



## DEBT RECOVERY IN TOUGH TIMES

With the economy tightening, one way to help your cash flow is to ensure that your customers pay your invoices on time. While there is no way to guarantee that every invoice you issue will be paid promptly, there are steps you can take to increase the likelihood of being paid.

### Review your Terms of Trade

Make sure your terms of trade make payment of your bills a priority for your customers. If your terms don't allow you to charge interest on your overdue accounts and pass on your legal costs for recovering the debt, while other companies your customers are dealing with do, chances are your invoices will be paid last.

If your terms allow you to register a charge on the Personal Property Securities Register (PPSR), you should register that charge as soon as possible. Because priority on the PPSR is based on the time the charge is registered so be prompt with your registration. If you don't register a charge on the PPSR and the debtor has other charges registered against it, all of the registered charges will be given priority over your debt when those charges are realised.

If appropriate, obtain personal guarantees from directors of customer companies. Check company records before extending trade.

### Don't Sit on your Bad Debtors

As the old adage goes, the squeaky wheel gets the oil. We have been finding that, in the current market, the creditor who makes the most noise and puts the most pressure on the debtor is the creditor who is most likely to get paid. The earlier you start following up on your bad debts, the more likely you are to be paid or achieve an arrangement for payment. Remember that debts can be registered on Veda Advantage (previously known as Baycorp).

### Know who you're Dealing With

It's quick, cheap, and easy to get a credit history check of the companies and directors you are dealing with. While you don't need a company's permission to do a credit history check, you will need permission from the directors to search their personal credit histories. If the company and/or the directors have a number of defaults registered against them, chances are your invoices may not be paid on time, if at all. While a clean credit history does guarantee no risk, it can be a good indication of your chances of getting paid.

You can also search the Personal Property Securities Register (PPSR) to find out what PPSR charges have been registered against the company. If you decide to deal with a company with a bad credit history, make that decision with your eyes open. Implement measures to protect yourself (such as dealing with the customer on a cash only basis).

### Taking the Next Step

Taking legal steps to recover a debt owed may be less expensive than you think. If the debt is owed by a company and is not in dispute, a statutory demand can be issued (a demand can not be issued if your debtors is an individual). This will require the debtor to pay you:

- (a) the outstanding debt;
- (b) interest on the outstanding debt if your terms of trade allow; and
- (c) your legal costs for issuing the statutory demand (if your terms of trade allow it).

If the debtor does not pay the amount claimed within 15 working days after receiving the demand, you can apply to put the company into liquidation. This may generate payment before the liquidation is advertised (the debtor won't want other creditors don't know that liquidation proceedings are being brought).

While you may not see putting a company into liquidation as your best option, the grim reality is that if the company is sliding deeper and deeper into debt, the longer it trades, the more debt it is likely to incur and the less money will be ultimately available to satisfy your debt.

For more information, please contact one of our offices.

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