Covering Credit Bulletin

March 2006

This Month's Topics:

- **Bankruptcy Myths**

Bankruptcy Myths

There are a number of myths and misconceptions about bankruptcies, including these:

- **Myth: Bad debt losses resulting from customer bankruptcy mean that someone in the creditor company made a mistake. Reality: Some losses are unavoidable, some are the result of mistakes or oversights, some are the result of business decisions, and some result from a combination of factors.**
- **Myth: Placing an account for collection after it in bankruptcy is a good decision. Reality: The automatic stay protects companies that file for bankruptcy.**
- **Myth: Creditors are not at risk if they sell to customers in bankruptcy. Reality: There is no guarantee that creditors will be paid on post petition sales**
- **Myth: Once a customer files for bankruptcy protection, the creditor can do nothing to protect the company. Reality: The creditor can place the account on credit hold; stop shipments in transit and arrange for its return; File a reclamation claim for goods received within a specific number of days prior to the bankruptcy filing date; Pursue payment under a personal guaranty; Demand payment under and inter corporate guaranty; Refuse to extend credit to the debtor on open account terms on post petition sales; Determine their company's preference claim risk**

Less than half of the companies that go into bankruptcy successfully emerge from it. This should be kept in mind when considering whether or not to extend credit to a bankrupt company.