

A TEAMWORK APPROACH: Improving Collections Through Proper Documentation

The Team Concept

As a credit executive, you are aware that a spirit of teamwork is essential between you and your professional collector. You want quick turnover of delinquent accounts. A well documented collection file insures this by avoiding time-wasting efforts in the gathering of information and documents that you already have at your disposal. Sharing information you already have on file is fundamental and is good teamwork!

Why Do I need Documents?

If you have previously placed a file for collection, you have no doubt been requested to make copies of certain documents to aid in the collection of your account. Why? The answer becomes obvious once you realize that your collection professional will be able to communicate and demand money from your debtor if that person is “armed” with basic information including address, telephone number, legal identity, and so on. Proper documentation, forwarded right at the beginning of the collection process, allows your collector to effectively handle the clam on your behalf.

What Documentation Do I Need?

The credit executive knows good documentation is important. The following is a checklist of documents which will assist your teammate, the collection professional, in quickly collecting from your debtor:

- Credit application or equivalent. This is **the** most crucial document because it should contain:
 1. Debtor’s full name and physical address (not just a post office box, please!)
 2. Debtor’s legal identity including whether it is a corporation, partnership, or proprietorship.
 3. Names and residential addresses of the owners of the debtor’s business.
 4. Nature of debtor’s business.
 5. Debtor’s contact and telephone number.
 6. Trade references including exact bank name and account number.
 7. Social Security or business identification number (**always** obtain a Social Security number of an individual who is personally obligated for your debt, such as a guarantor).
 8. A credit application is also the best way to have the debtor agree to pay interest, collection costs and attorney’s fees. Above the debtor’s signature should be a statement that the credit information above is

accurate. Below the signature line should be an agreement to pay interest which is signed separately from the verification of the credit information. Without a specific agreement to pay interest, you are limited to suing for the legal rate allowed in the state where suit is brought. Also, if a personal guaranty is expected, it must be in writing as must the granting of any security interest. Consult your attorney for proper language.

There may be circumstances where a spouse should be included on these documents. To protect your interest, your attorney should be consulted so that the proper documents can be drafted.

- Promissory note: This is not a usual part of the typical goods-sold-and-delivered transaction. However, having a good blank form handy to be filled out by a debtor where a payment plan is required and where the debtor has requested your forbearance of the collection process is a good idea. Legal consideration of forbearance will support a promissory note. Consult your attorney regarding the possible use of a confession of judgment which is allowed in some states.
- Name, address and telephone numbers of any guarantors, co-signers, or persons or companies liable for payment of the debt.
- Documents such as statements showing the exact amount due including principal and interest after all credits are given.
- Documents such as handwritten memos kept in the file of all contacts/collection efforts. These become valuable as evidence where a dispute develops. You are aware that some “disputes” develop the day before the trial! So, be prepared by having a memo which will allow you to testify to the effect: “My notes confirm that I contacted Mr. Debtor on November 1, 1989 at 10:30 a.m. During that conversation, he promised payment in full would be in my office in the amount of \$2,133 by November 15th”. If you were the judge, wouldn’t that statement carry a lot of weight? You bet it would. Document your telephone calls. The best way to do this is to create a business form with spaces for date, time, person contacted, topics discussed and names of persons on the line.
- Contracts, purchase orders, delivery receipts.
- NSF checks, notices regarding bad checks required by state statute, notices under Fair Debt Collection Practices Act, written promises to pay.
- Letters confirming payment arrangements.
- Security documents, security agreements, ICC-1’s, legal notices for bond or lien rights.
- Credit reports, financial statements, annual reports.

- Place of employment, vehicle I.D. number, Social Security number particularly on consumer credit cases.
- Photocopies of debtor's checks (you should make a practice to occasionally photocopy checks paid on the account, particularly on marginal and new accounts).
- Memos of any name, address or telephone number changes.
- Notices of bankruptcy, bulk transfer, including bankruptcy of any guarantors or other persons or companies liable for the debt.

Not every document is essential in every case! Simply use this guide in developing your file on a customer...**before they become your debtor.**

*Prepared by the Pamphlet Committee of the
Commercial Law League of America*

*The information contained herein is not intended
as legal advice. Readers should consult an
attorney to determine specific applications
to the particular situation.*