

Practical Tips for Credit Managers and Credit Controllers

> Be sure of the identity of your customer/debtor

It is imperative that you know with whom you have contracted. Salesmen are too often more concerned to secure a sale than to attend to that vitally important task. One of the best things you can do is start a new account/credit account opening form. This should record all the relevant details of the customer and any additional information coming to light during your dealings with them. If you already have such a form then you should review its content critically and update it as necessary.

Your customer may simply be a trading name and address. While that can be sufficient for the purposes of raising a court action, when it comes to enforcement you may need to know its precise legal status – for example, a limited company or partnership. If it is a partnership you may also want to know the names and home addresses of all or any of the individual partners. The reason for this is that, under Partnership Law, they are as liable for the debts of the partnership as the partnership itself. This is known as “joint and several” liability.

Occasionally you might have a customer which is a Trust. You should try to identify one or more of the Trustees and their respective addresses.

Likewise, if your customer is a club, you should try to ascertain the names and home addresses of the principal office bearers, such as the president, secretary and treasurer. This is because a club has no proper legal status and, if sued, it is the office bearers who would be named in any court action.

> Check out any limited company

Limited companies require to lodge prescribed statutory information with the Registrar of Companies. You can very readily find out when it was incorporated, who its directors are and the main shareholders. Do you really want to be dealing with a company that was only incorporated a few months earlier? Are the names of the directors familiar to you? Are there other companies with whom the directors are or have been associated, insolvent? Do the names ring alarm bells?

“Limited” liability means that the directors cannot be made personally liable for debts of the company, even where they are the sole director and sole shareholder. In appropriate cases you may want the directors to personally guarantee the sums owed or to be owed by their company. Do not be afraid to ask. If the directors are not prepared to guarantee the debts of their own company to your organisation then, in effect, if you allow them credit, you are guaranteeing payment yourselves!

It is probably easier to obtain a personal guarantee in the early stages of a new company, particularly if they want to do business with you. A simple guarantee can be incorporated into an account opening form whereby the director or directors

sign an undertaking that they will meet the liabilities of their company should the company not do so. We can provide guidance on the appropriate wording for any such personal guarantee.

> Is your interest rate adequate?

If you have to sue a debtor you may apply the “judicial rate” of interest, which is 8%. In Scotland this only runs from the date of commencement of the court action but continues until the debt is fully paid. Whilst it is an easy amount to calculate, you may not be compensated for the delay between issue of the invoice and of court proceedings.

Late Payment interest provides for interest at 8% over the Bank of England Base Rate. That is problematic to calculate if only because the base rate changes from time to time. In fact, the late payment rate is calculated with reference to the base rate on 31st December for the following six months and likewise on 30th June - something many people are unaware of. It is still not a straight forward calculation.

The simplest solution and one recommended by us is a generous yet fixed rate of interest of, say, 8% per annum or more. Even 2% per month (24% per annum) is unlikely to be challengeable as penal.

> Statutory compensation

Do not forget that Late Payment legislation also allows for statutory compensation on each and every outstanding invoice relating to a commercial debt - £40 for every invoice of a value up to £1,000, £70 per invoice between £1,000 and £10,000 and £100 for each invoice over £10,000.

Late Payment compensation can always be waived as part of any negotiations to secure settlement but if it is not sought from your debtor then any concessions made will be against the original debt itself – not what you would wish.

> Find out who their bankers and customers are

Knowing the bankers and principal customers of your debtor may allow you to try to freeze money in the hands of a third party by way of arrestment on the dependence, if circumstances merit it. This is most likely to be required in relation to larger debts where the financial standing of your customer is uncertain. Without information on their bankers or customers, you will not be able to try to secure protective measures. At least with the benefit of that information you have a choice whether or not to do so. Fundamentally, the more you know about your debtor, the better your prospects of recovery.