the quest for sales very often takes priority over common sense. Most businesses don't even get basic information about their customers before they agree to supply them with products or services. In addition, most businesses deliver those products or services on terms of 30 days net with no security that their invoices will actually be paid.

**What good is a large order or contract from a customer if in the end they don't pay, or don't pay in full?**

### Think about this before you extend credit:

- Where is the business located? Do they own or lease their premises? Landlords are a great source of information and usually will not hesitate to tell you if the tenant pays its rent on time.
- Whenever you receive an order from a new customer include in your order forms a consent to retrieve their credit rating (if you need assistance with the proper wording, call me).
- Always order a credit report for each new customer and review the report prior to shipping goods or supplying services.
- Only if the credit report is favorable should you extend credit. Don't worry about losing the order. It's probably better than losing your shirt later.
- Request banking information including types of accounts and number of years at that financial institution. Include in your forms permission to verify the banking information provided. Then verify it by calling the customers bank.
- Be diligent in your receivable follow up. Never allow aging to exceed 60 days – and don't keep shipping product to a customer who hasn't paid you! Don't be the one who is financing their operations. Their next big order could be your next big write-off.

**It's good business practice to institute upfront screening.**

## It's Your Money *(continued)*

### Closing the Barn Door After the Horse is Gone.

If you fail to obtain information about your customer and they don't pay your invoices all is not lost. There are a number of tools at your disposal that can help you collect your debt:

- Interim Recovery/Preservation of Personal Property
- Collections including issuing a statement of claim and garnishment proceedings.

### Interim Recovery/Preservation of Personal Property

There is nothing worse than shipping a large order to a customer only to find that the cheque bounced or they didn't pay at all. If the product is still at the customer's location, you can apply to the courts for an order allowing you to repossess the property, and if the property is perishable, sell it.

This type of court application is complicated and must be acted upon swiftly. However, the benefits are apparent, because instead of engaging in collection efforts, you have preserved your goods for a future sale.

### Cost Effective Collections

One of the biggest mistakes is waiting too long to collect accounts receivables. If a customer is not paying your bills, they are likely not paying other bills. This means that at some point, someone is going to sue them to get paid. It is always better to be first in line rather than last in line to be paid.

Once it is apparent that your customer is not going to pay immediately contact a lawyer and instruct them to commence collection proceedings. Your law firm should offer a flat rate for collection matters.

### Remember, It's Your Money

The key to successful receivables management is having a good system in place to eliminate extending credit to the wrong customers. No matter how effectively you screen your customers, some will fall through the cracks. However, armed with credit information previously discussed, you can move quickly to garnish the customer's bank accounts to collect your debt once you have obtained a judgment.

**If you are experiencing receivables problems, or want to discuss the system you have in place to prevent receivables problems, do not hesitate to contact me.**

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**For more information on this and other topics, you may contact Kyle Seeback directly at [kyle@sdslawfirm.com](mailto:kyle@sdslawfirm.com)**

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