The 27 Biggest Mistakes to Avoid When Negotiating Business Debts

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CORPORATE TURNAROUND

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Dear Business Owner:

Falling behind with your creditors can be one of the most stressful times in your life. Once collection calls start, it's almost impossible to concentrate on running your business. Your first impulse will be to talk to your creditors and see what kind of arrangement you can work out. You want to pay your creditors. You just can't afford what they're demanding. What you may not know is negotiating your own debts could be a fatal mistake for your business – if you don't know the pitfalls and traps hidden in every communication you have with your creditors.

I have seen so many companies go out of business because their owners tried to negotiate their own debts without any preparation beforehand. They thought establishing new payment terms would be quick and easy. After all, business owners negotiate all the time.

So they negotiated with the deck stacked against them:

- They didn't have the proper filing, bookkeeping and computer systems in place.
- They weren't prepared for the collection tactics that would inevitably be used against them.
- They didn't know which settlements would be appropriate for some creditors but not for others.
- They had no way to measure whether a creditor's settlement offer was reasonable or even affordable.
- And if they got sued, they didn't have an affordable way to handle it.
- They had no overall strategy or a realistic plan to resolve their debts.

The good news for you is that I've captured the 27 biggest mistakes business owners make when negotiating business debts.

But before we get started, please consider this –
If you're seriously thinking about negotiating your own debts but don't honestly foresee being able to pay those creditors off within a year, I suggest you seek professional help. But if you think you can pay them off over a year, you need to read this guide and view the video presentation at www.sbdc.dontdeclare.com. It will alert you to the many pitfalls out there.

So the next question is: why would I be willing to share these closely guarded secrets that I've learned over years of planning and negotiating on behalf of small businesses? Because if you can pay your creditors off in a year, you are not qualified for our program and I'm more than glad to help you and give you some of the best of what I've learned from resolving over 25,000 debts.

This guide is intended to help you realize there are many factors you should consider before you start negotiating on your own. I hope it helps you make the right choices for your business.

Whatever you decide, I wish you great success.

Sincerely,

Jerry Silberman
CEO and Founder
Corporate Turnaround

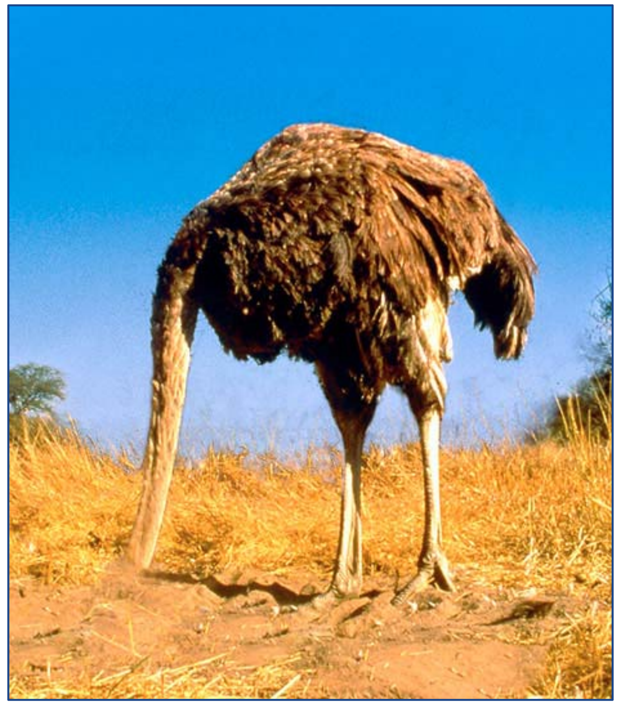
Jerry Silberman is the CEO and Founder of Corporate Turnaround. He has pioneered the Debt Restructuring industry for small businesses and revolutionized the collection industry. In 1990, he started Interstate Department Services, a nationwide collection agency.

He went on to found Commercial Credit Counseling Services, now Corporate Turnaround, in 1998.

He is considered the pre-eminent authority on helping small businesses emerge from overwhelming debt within their means. He co-authored "Small Business Survival Book", which has been endorsed by Steve Forbes. Corporate Turnaround's success stories have been profiled in both the NY Times and Business Week. Silberman has lectured across the country and has been a featured expert for US News & World Report, Forbes, Entrepreneur, Bloomberg TV, the CBS Evening News, WABC-TV, News 12 New Jersey and on numerous radio shows. Find out more about Debt Restructuring by calling 800.646.9330 Ext. 7700 or by visiting www.NegotiatePayables.com.

Mistake # 1: Alienating your creditors

You need your creditors' cooperation in order to survive.



- Don't ignore their calls and letters.
- Don't tell them you'll do one thing and then do another.
- Don't break payment promises.
- Don't expect them to settle without disclosing your financial situation.
- Don't give up if they don't accept your first settlement offer.

Mistake # 2: Thinking you can save your credit score

Your primary goal is to save your business, not your credit.

- Just because you've made payments on time does not necessarily mean your credit score is good.
- Chances are you don't even know your credit scores or if you are creditworthy or not.
- What good is your credit score if you're not going to borrow?
- You'll probably have to sacrifice your credit in order to save your business.
- Don't make a settlement just because a creditor says they'll re-age your account or report you current.

Mistake # 3: Not knowing the full extent of your exposure

- How many ways and to what extent can creditors hurt you?
- Are you or anyone else personally liable?
- Are the debts secured by any of your assets?
- Can your creditors repossess them?
- Can you operate without certain creditors or are they vital to your business?
- Can they force you to spend money you don't have defending a lawsuit?
- Can they freeze your bank account?
- Can creditors force you into bankruptcy?

Mistake # 4: Overestimating your debt negotiating skills and knowledge

You may be an expert in your field but you aren't an expert in debt negotiation.

- You will be negotiating against professional collectors and attorneys that do this on a full time basis and often have years of experience.
- Not having their experience or knowledge puts you at a serious disadvantage.
- Are you adept at the ins and outs of debt negotiating or are you going to "wing- it" with your business and financial future on the line?

Mistake # 5: Not being physically and mentally ready to negotiate

- You will be dealing with relentless collectors who negotiate for a living.
- Are you able to handle the financial and emotional strain that is inevitable?
- Are you ready for the verbal confrontations that are bound to happen?
- If you are resistant to making or taking calls from creditors, you should not attempt it on your own.
- You have to be physically prepared to walk into battle while controlling your emotions or you are bound to lose.

Mistake # 6: Not allocating enough time to do what needs to be done

- Reaching settlements can take months or even years.
- It's hard to get the right person on the phone.
- There's a lot of time wasted waiting for call backs.
- It takes time to properly explain your situation.
- Your hardship must be documented and presented properly.
- Paperwork must be processed and filed.
- Payments must be scheduled and sent on time.
- Successful negotiations don't happen in your spare time.
- Ask yourself: Is your time best spent focusing on your business or putting out fires?

Mistake # 7: Not having the necessary personnel, software and filing systems

You'll need:

- A computer with software that enables you to keep records of the phone calls and letters sent and received.
- A system to know which settlement offers are appropriate for each creditor as well as if the settlement is within budget.
- An organized filing system for all relevant documentation.
- An accounting system for scheduling and making payments.
- The personnel to do these jobs.

Mistake # 8: Trying to negotiate with the wrong creditors

- Negotiating business debts is risky in many ways. It's not just how well you negotiate, but who you choose to negotiate with.
- Every debt does not necessarily have to be restructured.
- Some creditors may have too much leverage against you.
- Which creditors should you negotiate with and which ones should you pay according to terms?
- Pick the right ones and your business may survive. Pick the wrong creditors and your power could be shut off, your bank account could be seized without notice or your front door could be padlocked.

Mistake # 9: Underestimating the stress on your employees

If your employees find out you're having trouble paying your bills:

- Company morale goes down.
- They may fear for their own paycheck.
- They may quit – leaving you in the lurch at a time when you can least afford it.

Mistake # 10: Not establishing a monthly budget

- A monthly budget is a conservatively projected amount you'll have to pay your debts every month.
- It must be affordable and realistic.
- All settlements made must be within your budget.
- Without a budget, you won't know if you'll be able to afford any settlements you make.
- Without a budget, you could pay too much on a settlement leaving you with no money for your day to day operations and other creditors.

Mistake # 11: Not calculating an appropriate share of your budget for each creditor

- Without a way to determine, measure and calculate the negotiating advantages, or leverage, of each creditor, it's impossible to determine an appropriate share of the budget for each creditor.
- Without determining each creditor's share of your budget, you have no way of knowing whether your settlements are within budget or not.
- You also won't know when you can give more or less than their share.

Mistake # 12: Not knowing how to prioritize your creditors

Paying the wrong people too much or at the wrong time can put you on the fast track to bankruptcy.
Especially if you pay:

- the collector making the scariest threats.
- the creditor who calls the most.
- the creditor you've known the longest.
- the debt with the highest interest rate.
- the smallest creditors just because they are easier to settle and it cuts down on the number of creditors owed.

Mistake # 13: Not considering the different stages of collection

How should you differentiate your negotiations and offers based on each stage/level of collections?

- Creditor
- Collection agency
- Out of state attorney
- In state attorney
- Lawsuit or judgment
- Debt sold to a debt buyer

Mistake # 14: Not knowing which threats to take seriously

Collectors will say just about anything to get paid:

- "We will report you to the IRS."
- "We will seize your assets."
- "We will sue you."
- "We will repossess your equipment."
- "We will force you into bankruptcy."
- "We will have you arrested and put in jail."

If you don't know which threats are legitimate, it could cost you your business.

Mistake # 15: Being caught off guard when collectors play hardball

- They may tell you they're coming to your business to list inventory.
- They may show up at your company and start taking pictures.
- They may call businesses near you asking if you're still in business.
- They may start calling your family members and even neighbors looking for you.
- They may call your spouse or even your ex-spouse (if they are personally liable).
- They may try to convince your employees to give them your cell phone number.
- Some collectors call other creditors to inform them that you are not paying.

Mistake # 16: Not understanding the legal ramifications

- Are your business or personal assets subject to seizure?
- Are your wages subject to garnishment?
- Can your bank account be frozen?
- Can your equipment and other assets be repossessed?
- Could you be arrested or jailed?

Mistake # 17: Not knowing how to negotiate against an attorney

- Do you know your legal rights?
- Do you understand the legal terms and consequences being thrown at you?
- Do you know how your state laws can benefit or hurt you?
- Will you make a bad settlement because you're at a disadvantage?

Mistake # 18: Not using your hardship as leverage in the negotiations

- Creditors are human and may settle if your hardship is properly presented and justifies the settlement.
- Creditors don't want to "get beat". If they're going to reduce the debt and/or extend the payment terms, you're going to have to give them very compelling reasons why they should.
- By documenting your hardship, creditors can show the documents to their supervisors (who usually need to be involved in order to get the settlement you need).
- A hardship is not just a sad story you tell over the phone.

Mistake # 19: Not knowing the 'Sweet Spot'

- The Sweet Spot is the point in an account's cycle when a creditor's settlement offer is most advantageous.
- Unless you've settled many times with a creditor, there's no way to know the Sweet Spot.

Mistake # 20: Not knowing when to walk away from the table

- Just because a settlement sounds good doesn't mean it's affordable.
- A Rolls Royce at half price is a whopping savings but it's still unaffordable.
- If the settlement terms are out of your budget, you probably can't afford the settlement.
- It takes courage and discipline to walk away from an attractive but unaffordable offer.

Mistake # 21: Not respecting the creditors' different settlement parameters and mindsets

- Creditors have different wants and needs.
- Some require full disclosure of your financials, bank statements and tax returns.
- Some won't negotiate at all and instead may immediately place your account with a collection agency.
- Some may become more aggressive and file a lawsuit so they can get to your assets before others.
- Some may insist on full payment.
- Some may offer a reduction but require immediate payment of the settlement.

Mistake # 22: Trying to settle your debts quickly

This could be a lethal mistake for several reasons:

- Your natural tendency is to want to resolve your problems as quickly as possible.
- Settling quickly may conflict with your primary goal of settling within your budget.
- Settling quickly eliminates a key element of your strategy; extending negotiations over time is what you need to do in order to satisfy your creditors with what you can afford.
- Creditors don't usually give the best settlements at first.
- Settling quickly for too much money could leave you with no money for the other creditors.

Mistake # 23: Not reserving emergency funds

You should always have a reserve of money for the unforeseen incidents that are bound to happen.

- You could be sued and need money for your legal defense.
- You may need money for payroll or simply to keep the lights on.
- Family Emergencies.
- Without money in reserve you could lose out on new business opportunities.
- You might need money for suppliers you're on C.O.D. with.

Mistake # 24: Basing settlements on savings and not affordability

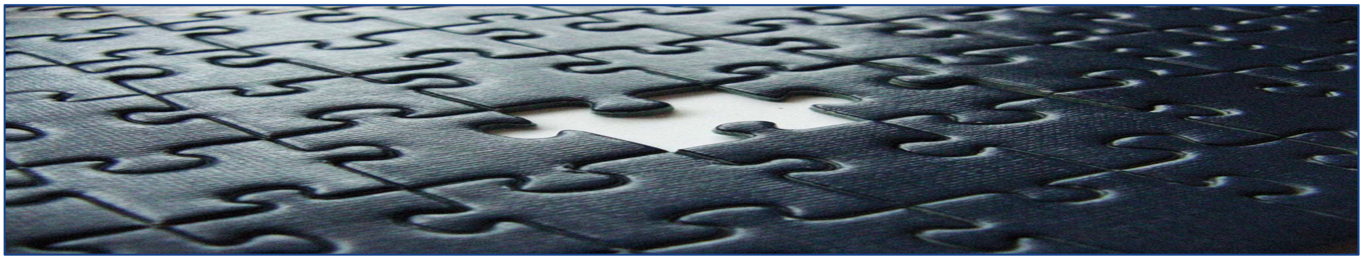
- It is a natural tendency to want to save the most money possible. However it may conflict with your primary strategy of settling within your budget.
- Just because a settlement sounds good doesn't mean you can afford it.
- Large savings usually means you have to pay the settlement in one lump sum payment and giving too much money to just one creditor defeats your primary goal.
- The primary goal is to reach settlements that are affordable.
- Each affordable settlement gives you the financial breathing room you need to run your business.

Mistake # 25: Agreeing to a settlement just to get a collector off your back

- Settling under pressure is the worst thing you can do.
- When under pressure, people tend to offer more than they can afford.
- Savings from a settlement can be lost if all payments aren't made according to the agreement.

Mistake # 26: Not including settlement terms that protect you

- All settlements must be made in writing.
- Settlement terms must include the reference number, dates and amounts of each payment to be made.
- The total amount of settlement.
- A "grace period" is invaluable. You never know what the future holds. You may have to miss a payment here and there.
- Creditors may put in terms that can put you in a worse position if you default on the payment plan. They may try to make you personally liable or get you to give them a lien against your assets, grant them a consent judgment or make you responsible for collection costs and legal fees.



Mistake # 27: You don't have a master plan

- If you don't take into account all of the above mistakes, you are placing your business in a very dangerous position.
- Without the knowledge and tools to save your business, you could be at the mercy of your creditors for years.

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The lessons shared here have come from resolving over 25,000 debts.

The most important thing to remember:
You must be proactive with your debts.

It's not the debts that will close your doors.
It's doing nothing about them.

Association of Small Business Development Centers

ASBDC
8990 Burke Lake Rd, 2nd Flr
Burke, Virginia 22015

Call:
703.764.9850

Visit online:
www.ASBDC-US.org

CORPORATE TURNAROUND

Corporate Turnaround
95 Route 17 South
Paramus, NJ 07652

Call toll-free:
800.646.9330 Ext. 7700

Visit online:
www.NegotiatePayables.com