

## FACTS SHEET – July 1995

### Collecting your Debts (or more correctly, financing your customers)

When you obtain a loan the bank will usually do a credit check and business search on your credentials, obtain security and personal guarantees from the principals of the business in addition to analysing the financial statements and worthiness of the principals and the business.

When you provide credit to your customers essentially you are putting yourself precisely in the same position of the bank. You are providing finance to your customers business, yet what form of control do you have over the finance?

A study by Dun & Bradstreet suggests that the longer you leave an outstanding debt the more it is going to cost to collect it and the less chance you will have in collecting it. Estimates from the study put the cost of collecting a six months debt at 33% of the invoice price on average administratively and only have a 58% chance of collection.

#### **Credit Application & Search**

*The more substantial the credit to your business, the more control you should have over it.*

Confirm the customer's identity - is it a company or individual. Obtain the names of the customer's accountants and solicitors. If the customer is a company do a company search to obtain director and shareholding details. A check of the register of bankrupts at the Federal Court or a check of the winding up or receivership register at the State Supreme Court is not expensive, particularly if the customer will be heavily relying on your credit.

Do a telephone check of the credit references given. Note that it is preferable that the customer give industry trade references, not those of their bank or landlord.

Obtain the credit rating of the business from the Credit Reference Association (CRA). Become a member if you are not already, it is not expensive if you provide a lot of credit.

Provide a standardised statement of your trading terms with your application. Include your credit terms, period of credit allowed, the discount policy if applicable, policy of refunds/returns, a Romalpa clause stating that ownership passes only when goods are paid for, credit limit, and administration late charge payments for late payments.

It is advisable that a solicitor review your draft application. Ensure that the application includes the obtaining of the directors' personal guarantee - remember that the bank obtains it for their loans.

## Collecting Debtors

The credit term commences from the date on the invoice. Your invoice should clearly show the credit terms eg 30 days from date of invoice and any discount for early payment.

It is recommended that on:

- Day 31 - send a reminder letter, keep a copy
- Day 40 - telephone the debtor and diarise the conversation in a book
- Day 50 - issue a letter of demand, keep a copy
- Day 65 - begin legal action

With your letter of demand state that legal action will commence within, say, 7 days and that you will further supply the details to the CRA as a defaulter.

Your step into legal action requires you to either involve your solicitor or debt collection agency or by commencing action yourself by filling out a summons, including details of your claim and filing it with the local court. It is advisable that professional legal assistance is sought if the amount is significant.

***Remember - a sale is not a sale until the money is collected.***

***Important:*** *The information contained in this Facts Sheet is not advice. Many of the comments in this Facts Sheet are general in nature and anyone intending to apply the information to practical circumstances should seek professional advice to independently verify their interpretation and the information's applicability to their particular circumstances. Also please note that changes to legislation may occur quickly.*

**For more information**, or if you would like assistance, please contact Farmilo & Co.

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