

VeriCore

IN-HOUSE COLLECTION POLICY

Based on net thirty terms



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This is a sample of a credit policy based on net thirty terms. We hope you will find this to be a helpful guideline. Specifics for your company will of course be different, but we hope that this at least will give our clients some ideas. Feel free to use what you like and disregard the rest.

Any company that grants credit is going to get burned on occasion, but hopefully with a strong in-house commitment you can keep bad debt to a minimum. At VeriCore, we feel our job is not only to collect your accounts, but also to teach you and your company to be more productive in your own in-house efforts.

The need for a strong in-house policy to manage the accounts receivables of your company is one of your greatest concerns. Because we recognize the importance of maintaining your client base while educating them about your credit policy is important, we have developed a policy that we hope will fit your needs.

Part of the reason clients are reluctant to place an account for collections is that they do not feel that they have given their customer ample opportunities to pay the debt. Too often, a debtor will come up with some sort of a dispute after his account is delinquent and use that as a reason to avoid paying even the undisputed portion of the bill.

Part of a good collection policy eliminates this and follows a simple event (date) sensitive procedure that gives the customer no less than six separate chances to behave like a customer and not a debtor.

As a businessperson, we're certain your goal is to keep all of your accounts under 90 days. What we have designed is a very simple policy that if followed, will encourage all but the worst of your customers to pay you within reasonable terms. With this in mind, let us begin...

The Credit Application

Obviously, the most important thing you can do to prevent accounts from becoming delinquent is to weed out potential problem accounts early on. The most effective tool you have in your arsenal is the credit application.

Too often, we in the collection business are asked to collect an account with very little knowledge about who we are going after. Too often in your business, you are asked to extend credit to someone who you know very little about. It would help both of us to have a completed credit application on every account that we look at.

A good credit application will list landlord information, banking information, principals of the company, annual sales, references, allow for the addition of late fees and legal/collection costs, and above all other things, ask for a personal guaranty. In your business, more often than not, your customers are willing to sign a personal guaranty in order to get credit. This enables us to hold a person responsible when a company shuts their doors. A debt that could possibly have been walked away from is now something that an individual must face. By getting personal information about the responsible party, it enables you to have the right to contact the debtor at their home. This is especially useful when the company is no longer answering their phone.

Getting good credit applications submitted to the credit department is most often the job of the sales department. Therefore we suggest a system, upon which each sales person is given points for completed credit applications, and on a monthly or quarterly basis awarded with a certificate for a dinner or something comparable by the credit department? Too often Credit and Sales are butting heads over issues when they both need to realize that they are in pursuit of the same goal, that is...To Make the Sale! The difference is that the credit department just wants to make the sale safely.

We would like to suggest that sometime in the near future, it would be extremely wise of you to send out a mass mailing to all of your customers and ask them to re-submit a credit application. We guaranty you that a large portion of the information that you have on file about these companies is now obsolete. Companies have changed hands, switched banks, moved to new locations and certainly the responsible parties have changed as well. As an incentive to get people to submit a new application, consider perhaps a discount or even an increased line of credit. You may find that some of your customers deserve it.

On the next page you will find an excellent example of a credit application.

Credit Application

Business Name _____ Line of Credit Requested \$ _____

Phone (_____) _____ Fax (_____) _____

Address _____ For Past _____ years

Shipping Address _____

D/B/A _____ Federal Tax ID# _____

Former Business Address (if applicable) _____

Type of Business _____ Date Established _____ How long in Business _____

Mortgage holder/Landlord _____

Address _____ Phone # _____

Does State, County, or City require a License? Yes No If Yes, License # _____

OWNERSHIP: Sole Proprietorship Partnership Corporation

PRINCIPAL:

(NAME) (Title) (SS#)

PRINCIPAL:

(NAME) (Title) (SS#)

PRINCIPAL:

(NAME) (Title) (SS#)

PRINCIPAL:

(NAME) (Title) (SS#)

TRADE REFERENCES:

NAME ADDRESS/PHONE#

_____	_____
_____	_____
_____	_____
_____	_____

BANK REFERENCES:

_____	_____	_____	_____
(Name)	(Address)	(Acct #)	(contact)
_____	_____	_____	_____
(Name)	(Address)	(Acct #)	(contact)
_____	_____	_____	_____
(Name)	(Address)	(Acct #)	(contact)

No. of Employees _____ Est. Annual sales _____ Sales Area _____

Credit Application

Has the firm or any of its principals ever been Bankrupt? Yes No

If Yes, explain _____

Any misrepresentation in this application will be considered evidence of fraud, since this information is the basis for the extending of credit. As an inducement to grant credit, the undersigned warrants that the information submitted is true and correct. You are authorized to investigate the credit references and principals listed.

In consideration for the extension of credit, said business promises to pay for all purchases within the terms agreed (ENTER TERMS HERE) and agrees to pay a service charge per month of 1-1/2% per month (18% annual percentage rate) on all past due balances. In the event any third parties are employed to collect any outstanding monies owed by said business the undersigned agrees to pay reasonable collection costs, including attorney fees, whether or not litigation has commenced, and all costs of litigation incurred. The undersigned represents that he/she has the authority to execute this credit agreement on behalf of the business identified.

(Name of Business)

(Print Name) _____
(Title) _____
(Signature)

(Print Name) _____
(Title) _____
(Signature)

Personal Guarantee

(Fill in name of company granting credit)

In consideration for _____ extending credit to the business identified below for any materials and/or services after this date at the request of applicants or its agents, the undersigned individual hereby personally guarantees unconditionally and irrevocably the prompt payment of any sums now or hereafter owed to _____ by the business identified below whether said sums are due under open account, contract or otherwise.

It is understood and agreed that credit, if extended, is to be on a continuing basis and may exceed estimated maximum credit limit required as stated in the credit agreement between _____ and the business. _____ shall not be obligated to notify the undersigned of the dates or amounts of any such credit and the undersigned waives demand, notice of default and any extension of time or any other forbearance which may be extended by _____.

This guaranty shall continue in force until notice in writing, sent by registered or certified mail, return receipt requested is received by _____. Said notice shall specify the date on which this guaranty is to be terminated; said date not to be less than seven days after such notice is received. Such termination shall in no way release the undersigned as to any sum or debt incurred prior to such termination.

Date _____ Name: _____
(Name of person guaranteeing payment, NO TITLE)

Home address _____

Home Phone # _____ SS# _____

Signature of person guaranteeing payment _____

Name of Business whose account is guaranteed _____

CREDIT DEPARTMENT USE ONLY

Line of Credit: Approved / Denied Amount \$ _____ Date: _____

Comments: _____

THE WAYS A CUSTOMER DECIDES TO BE A DEBTOR

- Breaking terms
- Avoiding contact
- Finding fault with your product
- Ignoring final 10 day demand
- Asking for payment arrangements
- Making partial payments
- Having NSF checks
- Holding debit balances for client
- Refusing to sign a personal guarantee
- Your competitors calling for credit references
- Refusing to return merchandise
- Hearing troubling rumors about your client
- Know they are buying from your competition, not you
- Sending an unsigned check
- Sending postdated checks
- Have on credit hold
- Using you as a bank
- Claiming invoicing or pricing problems
- Requesting fax copies of invoices constantly
- Has high turnover in accounts payable department

COLLECTION TOOLS AND TIMELINE

AGE PAST DUE	ACTION
Prior to Past Due	Courtesy Call to customer to check to make sure merchandise was received as ordered and to remind of the terms of the sale. This is the most important call of the entire process.
30 Days	Reminder letter #1 is sent and client is re-invoiced for balance due. This not only reminds them of the balance due but also eliminates the stall of a lost invoice.
45 Days	Call #1 is made to client. After ensuring that there is no problem with payment being approved, you seek a commitment for payment and a time frame for when it will be sent. This call also warns them that their account will be placed on credit hold at 60 days.
60 Days	Letter #2 is sent to client. It questions the reasons behind their lack of communication and informs them that their open account buying privileges have been suspended.
75 Days	Phone call #2 is made to client. With this call you are attempting to come to some kind of payment arrangement that will keep it from becoming necessary to turn the matter over to your collection agency.
90 Days	Your Final Demand Letter is sent to the client. It makes clear your intent to involve a third party agency if they do not forward full payment immediately. A VeriCore letter should be sent at the same time.
100 Days	Any account that fails to respond to your final demand, and has been through all the above steps, is forwarded to VeriCore for collections

Courtesy Call to Customer

(Within the First Fifteen Days)

Make the first call to your customer after the goods or services have been delivered, but before payment is due. There are a number of distinct advantages to this approach.

1. Your first contact is on a positive note. You're calling to:
 - Confirm that merchandise was received
 - Confirm that it was received in satisfactory condition
 - Confirm that there were no discrepancies between the order and what was delivered
 - Confirm that the invoice arrived
2. You are contacting a customer, not a debtor.
3. You are able to elicit the promise to pay.
4. You eliminate later arguments about quality or price.
5. You learn who the contact person is before a delinquency occurs. If you do have a call back you will know who the contact person is and will have already established a relationship with that individual.

The advantages of calling customers before the payment is due are clear. Resistance to the idea is usually based initially on staffing considerations. That is, "how can I ask my already overworked staff to make a whole new series of calls? It is not the best use of my limited resources to call customers before payment is due, especially when some of those customers will pay without the phone call."

But, consider the bigger picture. The purpose of proactive collections is to reduce the amount of time your staff spends on calling older delinquent accounts.

The result:

1. Increased revenue because the in-house focus is on "newer" receivables which are more collectible.
2. Increased revenue sooner because the focus is on keeping good accounts good.

The first call to a customer is a public relations call. The purpose of the first call is to commence the customer education process. The call should be made some time between the date of the sale and before the sending of the statement. Assuming that an invoice goes out at approximately 15 days the best time to make the customer call is within two or three days of the invoice being sent. Again, this call not only confirms delivery and a lack of any problems, it elicits the first promise to pay.

An example of the courtesy call:

Customer	Good morning, Customer Company.
Collector	Good morning. I need to speak to the person responsible for accounts payable. Who is that please?
Customer	That would be Steve.
Collector	What is Steve's last name please?
Customer	Steve Lee. I'll connect you.
Customer	Steve Lee speaking.
Collector	Good morning Mr. Lee. This is Bob Smith call from ABC Company. simply wanted to confirm that you received our shipment last week. It should have arrived on the 12th.
Customer	Yes, Bob we did.
Collector	Everything was in order then?
Customer	Yes, everything arrived without a problem.
Collector	Any questions about the invoice?
Customer	Well, we received it with the shipment. It looked fine.
Collector	Our payment terms are 30 days. May we expect payment by the 12th of next month?
Customer	Yes, it is in line for payment.
Collector	Thank you, Mr. Lee. Please feel free to call if you have any questions.
Customer	Alright, thank you.

The customer was given the opportunity to address any problems with defective merchandise or incorrect billing. Had there been a problem, the collector would have been able to get it resolved right away. And that's good for customer relations. We know this seems like a lot to ask of your limited staff, but this may be the most important call of the entire process.

COLLECTION LETTER

(Sent 30 Days Past Due)

Contact
Client Name
Client Address
City, ST Zip

Dear _____

Thank you for your recent purchase. We appreciate your business and look forward to being of further service to your company in the future.

For your convenience, I have enclosed a copy of the statement that originally went out with your order. As you will see, your company was extended terms of Net 30 for this transaction. At present, our records indicate that we have not yet received payment from you which means your account with us is now past due.

If you have any questions regarding your account balance or the product you received, please contact my office immediately. I will be happy to answer any questions you might have. Otherwise, we request that you remit the balance on your account of \$_____

Thank you in advance for your attention to this matter.

Sincerely,

Credit Manager

As you can see, this letter would include another copy of the statement, which will eliminate (Hopefully!) any stall tactic later on in the process.

COLLECTION CALL #1

(Made at 45 Days Past Due)

"Hello, this is _____ with _____ calling for _____ is he available please?"

"Hello _____ this is _____ calling from _____ I hope I've caught you with a moment to spare?"
"Good".

The reason for my call is that your company has a balance due to my firm of \$_____ that I just noticed has gone 45 days past due. My concern is that this might be due to some level of dissatisfaction with the product/service you received from us. I'm simply calling today to find out if there's a problem between our companies that I should know about?"

If YES - Solve the problem.

If NO ...

"Good, I'm sure this was just an oversight by someone there, but you might want to talk to the person in payables that let this sit. *The reason is, our company has a strict policy about credit limits and at 60 days, all accounts are automatically put on COD/Credit hold.* I don't know if you were aware of this, but I certainly wouldn't want to see you experience the inconvenience of having your purchasing ability interrupted. Again, thank you for your time, I appreciate your help with this, and I'll note your file here as to when we can expect payment. Good Day"

As you can see, this gives the incentive for your customer to pay his bill NOW because it has been clearly stated that at sixty days, he will no longer be able to order from you. Hopefully, he will pay his bill and maintain his good customer status. It is imperative that you are serious about the credit hold at 60 days, because if you aren't, you are letting the customer know that you are not to be taken seriously about any future threats of action.

COLLECTION LETTER #2

(Sent 60 Days Past Due)

Contact
Client Name
Client Address
City, ST Zip

Dear

Ninety days ago, our company shipped your product in good faith. Unfortunately, in the interim, we have not received either our payment or any notification of any problems with our product. Simply put, this lack of communication concerns us.

The purpose of this letter is to notify you that, due to non-payment, your open credit account has been changed to a credit hold (COD) status, and will remain so until such time that your balance with us has been satisfied, or until satisfactory repayment arrangements have been made. Your prompt attention to this matter is now strongly encouraged.

We do not take these kinds of actions lightly. Our sincere hope is that this is just a temporary delay in payment that you will be able to remedy. We do value our relationship and its continuation is a primary goal of ours.

Please call me if there is anything you would like to discuss or if there is any way I can assist in the resolution of this matter.

Sincerely,

Credit Manager

As you can see, you have followed through with your policy. Make sure to note the account as being on credit hold in your records. The worst thing that can happen at this point is to allow the customer to continue to receive product, and therefore not only increase the amount owed, but reduce his incentive to pay!

COLLECTION CALL #2

(Made at 75 Days Past Due)

"Hello, this is _____ phoning, is _____ in? May I speak with him/her please?"

(GREETINGS WHEN DEBTOR GETS ON PHONE)

"_____, I'm calling today to discuss the delinquent balance your company has outstanding with us. At present, your balance here is \$_____ and according to my records, we've not received any kind of payment at all on this balance. The purpose for my call today, _____, is to find out if this is a problem that you and I can work out amongst ourselves?"

"I know that from time to time every company can experience a cashflow problem. If that's all this is, I'm sure that management here would be happy to work with you through this tough time. After all, we do value your business, but I need to have something to report back to them. SO, let me ask you this. If you are not in a position to satisfy this entire amount right now, what kind of payments could we agree to over a short period of time?"

DECIDE AND AGREE ON THE SHORTEST TERM PAYMENT PLAN YOU CAN GET, THEN...

"_____, I'm glad we came to an agreement, but I hope you realize that I'm up against the clock on this one. What I'm going to need to do now is to restate the points of what we've just agreed to, I'll have it typed up and I will fax it over to you within 24 hours. Then, once you've signed it too, I'll take it to our management to get them to stop any further action and to see about having your account changed from credit hold to a COD basis. At least then, you'll be able to get our product again while you are making your payments. Fair enough? Good? I'll have this agreement over to you as soon as I can. Once you get it, please get it back to me ASAP. Thanks again, and I'll talk to you soon."

We really like this approach, because it allows for the customer to feel that you do care about him as an individual. However, we suggest that with any payment schedule that you work out, that you must insist that post-dated checks are part of the bargain. This will eliminate the chasing down of these debtors on the first of every month when the check hasn't arrived. Also, if the amounts are significant enough to warrant the expense, we highly recommend insisting on the debtor to allow you to schedule a FedEx pick up of these checks. This emphasizes the urgency of this matter, and will call his bluff if he is not prepared to make this commitment.

FINAL DEMAND LETTER

(Sent 90 Days Past Due)

Contact
Client Name
Client Address
City, ST Zip

Dear

The purpose of this letter is to inform you that your company has an outstanding balance of \$_____ which is now 90 days past due. Since that is three times the terms originally extended to you, we must now demand your immediate payment in full.

If this payment is not received in this office by close of business on_____this matter will be referred to our collection agency and you may be liable for additional charges and costs of collection as provided in our credit agreement.

To avoid the loss of your standing with us, and the damage to your credit ratings, I strongly urge you to resolve this matter immediately.

This will be the last correspondence you receive from this office. Please act now!

Sincerely,

Credit Manager

On the day you send this, we also suggest yet another phone call to the debtor to let him know that you are taking this action. Also, at this stage, we highly suggest that you utilize your collection agency to send out a certified next day collection letter on their stationary stating that they will be assuming control of the account within 10 days. This approach will weed out all but the worst of your debtors and make them realize that you mean business. A copy of a VeriCore demand letter is on the next page...



SAMPLE

January 26, 1999

Accounts Payable
West Incorporated
123 Main St.
Anywhere, TX 77057

Dear Sirs:

This is to advise you that your account, with the below named creditor, will be placed with our firm for collection. You have 10 days to pay our client the full amount of the stipulated balance. If you have not paid within 10 days, we will assume control of your account, and you may be liable for additional collection fees. This demand expires February 5, 1999.

ABC International
1st Street
Somewhere, NY 10000

Placed by: John Smith
Invoices: 8/97 - 12/30/98

Balance: \$54,560.41
Charges:
Total Due: \$54,560.41

Sincerely,

Joe Smith

Account Executive
VeriCore

cc: Paul Montez

If this policy has been followed, when you run your aging report every month, every person listed over ninety days will either:

1. Have their overdue amount already in house in the form of postdated checks
2. Have a ten-day demand letter in place, or-
3. Have placed the account for collections

We know that in reality this whole scenario is, to a certain degree, wishful thinking. There will always be the big guys, the friends of the boss, and the special circumstances. But, we promise you, If you follow this policy, You will have given your clients every opportunity to pay their debts and air their grievances before the account is severely overdue.

What all of this comes down to is creating a sense of urgency and importance from day one to get your clients to pay their bills. It is not a sin to insist that you be paid for your goods in a timely manner! It must be corporate policy that it is just unacceptable to your company to allow customers to treat you as a bank. Too often we hear excuses like “that’s just the way this industry is.” No it’s not! This industry is how you allow it to be! Unless you take responsibility to change the attitude your company has towards its debtors, how can you expect your debtors to modify their behavior?

Sincerely,

The Credit and Collection Professionals at VeriCore