

Collections Checklist: How to collect past-due accounts

While having a small accounts-receivable balance indicates good financial management, (around 1.5% to 2.5% of your gross income), collecting past-due balances is a displeasing aspects of business. Studies show that 75% of receivables that are 3 months delinquent are paid. However, this number drops to 56% after 6 months. Therefore your delay in collecting past-due accounts will reduce your chance of receiving payment. This checklist should help you reduce the stress of collecting past-due accounts:

- ✓ Encourage customers to pay sooner by offering discounts for early payments. For example, offer a 2% discounts for accounts paid within 10 days rather than 30 days.
- ✓ Keep an eye on the calendar for tax refund season. Most customers want to pay their bills and will pay if they have the funds.
- ✓ After 30 days of no payment, add a service charge. Contact your attorney to ensure that you do not exceed your state's usury statutes and federal law.
- ✓ Make a personal visit to the customer to discuss past-due accounts. Remember, that you value the client-relationship.
- ✓ Call your customer when personal visits are not possible. Appeal to your customer's business sense while respecting the valuable client relationship. For example, try "I'm the smallest of the smallest. I can't play the role of bank because I am so small." When you talk with your customer, offer some solutions. Give your client a way out of this uncomfortable situation.
- ✓ Play "good cop/bad cop". Ask your secretary or partner to call on your behalf. This allows you to maintain the client relationship, while collecting your account. Ideally, the client will be so grateful to talk to you, the "good cop", that he/she will settle the account so they will not have to talk with the "bad cop".
- ✓ Send a series of reminder letters. The first letter should include the following statements:
 - Acknowledge your goal of providing high-quality services and a concern that your valued client has allowed his/her account to lapse
 - You are aware of his/her delinquent account status
 - Contact you promptly or his/her credit status is in jeopardy (include your contact information)
 - The total amount due

- Pay this amount to avoid sending the account to a collection attorney. Say, “we regret having to take this action, but must do so”
- Thank you in advance for settling this matter
- ✓ Your subsequent letters should include several choice boxes:
 - I am sending a check on _____
 - This is part of the bill to show good faith
 - Here’s the whole amount; now stop calling me
- ✓ File suit in small claims court. In Philadelphia, the maximum amount allowed for small claims is \$10,000. Corporations and associations with less than a \$2500 claim do not need an attorney to represent them in small claims court.
- ✓ If the past-due amount is more than allowed by the small claims court, then contact your attorney to file a lawsuit to collect the account.

Follow these steps and you should be able to collect your past-due accounts while preserving your customer relationship.

Ms. **Sharmil McKee** is a business attorney licensed in Pennsylvania. She focuses her practice on protecting small businesses and non-profits from future legal problems. Visit her firm's website <http://www.mckeelegal.com> for more information.

Disclaimer: This checklist is provided for informational purposes only and intended as a guide prior to consultation with an attorney familiar with your specific legal situation. This checklist is not a substitute for an attorney’s advice. If you require legal advice, please contact Attorney Sharmil McKee at 215-242-5260.