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Debt Collector's Dozen: 12 Tips to Reduce Accounts Receivables

Here are twelve suggestions that any business can use to help reduce and collect accounts receivables. A business that consistently utilizes all of these tactics will be sure to show both long and short improvement in this area of business operations.

1. Fully Signed Contracts

This first suggestion seems rather obvious but is nonetheless regularly ignored. Provide no services or goods without a complete and fully signed contract. The customer should be fully identified. If the customer is a business entity, specify the type on the contract: partnership, corporation, limited liability company, for example. All changes to the contract must also be in writing. With a fully signed contract your company stands at least twice as good a chance of collecting a problem account.

2. Notice of Defects & Opportunity to Cure

If a customer does not want to pay it will often create an excuse by raising a new complaint only after your company insists an overdue bill gets paid. Avoid this ploy by including a clause in your contracts that requires the customer to promptly notify your company of any complaints or defects in writing within a limited time period. In case that happens, have another contract clause stating that your company must be permitted to correct the complaint before any third party may attempt to do so. This will decrease the likelihood of counterclaims and set-offs eating away at your accounts receivable.

3. Interest on Overdue Amounts

If your contract does not state the amount and terms of interest, then a court will generally not award interest damages. Interest claims can also be used in settlement negotiations as a bargaining chip to preserve recovery of the full principal amount due.

4. Counsel Fees as Damages

Similarly, if your contract does not state that counsel fees can be collected as part of damages then a court will generally not award counsel fees. Some New Jersey judges have recently been denying such claims if the contract does not specify the hourly rate for attorney services. The contract should provide not only for award of counsel fees in the event of suit, but that all attorney services are reimbursable.

5. Forum Selection

Why should your company have to travel across your

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Law Firm Briefs

Great Quotations ...

"Under democracy, one party always devotes its chief energies to trying to prove that the other party is unfit to rule - and both commonly succeed, and are right."

- H.L. Mencken

state, or even across state lines, to litigate or arbitrate a contract dispute? Be sure to include a forum selection provision in all your contracts.

6. Document Any Time Extensions

Another common excuse for non-payment that often arises only after there is a payment problem is a claim alleging delay. Be sure to record all extensions of time agreed upon among the parties regarding deadlines for delivery of goods and services. If the customer's behavior has caused a delay, be sure to obtain a written commitment for extension in the form of a contract amendment.

7. Keep Good Internal Procedures

Limit your need for assistance of legal counsel by utilizing strong internal collection procedures on a regular basis. Keep a routine of steps taken to remind customers of their financial obligations to your company. Remember most accounts should be designated as a problem if more than 90 days overdue. Do whatever can be done to keep the account from becoming a problem. Past 90 days take prompt action with assistance of legal counsel in appropriate cases. Too many companies wait too long to take action after details are forgotten or witnesses are no longer employed by the company thereby reducing the likelihood of success.

8. Get Your Customer's Social Security and Driver's License Numbers

Asset searches and searches necessary to locate missing debtors are much more likely to be successful if you have social security numbers (or in the case of businesses, taxpayer identification numbers) and driver's license numbers. Request this information as a routine matter early in the relationship before there is a debt collection problem. Many customers will provide this information without objection.

9. Get Bank References

A good way to collect a judgment is with a bank account levy executed by the local sheriff's department. Ask the customer to provide banking references early in the relationship - perhaps in a new customer questionnaire.

10. Retain Copies of All Checks Received

Similarly, keep copies of all checks your company receives. If an account goes bad, the checks you copied will tell you where the debtor maintained its checking account so that your company may seek to collect a judgment with a bank account levy.

11. Obtain Employment Information

Another collection method after a judgment has been entered is a wage garnishment whereby a small payment is taken out of the debtor's paycheck before the debtor receives it. That money is sent directly by the employer to the Sheriff's department and then to you or your attorney.

12. Personal Guarantee of Debt

Whenever possible at least one owner of the business entity that is a first time customer should be personally responsible for your bills until that company has a good track record of prompt payment.



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