

6. Don't forget that asking questions is an important part of the negotiation process. Questions can transform a call from an adversarial conversation into a discussion in which the creditor's representative and the delinquent debtor work towards a mutually satisfaction outcome.
7. Encourage collectors to report rather than to conceal collection problems.
8. Short-term debt payment extensions should be confirmed in writing.
9. Do not feel obligated to convince a customer or an applicant that a negative credit decision was correct. Your responsibility is to inform the customer and to provide an explanation if asked...not to convince the debtor company that the decision was correct.
10. Don't apologize for calling or disturbing a customer about a past due balance. This is unnecessary and establishes an inappropriate interpersonal dynamic that may hinder your collection efforts.

Excerpted from "1001 Collection Tools, Tips and Techniques" by Michael C. Dennis

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What You Should Know About Escheatment

Many companies reverse credit memos as well as on-account cash from dormant accounts and from customers that have gone out of business. This practice is inappropriate and may be unlawful. Every State requires businesses and financial institutions to report when property has been abandoned or unclaimed. Companies are required to report when property has been abandoned or is unclaimed. Companies should make a commercially reasonable effort to locate and notify the owner of the abandoned property. If a credit memo, on account cash or other abandoned property remains unclaimed and the company is unable to locate the rightful owner, the asset must be turned over to the State.

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Questions and Answers

Question: What are retained earnings?

Answer: Retained earnings represent the cumulative of net income after tax or net losses after tax minus dividends paid to stockholders. It is not and does not represent cash on hand.

Q. Do I have to provide a reason for denying credit to an applicant?

A. I would be surprised if anyone could easily provide a detailed explanation of the facts and factors that were considered in making such a decision. In response to a written request for an explanation, a simple answer is often best. I suggest this: "Thank you for your inquiry. Unfortunately, your company does not meet our current standards for extending open account terms." Assuming that there was no unlawfully discriminatory reason for your credit decision, the specific reason or reasons for denying credit need not

be revealed to an applicant. The same rationale and reasoning applies to customers requesting a higher credit limit than they qualify for.

Q. Can you recommend a credit limit for _____ (a specific company)?

A. Sorry, no. This is beyond the scope of this publication. Also, without specific information about your company and its tolerance for risk, it would not be possible to make a good recommendation. FYI, this is one of the tasks that I have performed for clients as a consultant – for as few as one account and for as many as an entire account portfolio.

Q. Are there any organized markets or brokers where a creditor company interested in selling its claims in bankruptcy can do so?

A. Not that I am aware of.

Q. I am looking for a simple explanation of liquidity ratios. Can you help?

A. I think so. Liquidity ratios indicate the ease of converting current assets into cash meaning that liquidity involves a customer's ability to pay their debts as they come due. Liquidity ratios include the Current and Quick Ratio. The Current Ratio formula is: Current Assets divided by Current Liabilities. The Quick Ratio formula is: Cash plus Cash Equivalents plus Accounts Receivable divided by Current Liabilities. The Quick Ratio is more strenuous since it offers insights about whether a customer's Current Liabilities could be paid without selling inventory.

Q. Are we covered by the FACTA regulations?

A. The Fair and Accurate Credit Transactions Act amends the Fair Credit Reporting Act (FCRA), a federal law that regulates, in part, who is permitted to access consumer report information and how these reports can be used. To the extent that a creditor uses consumer credit reports as part of their credit decision making process, they are responsible for compliance with applicable clauses of the FACT Act.

Q. Are we required to respond to credit inquiries?

A. No. Creditors respond only as a business courtesy.

Q. We have been asked to accept a consignment arrangement. Any comments?

A. Consignments are not sales. The consignee, the recipient, of the goods is not responsible for loss, damage or shortages. In addition, they typically are not required to pay for the goods received on consignment until they are sold.

Q. Why do banks try to charge to provide references?

A. The short answer is: Because they can. Given a choice, banks prefer to receive payment for the services they provide.

Q. We are being asked to accept credit card payments. What risks do we need to be concerned about?

A. Identity theft and credit card fraud are two areas of concern. Internet based sales in particular have a relatively high rate of credit fraud. So do foreign sales on credit card terms. Another problem is that the buyer usually has 60 days or longer to dispute a charge meaning the creditor is not certain it will be permitted to keep the money credited to its account for at least 60 days. If the card holder does dispute the charge, the credit card company will not act as a referee. If the card holder offers compelling information, the charge will be reversed and the creditor will have to pursue the debtor for payment.

Q. I attended a meeting in which we were told to require a Corporate Seal and a notarized signature and a Resolution of the Board of Directors approving an Inter-corporate Guarantee. This seems like overkill to me. What are your thoughts or comments?

A. I have never been told I needed all three of these. I would suggest that you ask your attorney for his or her comments.

Q. What are the standard open account terms on international accounts?

A. There are no standard terms. Open account terms typically range from 30 days to 180 days or longer depending on the country, the product, local regulations, and industry norms. Of course, the longer the terms offered, the greater the risk of default.

Q. Our relationship with the sales department seems to be getting worse. The reason is that after a couple of significant write offs last year, the company President told me to be more careful about extending credit to marginal risks. Any suggestions about how to improve credit's relationship with sales?

A. Sure. If you have not already done so, acknowledge that credit decisions are now more conservative. Better yet, ask the company President to explain this to sales. Other ideas include:

- Provide advance notice to sales of adverse decisions**
- Return their calls the same day**
- Talk to salespeople, not at them**
- Listen to their ideas**
- Ask for their feedback, comments, input, advice**
- Travel to meet with customers if possible**
- Look for reasons to say yes rather than for excuses to say no**

Q. How can I increase the chances of getting financial statements from applicants?

If the agreed upon terms of sale are letter of credit, the credit department should send the applicant its standard letter of credit instructions. The customer should be told that only changes approved in advance by the seller to these letter of credit terms and conditions will be accepted. If the instructions are not followed, the customer should be told to amend the L/C.

The collector assigned to each foreign account should contact a delinquent customer at least once a week. It is often easier to correspond with the customer by email or fax. Ideally, this correspondence will be in the language spoken by the customer. The collector will discuss the status of each past due account with their manager at least once a month.

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About Michael Dennis

Michael Dennis is a member of the Board of Directors of California’s NACM Affiliate. He has more than 20 years of commercial credit management and risk management experience. He has more than 15 years teaching the CAP programs for NACM and CMA. He is also the author of "Credit and Collection Handbook" and "Credit and Collection Forms and Procedures Manual" both available on Amazon.com. Michael is currently in transition after being laid off by his most recent employer in May. He is interested in consulting and contract work, temp to hire work, or a permanent employment opportunity.