



Many companies use lockboxes or lockbox networks to accelerate deposit of payments from customers by reducing mail float, as well as processing float. A lockbox network is a mechanism that allows a financial entity such as a bank to collect and deposit payments on behalf of its customer, the creditor. The primary goal of lockbox systems is to accelerate the availability of funds to the creditor. A lockbox study can help a creditor company to decide how many lockbox locations it needs to have and where those lockboxes should be located. As a general rule, a company should have a lockbox study performed if or when:

- It currently does not use any lockbox system.
- The company sells nationally but has only one lockbox location.
- The creditor company is using a multiple bank network rather than a network operated by a single bank.
- The current lockbox network locations were selected without the benefit of a formal lockbox study.
- It has been at least two years since the last formal study was completed.
- The creditor's customer base has changed significantly over the last two years.
- The creditor opens a large number of new accounts each year, or has recently completed a merger, an acquisition or a divestiture.
- The company has recently expanded into new geographic markets
- The lockbox bank has been acquired and/or has closed one or more of the lockbox locations used by the creditor company.

Clearly, in some cases the number and location of lockboxes in the existing network is adequate. In this scenario, a lockbox study is likely to recommend changes involving which customers are asked to remit to which lockbox. A study might recommend a more comprehensive change in which lockboxes are added or deleted from the network, and customers are reassigned based on the location from which customers currently send payments. In certain cases, a complete overhaul is required. It is conceivable that all of the lockboxes the current network will be closed, and an entirely new configuration will be established. In this scenario, every customer would be asked to remit to a new lockbox address.

**Tip:** Sometimes, the most difficult task for the credit department involves convincing customers to remit payment to the company's lockbox. Why? A charitable explanation would be that the customer's accounts payable department is too busy to change the remittance address. A more likely explanation is that customers are sometimes reluctant to remit payments to lockboxes because they realize that making this change will reduce payment float.

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### Questions and Answers

**Question:** What is a check guarantee service?

**Answer:** It is a third party service provider that guarantees a check if it is returned by the bank. This service has a relatively low cost, and when a creditor sends the service a bounced guaranteed check, the service will reimburse the creditor for the face value of the check, usually within 30 days. The service will then handle collection of the unpaid balance from the debtor company. Occasionally, the creditor will be unable to secure a guarantee on the check do for any number of reasons.

**Q. Can we purchase credit insurance for only high risk accounts?**

**A. I cannot say for certain. I would encourage you to contact your insurance agent or a broker for information. It depends on how bad the high risk customers are that you interested in insuring appear to the underwriter.**

**Q. Can a stop payment be placed on a Cashier's Check?**

**A. It is my understanding that under certain circumstances a stop payment can be placed. An example would be if the check is lost or stolen... or if the customer decides that it does not want to purchase the products or services for which the check was issued.**

**Q. A customer is not paying, and our credit application contains a personal guarantee. How do we enforce the personal guarantee?**

**A. If you send a demand and the guarantor will not pay voluntarily, you have to sue the guarantor in order to get paid. If the guarantor also owns or is a major stockholder of the company, it is possible that the guarantor will file a personal bankruptcy when the corporation files for Chapter 7 or Chapter 11 business bankruptcy. In that scenario, the guarantee may be valueless.**

**Q. A customer demands to know their credit limit. Must we reveal this information?**

**A. Must you? No. Should you? I don't know. Obviously, you have concerns about doing so and I would want to understand these concerns before I could make any intelligent comments about this issue.**

**Q. How much emphasis do you put on the fact that a customer has tax liens listed on their credit report?**

**A. There is not enough information to answer this question, so I will make two general comments. The more tax liens are listed, the more concerned I would be. If any of the tax liens remains open rather than closed/resolved, I would be much more concerned than if tax liens were listed as paid/closed.**

**Q. Can you sue a customer or place them for collection over unpaid finance charges and unearned cash discounts... no invoices, just back-charges.**

**A. Sure. However, it might be difficult to convince anyone to accept the claim on a contingency basis given the fact that the entire balance due is in effect in dispute. Good luck with this one.**

**Q. There is a disputed balance. The customer says their PO states we have thirty (30) days following payment to dispute payment. If we have not issued a written objection to their deduction, the deduction is considered legitimate and the balance deducted is considered a legitimate deduction. We never agreed to any of these terms. However, I have reviewed their purchase order terms and conditions, and the terms listed above are included. What do you think?**

**A. I suggest that you discuss this with your attorney. Absent a written contract signed by the customer that invalidates unilateral changes found on a purchase order or other document, my guess is that the customer is in the stronger position.**



- Will the customer offer security in exchange for an agreement by the vendor to accept their settlement offer

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**How to Refuse Credit**

There is no good way to deliver bad news. Rejecting applicants for credit is an unpleasant but necessary part of the credit function. Here are some suggestions to make the process slightly less difficult:

- Make sure your facts are correct before rejecting any applicant.
- Make certain the people making the decisions have been thoroughly trained, and understand your company's tolerance for uncertainty and credit risk.
- If the decision cannot be made because of a lack of sufficient information, that information can and should be shared with the applicant. This way, the applicant has the option and the opportunity to supplement the information they provided on or with their completed credit application.
- Never base a negative credit decision on factors such as age, race, sex, sexual orientation, religion, or national origin.
- Try to soften the refusal to extend credit. For example:
  - At an absolute minimum, thank the applicant for their interest in doing business with your company
  - Explain that your credit acceptance standards are stringent
  - Encourage the rejected applicant to re-apply after six months
- Know your rights. Commercial credit grantors are not required to provide copies of credit reports, or specific information about what other creditors contacted said about the applicant, or to explain their credit decision-making policies, procedures and processes in any detail.
- Document the reason or reasons for your decision and safeguard that documentation for at least one year.
- Consider generating a form letter of explanation pertaining to rejected applicants and sending it as soon as possible --- and certainly no later than 30 days after the decision is made.

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**Disclaimer**

Nothing in this publication is intended as legal advice, or tax or accounting advice. Nothing in this publication should be considered an alternative to seeking professional legal or accounting advice. You are encouraged to use your judgment in deciding which of the ideas to accept or adopt, and which to reject and ignore.