



# Using Credit Management to Improve Collection Procedures

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## **Common credit management errors & how to correct them**

If you are creating your credit policy you may not be familiar with some common mistakes made when collecting on past due accounts. Make sure you don't make these mistakes:

- Not checking customers credit history before extending credit
- Not getting a signed credit application, agreement or contract
- Not being familiar with the FDCPA and unintentionally "harassing" a debtor
- Overlooking small balances
- Not asking for the money because you hate asking for your money
- Not knowing when is the right time to turn the account over to a collection agency
- Not having any type of credit policy and enforcing it

- Extending credit to anyone who walks in or calls because they “sound like they will pay”
- Not taking action on returned checks
- Not using letters and forms to collect on past due accounts
- Not having a credit application
- Not checking credit
- Not understanding how to communicate with customers so they stay current
- Not using discounts and incentives to persuade customers to pay early
- Not knowing how to set up realistic payment schedules with customers
- Not knowing what to do if a customer files for bankruptcy
- Not training collection staff
- Waiting too long to use a collection agency

What if you have already made some of these mistakes? There are things you can do to correct the most common debt collection mistakes.

- Enforce your credit policy

- Make sure your debtor is “worth” something before suing them, if they don’t have any assets or a job or bank account, there is nothing to attach or garnish if they do not pay
- Ask for payment immediately when payment is due
- Research and sign up with a debt collection agency even before you need one and then place accounts before they get too old

Always check credit references. If something doesn’t seem right, it’s probably not. If you are not happy with the references provided to you, ask for additional references. This customer wants credit from you, so you call the shots. If you give them credit without checking them out, they call the shots.

### **Top methods for improving collection procedures**

Some businesses have slow paying customers or past due balances because they didn’t “train” their customer in the beginning. It is important that your customers know your credit policy and/or your terms of payment before they become customers. Reiteration of your credit policy, when payment is overdue, is a good step to take in trying to obtain payment. Always ask for payment when it is due.

You should never extend credit to a new customer without having them complete a credit application and go through the credit approval policy. Once you extend credit, it is important to maintain accurate records on an account payment history.

Follow your collection policies no matter what.

Change your collection letters frequently, you can make them stronger and more action oriented.

Discourage payments on account or changes in payment terms. Too many payment plans or changed payments terms can impair your cash flow.

When you receive payments "on account" be sure to follow up right away with a letter or phone call thanking them for their payment and telling them what their new balance is and when to send the next payment. Don't ask them when they will send the payment; tell them when to send it.

On large accounts, call or send a reminder just a few days after terms if they become past due.

Ask to speak to a manager or owner when making collection calls rather than speaking to a secretary or receptionist. Go right for the decision maker.

Update your records often, making sure the telephone numbers you have and addresses for your customers are current and up-to-date.

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