

How to Collect Debts Easier

Even when "business is booming," there is little satisfaction to a business owner if he or she can't collect the money that is owed. Despite the healthy economy of the last few years, many businesses are still plagued by slow payors and credit risks.

How can you get a customer or client to "pay up" promptly? Before you do anything, be careful.

Reason: you could run afoul of one of several laws designed to protect debtors. In brief, you may be fined or forced to pay damages-or both.

The key is to try to maximize collections for your business operation without exposing it to liability for abusive debt collection practices.

The controlling federal law in this area is the **Federal Debt Collection Practices Act**. It generally applies to professional debt collectors, rather than the average small business owner. But state law may restrict the debt collection practices of businesses. Also, debtors may be able to bring civil actions against businesses owners.

Here are several ways you might stay out trouble while you pursue what is rightfully yours.

Stay on top of your **accounts payable**. If a client or customer thinks you have forgotten about a bill, it may become a low priority. If the payment term is the standard 30 days, don't let nonpayment go unaddressed for more than another one or two weeks.

Use the **personal approach**. Don't always start out by sending a computer-generated form letter. This may be considered a "temporary reprieve." A straightforward call reminding the debtor that the account is overdue is usually more persuasive. **Key point:** be sure to ask when the bill will be paid.

Follow up. If a personal communication doesn't produce payment, follow up with a registered or certified letter detailing (1) the amount owed, (2) the prior invoice date and 3) the date on which the goods were delivered or the services were provided. Make sure you have proof that you performed your part of the bargain.

Additional follow-up letters can be worded more strongly. State any additional measures you will take, including litigation, if payment is not received. **Caution:** postcards used to demand payment could lead to civil and/or criminal liability under federal law.

Be **businesslike**. Avoid sarcastic remarks and name calling. If you spread the word that a customer is a bad risk, you risk a defamation lawsuit. Be truthful and don't pretend you are somebody you are not. And don't make your collection letters look like they are coming from a collection agency.

Stay out of court if you can. You might try to arbitrate the dispute, especially if the debtor claims there is a problem with the goods or services. **Alternative dispute resolution** (ADR) is faster and less expensive than court and often produces satisfactory results.

With the help of your business advisers, you can determine the best course of action for your situation.