



PREPARING FOR A SLOWDOWN IN ACCOUNTS RECEIVABLE COLLECTION DUE TO COVID-19

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As the COVID-19 outbreak and response continues to develop in the United States and in Texas, businesses should expect to potentially experience delays in payment and collection of accounts receivable. Businesses can diminish the impact of these delays by walking the line between demanding strict compliance with the terms of credit extended and remaining flexible with customers. In this difficult time, businesses should anticipate a potential balancing act between preserving relationships with customers and the enforcement of contract rights for cash-flow purposes.

Businesses will want to ensure cash-flow from accounts receivable remains as stable as possible. But customers paying toward an amount due may request extensions or cease payment altogether due to COVID-19-related issues. Businesses can enter into payout agreements with such customers to mitigate the risk of outright nonpayment and to attempt to stabilize cash-flow. A payout agreement can modify the payment schedule to decrease or eliminate customer's payments for a set amount of time, temporarily reduce or eliminate interest payments and penalties or modify other payments terms to ensure the customer keeps making acceptable payments toward the amount due. If a business is interested in entertaining payout agreements or alternative payment arrangements, it is important that the business communicate such willingness to the customer. Customers too often take the "ignore it and it will go away approach." Being proactive about a willingness to work with a customer going through a financially challenging time may be the difference between collecting and not collecting.

Business also will need to ensure their legal rights to collect amounts due remain intact. For some businesses, this will mean sending letters to customers and guarantors reminding them of their obligations to pay or demanding payment of amounts due. For others, this will entail filing lawsuits, filing liens, enforcing security agreements or engaging in other legal processes. With any event, paying careful attention to the tone and wording of communications and legal papers will help businesses ensure that taking necessary steps to preserve their rights does not alienate customers or harm longstanding commercial relationships.

Further, businesses should keep close watch on delinquent accounts or any they expect will become delinquent and move quickly to preserve their rights. While courts and administrators around the country have canceled or delayed many legal proceedings due to COVID-19, in at least some states they retain discretion to require compliance with deadlines imposed by statutes of limitation, contracts and other rules. With video-conferencing, email and e-file capabilities, courts and administrators still may be able to resolve disputes and render judgment without the need for in-person interaction.

There is little doubt the response to COVID-19 presents businesses with challenges in ensuring payment and collection of accounts receivable. Businesses can work to mitigate the associated risks by remaining focused on the dual goals of maintaining stable cash-flow and customer relationships. By balancing these (sometimes) competing interests, with the right tools and guidance, businesses will weather the COVID-19 storm.

If you have questions or would like to discuss further, please contact Randall Lindley, Gwen Walraven or T.J. Hales.

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