

Collections corner: 5 Actions Planning Late Payment Service Fees: (courtesy of NACM South Central)

As the number of companies stretching out payments continues to increase, the sensitive issue of whether AR should levy late payment service fees has surfaced again with renewed intensity. This makes the publication of a new resource on the topic, the Credit Research Foundation (CRF; www.crfonline.org) survey, *Current Trends in the Practice of Late Payment Service Fees*, especially timely.

Scope of the Challenge

According to Experian's Q3 2011 payments trends survey, all U. S. business demonstrated an increase in slow payments compared with the same quarter a year ago:

- Commercial debtors paid their bills an average of 7.1 days beyond contracted terms in September 2011 - a 16.2 percent increase over September 2010.
- Business with over 1,000 employees paid beyond terms at a 28.3 percent higher rate than in Q3 2010. Small companies increased late payments by 20.5 percent over the same period.
- National average percentage of dollars delinquent and "severely delinquent" (91+ days past due) rose over last year, by 11.9 percent and 15.8 percent, respectively.

CRF Survey Findings

To understand how AR pros are responding to this growing challenge, CRF surveyed 492 companies during 2011.

The CRF survey reveals that a minority - 39 percent - of respondents charge late payment service fees, while 61 percent do not. However, when asked if their company has a written policy that allows assessment of such a fee 62 percent responded "yes". The virtually inescapable conclusion is that AR pros and their CFOs fear damaging customer relations and losing business if they actually put such a policy into effect, or - alternately - don't believe they can make such a policy stick. The anemic nature of the current economic recovery no doubt is also playing a part. About half (53) percent of all 492 survey respondents believe charging such fees is effective in lowering DSO, while among those who do charge the fees, 71 percent believe it aids collections.

A number of respondents to the survey stated that they prefer positive to negative motivation - offering incentives such as cash discounts to pay on time or early. Other noted that their competitors don't charge late fees, so they can't do so.

5 Action Steps

Clearly, the decision on whether to charge late payment service fees is not one to be taken lightly. However, if that decision is taken, CRF recommends carefully following certain procedures, including the following:

1. Ensure compliance with the Robinson-Patman Act, outlawing price discrimination. If a late payment service charge is not enforced consistently and transparently, a company can run afoul of the law. Involve corporate counsel in setting up policy.
2. Late payment service charges levied to compensate the seller "for the extension of credit or forbearance for collection," notes CRF, are "subject to the same laws and regulations of usury and maximum interest rates." Carefully research what the maximum interest is that can be charged in your state of business.
3. The policy must be in writing and must be communicated uniformly to customers via credit applications, contractual instruments and invoices. The language should be reviewed by legal and signed by a senior company officer.
4. Clearly communicate to customers the mechanics of the policy, including how the charge will be billed, whether a grace period following the due date is allowed, and after how many days assessment of charges begins.
5. Accounting policy for balance sheet treatment of the late payment service charge must be established and followed.