

Contents at a Glance

Introduction	1
Part I: Nice Guys Can Finish First: Making Good Use of Credit and Billing Practices	7
Chapter 1: Getting to Know Credit and Collections	9
Chapter 2: Credit 101: Defining and Applying Credit Concepts	19
Chapter 3: Extending Credit Carefully While Controlling Your Risk	41
Chapter 4: Establishing Good Billing Practices to Avoid Collection Headaches	65
Chapter 5: Spotting and Reacting to Changes in Customer Habits	87
Chapter 6: Stayin' on the Right Side of the Law: Knowing Your Rights and Duties	101
Part II: When Being Nice Isn't Working: Transitioning from Billing to Collections	131
Chapter 7: When Your Late-Paying Customer Turns into Your Debtor	133
Chapter 8: The Ins and Outs of Collection Phone Calls	145
Chapter 9: Overcoming Disputes, Real or Phony	159
Chapter 10: Closing the Deal: Wrap It Up in Writing	175
Part III: When Things Get Ugly: Stepping Up Your Collection Efforts	183
Chapter 11: Increasing Intensity to Achieve Collection	185
Chapter 12: Locating a Hard-to-Find Debtor	195
Chapter 13: Bringing in Outside Collections Professionals	209
Chapter 14: Dealing with Bad Checks and Other Rough Spots	223
Part IV: Taking a Hard Line: Suing Your Debtor	239
Chapter 15: Determining Your Litigation Strategy	241
Chapter 16: Understanding How Lawsuits Work	265
Chapter 17: Selecting the Court	289
Chapter 18: Surviving the Trial	301
Chapter 19: Collecting a Judgment	317
Part V: The Part of Tens	335
Chapter 20: Ten Common Pitfalls in Credit and Collections	337
Chapter 21: Ten Tips for Maintaining Cash Flow	343
Appendix: About the CD	349
Index	355

Table of Contents

<i>Introduction</i>	1
About This Book	1
Conventions Used in This Book	1
What You're Not to Read	2
Foolish Assumptions	2
How This Book Is Organized	3
Part I: Nice Guys Can Finish First: Making Good Use of Credit and Billing Practices	3
Part II: When Being Nice Isn't Working: Transitioning from Billing to Collections	3
Part III: When Things Get Ugly: Stepping Up Your Collection Efforts	4
Part IV: Taking a Hard Line: Suing Your Debtor	4
Part V: The Part of Tens	5
Icons Used in This Book	5
Where to Go from Here	6
<i>Part I: Nice Guys Can Finish First: Making Good Use of Credit and Billing Practices</i>	7
Chapter 1: Getting to Know Credit and Collections	9
Establishing Good Habits for Credit and Collections	10
Staying in Control through Good Documentation	11
Using documents in the extension of credit	11
Using documents in the billing process	13
Using documents in the collection of past due accounts	13
Handling Delinquent Payments	14
Knowing When to Hire Professionals	15
Arriving at the Last Resort: Litigating to Recover Delinquent Balances	16
Chapter 2: Credit 101: Defining and Applying Credit Concepts	19
Extending Credit in a Nutshell	20
How to Use Credit as a Sales Tool in Your Business	21
Calling the Shots: Establishing a Sound Credit Policy	24
Creating a written credit policy	24
Implementing your written credit policy	29
Customizing Your Credit Policy to Meet Your Needs	30
Providing a discount	30
Adjusting credit extension to your industry	31
Adjusting credit terms to the quality of the customer's paying habits	32

Adjusting the level of your accounts receivable 32
 Setting credit extensions based upon ability of customers to pay... 32
 Setting credit terms based upon interest and late fees 33
 Avoiding discriminatory practices 33
 Knowing Your Customer and Lending Accordingly..... 33
 Common legal entities..... 34
 Putting your knowledge into practice..... 36
 Applying the Five Cs of Credit 38
 Assessing character..... 38
 Evaluating collateral..... 39
 Determining capacity 39
 Examining capital..... 40
 Reacting to conditions 40

Chapter 3: Extending Credit Carefully While Controlling Your Risk . . . 41

Determining Which Customers Are Worthy of Credit
 (And Which Aren't)..... 42
 Gathering and using vital credit information
 to determine your risk..... 42
 Spotting warning signs of a high-risk customer..... 44
 Creating Credit Ratings for Your Customers 45
 Starting with a credit application 46
 Reviewing financial statements to spot trends 49
 Putting your research together to assign a rating..... 50
 Considering Options to Reduce Risk 52
 Purchasing credit insurance 52
 Factoring..... 53
 Knowing when to insist on a personal guaranty..... 53
 Maximizing Your Leverage: Filing Liens for Protection..... 55
 Understanding liens and how they can help you 56
 Examining types of securable personal property..... 57
 Looking at how long liens last..... 58
 Exploring attachment and perfection of liens..... 58
 Enforcing security agreements 60
 Considering Letters of Credit for a Risky Customer 63
 Exploring a Confession of Judgment..... 64

**Chapter 4: Establishing Good Billing Practices to
 Avoid Collection Headaches 65**

Components of a Well-Run Accounting and Billing Operation..... 66
 Consistency in billing 66
 An aging report 67
 Interest charges for late payments..... 68
 Setting Up an Effective Billing System 68
 Purchase orders: Proving the order was placed 70
 Invoices: Obtaining payment through effective invoicing..... 70
 Delivery receipts: Establishing proof
 the product was received 72



Credit and debit memos: Documenting changes in the balance owed..... 73

Change orders: Putting modification of the agreement in writing 76

Statements of account: Sending monthly statements as a regular reminder to pay 77

Keeping Your Bills Accurate 79

 Creating an effective billing system..... 80

 Maintaining precise records..... 81

 Sidestepping billing discrepancies by putting everything in writing..... 82

Getting Bad Accounts off the Books: You Gotta Know When to Fold 'Em 83

Training Your Staff in Billing Matters..... 84

 Inputting data accurately..... 84

 Using the correct forms 85

 Respecting confidential and sensitive data..... 85

Chapter 5: Spotting and Reacting to Changes in Customer Habits. . . 87

General Controls for Keeping Your Cash Flow Steady 87

Tailoring Your Strategy: A Short Leash for New Customers..... 89

 Setting tighter controls for newer customers 89

 Helping out timely payers..... 90

Spotting Trends and Patterns of Payment 91

 Keeping an eye (and ear) on your customer 91

 Monitoring industry trends and bracing for slowdowns..... 92

 Speeding up slow payers 92

 Reacting to customers' excuses, bad habits, and broken promises..... 93

Spotting Dubious Changes and Handling Them Quickly..... 94

 Changes in ownership of a client business 94

 Changes of address or phone number 95

 Changes in order volume..... 95

 Changes in financial condition..... 96

 Changes in customer attitude 96

 Changes in your customer's understanding of purchase or credit terms 96

Dealing with the Elusive Customer 97

 Breaking free from voice mail jail 97

 Detouring around the disconnected phone 98

Chapter 6: Stayin' on the Right Side of the Law: Knowing Your Rights and Duties. 101

Basics of Bankruptcy and Receivership 102

 Types (chapters) of bankruptcy 102

 Features of bankruptcy 104

 Verifying that your debtor has actually filed bankruptcy 106

 Receivership..... 107

Basics of Product Sales and Leases: The Uniform Commercial Code... 107

- Product not as ordered, or not authorized 108
- Delays in notification of any defects 108
- Problems with shipment..... 109
- Forced to purchase from another supplier 110
- Expired claim(s)..... 110
- Price and/or delivery terms..... 111
- Warranty issues 111
- Unfair terms in agreements 112

Understanding the Fair Debt Collection Practices Act (FDCPA)..... 113

- Communications with third parties 113
- Abusive language or threats..... 114
- Telephone calls: When and where..... 116
- Good practices under the FDCPA..... 116
- Using the required form language 117
- Complying with state laws: Consumer protection acts 117

Complying with the Fair Credit Reporting Act 119

Following the Requirements of the Equal Credit Opportunity Act 120

Obeying Truth in Lending and Fair Billing Laws 120

Respecting Privacy Requirements 121

A Quick and Dirty Contract Law Reference..... 121

- Understanding contract basics 122
- Making it clear who you are contracting with 123
- When oral contracts are legal 123
- Why written deals are better than oral ones 124
- Contract modifications: Make 'em clear (and written) 125
- Including key provisions..... 125
- Knowing that your credit applications are contracts
and your invoices aren't..... 126
- Customizing provisions to meet your needs..... 126
- Default provisions (Acceleration and other handy clauses) 127
- Dealing with contract mistakes (Yours, theirs, and mutual) 128
- Avoiding debtor escape clauses 128
- E-sign contracts..... 129

Legal Limits on Interest Rates..... 130

***Part II: When Being Nice Isn't Working:
Transitioning from Billing to Collections..... 131***

**Chapter 7: When Your Late-Paying Customer
Turns into Your Debtor 133**

- Creating an Atmosphere of Urgency..... 134
- Communicating Effective Reminders to Pay..... 135

 - Writing effective collection letters 136
 - Special concerns for consumer debtors 138
 - Still not paid? Escalating your approach 138
 - Customizing your notification approach 141
 - Don't forget the power of a phone call 141

Documenting the File: Having Good Notes When You Need Them	141
The paper trail: How good records help you both in and out of court	142
Anticipating reactions: Playing devil's advocate	143
Pursuing written admission of the debt	143
Chapter 8: The Ins and Outs of Collection Phone Calls	145
Strategies for Successful Collections	145
Selecting who will make the calls	146
Having the debtor's file at your fingertips	146
Taking notes to capture the moment	147
Preparing for a bad outcome	148
Making the All-Important First Call	149
How to mentally prepare	149
Choosing whom to call	150
Preparing a script	151
Honing your listening skills	151
Tricks of the Trade: Handling Your Collection Call like a Pro	152
Perfecting your "telephone voice"	153
Pressing the receptionist for details on business debtors	153
Getting the correct person on the line	153
Making proper comments and avoiding the improper	153
Listening, yet controlling the conversation	154
Silencio! Using a pause	155
Staying positive	155
Keeping Your Eyes on the Prize	155
Playing the cards you're dealt: Dealing with the debtor's personality	156
Keeping your temper: The secret to success	158
Getting on a Roll: Making a Series of Collection Calls	158
Chapter 9: Overcoming Disputes, Real or Phony	159
Getting and Using Admissions from Your Debtors	159
Documenting admissions: Creating a paper trail	160
Collecting the admitted balance	161
Identifying and Resolving Disputes	161
Asking, then listening: "What seems to be the problem?"	162
Consider your debtor's perspective	164
Addressing the issues, one by one	164
Documenting your position	166
Detecting and Dealing with Stall Tactics	168
Responding to common stall tactics	168
Short-circuiting stall tactics	169
Negotiating: Planning on Some Give and Take for a Win-Win	170
Knowing why negotiating is a smart move	170
Preparing to negotiate	171
Sharpening your negotiating skills	172
When Your Efforts Fall Short	173
Getting legal or business advice	173
Knowing when to take your collection effort to the next level ...	174

Chapter 10: Closing the Deal: Wrap It Up in Writing 175

Creating and Completing a Written Agreement.....	175
Composing a letter or e-mail to your debtor.....	177
Using a promissory note to confirm a deal	181
Getting the Payment Plan Underway: That All-Important First Installment	181

**Part III: When Things Get Ugly: Stepping
Up Your Collection Efforts..... 183****Chapter 11: Increasing Intensity to Achieve Collection 185**

Keeping a Payment Plan on Track.....	185
Reminding your debtor to honor the deal.....	185
Promising follow-up legal action: When and how.....	186
Maintaining Aggressive and Persistent Communications	187
Staying in communication with your debtor.....	188
Stepping carefully to avoid setting yourself up for a lawsuit.....	188
Obtaining and Depositing Postdated Checks and Electronic Payments....	189
Procuring postdated checks	189
Utilizing electronic checks	190
Credit card payments	190
Enforcing Liens and Bonds.....	191
Foreclosures	191
Construction projects	192
Reporting Debts to Credit Bureaus	193
Making One Final Demand.....	194

Chapter 12: Locating a Hard-to-Find Debtor 195

First Things First: Do You Want to Do This Yourself?	195
The Art of Finding People: Using All the Resources Available	197
Using public records and directories.....	198
Using Internet resources.....	200
Additional methods of obtaining information.....	204
Using your instincts: They're better than you think	205
Implementing a Plan of Action	205
How to skip trace	205
Considerations to keep in your plan	206

Chapter 13: Bringing in Outside Collections Professionals 209

How Outside Debt Collection Professionals Can Help You.....	209
Considering your options	210
Selecting a professional	211
Determining what services you need for your claim	213
Deciding When (Or Whether) to Bring in the Pros	214
Factors that may affect your decision.....	215
Cost considerations: Should you write off the debt instead of turning it over?	216
Providing information to your professional.....	217

Avoiding and Resolving Problems When Working with Collection Pros	218
Get it in writing: Entering into a contract for services.....	219
Establishing standards of ethics and behavior with your collections pro.....	220
Giving your professional an organized file	221
Deciding when to cut and run: Terminating the relationship.....	221
How to file complaints for poor service.....	222

Chapter 14: Dealing with Bad Checks and Other Rough Spots 223

Being Proactive: Creating Systems That Help You Avoid Problems with Checks.....	224
Dealing with Problem Checks	226
Nonsufficient funds (NSF) checks.....	226
Checks drawn on uncollected funds	229
Stop-payment orders.....	231
Checks from closed accounts	231
Figuring Out What to Do When a Debtor Relocates.....	232
Attempting to collect across state lines	232
Using a professional where your debtor is located.....	233
Being Careful When Pursuing Your Money	234
When Things Look Bleak: Situations That May Require a Write-Off.....	235
Out-of-business customers	235
Debtors who can't be found	236
Customers in bankruptcy or receivership.....	237
Claims on a deceased debtor's estate.....	237

Part IV: Taking a Hard Line: Suing Your Debtor..... 239

Chapter 15: Determining Your Litigation Strategy 241

Assessing the Strength of Your Case	242
A Fork in the Road: Considering Alternative Dispute Resolution Instead of a Lawsuit	243
The benefits of ADR.....	244
Don't count out a lawsuit just yet.....	245
Working Your Way through Alternative Dispute Resolution.....	246
Forms of ADR.....	246
How ADR is conducted.....	249
Getting your case into ADR	250
Choosing your arbitrator or mediator	251
Preparing for your ADR (and deciding whether you'd like some help)	252
Developing a Litigation Strategy Before Filing Your Lawsuit.....	254
Suing all the parties involved	254
Using the appropriate legal theories.....	256
Preparing Your Case for Court	258
Finding and preparing witnesses	258
Finding and preparing documents.....	261

The Statute of Limitations: Handling a Legally Expired Claim..... 261
 Whether to sue on an expired claim 262
 Calling for the money, even though the claim has expired..... 263
 How to renew the expired debt: A trick of the trade 263

Chapter 16: Understanding How Lawsuits Work 265

Knowing What Lawsuits Entail 265
 Considering Case Complexity and Cost..... 267
 Deciding whether to hire a lawyer..... 267
 Looking at costs and fees (both with and without an attorney)..... 268
 Squaring Away Your Suit with the Court..... 269
 Drawing up the paperwork..... 269
 Filing your lawsuit with the court..... 270
 Paying the necessary fees..... 272
 Serving a Lawsuit..... 273
 Ensuring your lawsuit is properly served..... 273
 Hiring a process server..... 274
 Serving the suit to a hiding defendant 275
 After service: What happens next..... 276
 Obtaining a Judgment by Default 276
 Dealing with a Contested Lawsuit (You Can Do This)..... 278
 Understanding the defendant’s answer to the complaint 279
 The discovery stage: Asking questions of the defendant before trial 281
 Filing motions in court 282
 Talking to the Judge before Trial..... 284
 Going to Trial! 285
 Filing an Appeal 287

Chapter 17: Selecting the Court. 289

Choosing Which Trial Court to Use..... 289
 Lawyer lingo: words and concepts you’ll encounter in court..... 290
 Federal court system..... 291
 State court system 292
 Small claims court: Perfect for the do-it-yourselfer 295
 When the Trial Goes Wrong: Filing an Appeal 296
 Standards for filing an appeal..... 297
 Process for filing an appeal 299
 Selecting the correct court to file your appeal 300

Chapter 18: Surviving the Trial. 301

Prepare, Prepare, Prepare!..... 301
 Handling Small Claims Court Yourself..... 302
 Knowing what to expect..... 302
 Winning through organization and preparation..... 306
 Making your testimony powerful..... 308
 Introducing evidence you bring..... 309
 Calling witnesses and asking questions..... 310

Being a Witness in Trial Court	311
Talking to your attorneys before the trial	311
Listening carefully	312
Answering questions in court	312
Offering documents into evidence	314
Handling cross examination	315
Chapter 19: Collecting a Judgment	317
Knowing the Basics for Turning a Judgment into Cash.....	317
Considering your postjudgment options	318
Finding the debtor's assets	319
Utilizing Court Procedures after Judgment.....	320
Collection tools available through the courts	321
The court's role in the collection process.....	322
Conducting a creditor's examination:	
Asking the right questions	324
Grabbing Cash: Effective Use of Garnishments	325
Figuring out who or what to garnish	326
Determining when to garnish	327
Garnishment priorities: Other creditors competing	
for the same funds	327
Issuing multiple garnishments at the same time	328
Seizing the Debtor's Assets	329
How the process works.....	329
Working with a court officer.....	330
Strategies for successful seizures.....	331
Using a Receiver to Enforce Collection.....	332
Wrapping Up the Collection of a Judgment	333
Accounting for money collected under a judgment	333
Filing a satisfaction of judgment and reporting	
to the credit bureau.....	334
Part V: The Part of Tens	335
Chapter 20: Ten Common Pitfalls in Credit and Collections	337
Chapter 21: Ten Tips for Maintaining Cash Flow	343
Appendix: About the CD	349
Index	355