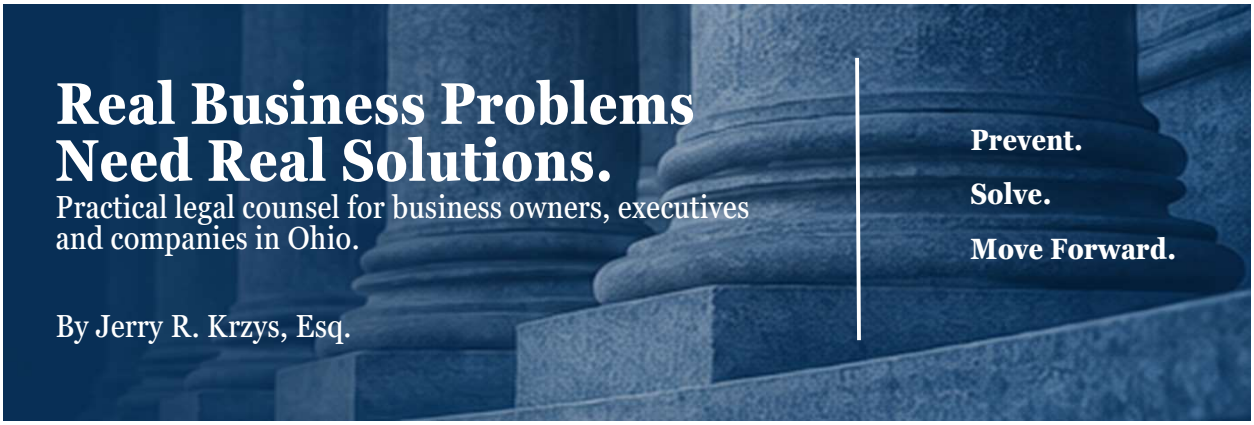
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Your Customer Is 60 Days Late. When Does a Collection Problem Become a Credit Problem?

A good customer is late. Not disastrously late. Not yet. The invoice is thirty days past due, then forty-five, then sixty. Accounts payable says the check is being processed. The customer asks for another shipment because it has a project to finish. Sales does not want to jeopardize the relationship. Operations has inventory ready to move. Management knows the customer has always paid eventually.

So the company ships again. The $20,000 receivable becomes $40,000. Then $60,000. A partial payment arrives and seems reassuring, but the oldest invoices remain unpaid. Another promise is made. Another order is released. By the time everyone agrees that the account has become a serious problem, the business is no longer deciding how to collect one overdue invoice. It is deciding how much unsecured credit it should have extended to a customer whose ability or willingness to pay was already deteriorating. **That is the point at which a collection problem becomes a credit problem**.

For manufacturers, distributors, industrial businesses, contractors, and business-to-business service companies, accounts receivable are not merely an accounting category. Every unpaid invoice represents money the business has already put at risk through inventory, labor, materials, equipment, freight, subcontractor costs, or completed services. The question is not merely whether the customer owes you money. The question is how much more money you are willing to let the customer owe you.

1. Aging Receivables Are an Early-Warning System

An aging report is easy to treat as a backward-looking accounting document. It is more useful when management treats it as a forward-looking credit tool.

A customer that moves from current to 30 days late may present no unusual risk. A customer that repeatedly moves from 30 to 60 to 90 days while continuing to place orders is telling the business something different. The signal becomes stronger when late payment is accompanied by disputed invoices that were never disputed before, requests to split payments, promises tied to expected

financing, changes in accounting personnel, bounced checks, requests for unusually large orders, or pressure to release goods despite an exceeded credit limit.

None of those facts proves insolvency. Good companies have temporary cash-flow problems. Large customers sometimes have slow internal payment systems. A strategic customer may justify flexibility that would make no sense for a new account.

The mistake is not extending credit. Extending trade credit is part of doing business. The mistake is allowing credit exposure to increase without making a conscious decision that the additional risk is justified.

2. A Credit Limit Should Be a Decision, Not Whatever the Customer Happens to Owe

Many companies have stated credit limits that do not function as actual limits. The customer reaches the limit, someone approves an exception, the next order ships, and the exception quietly becomes the new normal.

A useful credit limit forces a decision. If the customer owes $50,000 and asks for another $25,000 shipment, someone with authority should decide whether the business is willing to have $75,000 at risk. That decision should take account of payment history, current aging, open disputes, the customer's financial condition if known, the margin on the business, available collateral or guaranties, the importance of the relationship, and the consequences of stopping supply.

The same discipline applies to overrides. A temporary increase should have a reason, an amount, and an expiration or review point. Otherwise the company may discover that its real credit policy was simply to keep shipping until accounting became uncomfortable.

Sales personnel should understand the distinction between selling more and collecting more. Revenue booked to a customer that cannot pay is not the same thing as profitable business.

3. Promises to Pay Are Information. They Are Not Payment.

Commercial collection files often contain a long series of reassuring statements: “The check went out Friday.” “We are waiting on our customer.” “We will catch everything up next week.” “Send this order and I will get the old invoices released.”

Those communications matter. They can help confirm the debt, explain the delay, identify a dispute, or support a negotiated payment plan. But management should evaluate whether the customer's conduct matches the promises. A missed promise should change the analysis. Two missed promises should change it more. A partial payment can be meaningful, but it can also buy the customer another month of shipments while total exposure continues to rise.

The useful question is not whether the customer sounds sincere. It is whether the payment behavior supports continuing to extend unsecured credit.

4. A Payment Plan Should Reduce Exposure, Not Merely Repackage It

A payment plan can preserve a valuable customer relationship and avoid litigation. It can also become a document that memorializes months of future nonpayment while the seller continues adding new invoices.

A workable plan should identify the amount acknowledged as due, the payment schedule, treatment of current purchases, what happens if a payment is missed, and whether the seller will continue extending credit. If new business continues, management should decide whether it will be prepaid, COD, paid on shortened terms, or subject to a controlled credit cap.

The agreement should also be checked against the existing contract documents. Interest, late charges, collection costs, attorneys' fees, acceleration, security, guaranties, and default remedies should not be assumed merely because they would be useful after the account deteriorates. The governing agreement and applicable law determine what is available.

Ohio law generally provides statutory interest when money becomes due and payable on written instruments, book accounts, settlements, verbal contracts, judgments, and other covered obligations unless a written contract provides a different rate applicable to the money due. See Ohio Rev. Code § 1343.03(A).

That makes the contract terms worth addressing when the credit relationship is created, not for the first time after default.

5. For Sellers of Goods, the UCC Provides Tools Before the Lawsuit

For manufacturers and distributors, a deteriorating account may involve more than a right to sue for unpaid invoices. Ohio's version of Article 2 of the Uniform Commercial Code contains tools that can matter while the commercial relationship is still ongoing.

When reasonable grounds for insecurity arise about the other party's performance, a party to a contract for the sale of goods may make a written demand for adequate assurance of due performance and, when commercially reasonable, suspend performance for which it has not already received the agreed return while awaiting adequate assurance. Between merchants, the reasonableness of the grounds for insecurity and the adequacy of the assurance are judged by commercial standards. See Ohio Rev. Code § 1302.67.

That remedy is more disciplined than simply telling the customer, “We are nervous, so we are not shipping.” It requires attention to the contract, the facts creating insecurity, the written demand, the assurance offered, and whether suspension is commercially reasonable.

Article 2 also gives an aggrieved seller remedies when the buyer fails to make a payment due on or before delivery or repudiates, including withholding delivery and, in appropriate circumstances, stopping delivery, reselling goods, seeking damages, recovering the price, or cancelling. See Ohio Rev. Code §§ 1302.77-.84.

The particular remedy depends on the transaction and where the goods are in the process. The important business point is that the seller should evaluate its rights before releasing the next shipment, not only after every shipment has been delivered.

6. Insolvency Changes the Analysis Again

A customer that is merely slow is different from a customer that is insolvent. Article 2 gives a seller additional rights when the seller discovers that the buyer is insolvent. Under Ohio law, a seller that discovers the buyer to be insolvent may refuse delivery except for cash, including payment for goods previously delivered under the contract, and may stop delivery as provided by the UCC. The

statute also provides a limited reclamation right for goods received on credit while the buyer was insolvent, subject to strict timing and competing rights. See Ohio Rev. Code § 1302.76.

Reclamation is not a general right to take back anything previously sold to a struggling customer. The statutory requirements matter, the time window can be short, and the rights of other purchasers, secured creditors, and lien claimants can affect the result.

That is why a supplier that learns of a customer's serious financial distress should not let the issue sit in an ordinary collections queue. By the time the account reaches outside counsel months later, remedies that depended on immediate action may no longer be available.

7. Stopping the Next Shipment Can Be More Valuable Than Winning the Old Invoice

Businesses naturally focus on the money already owed. Sometimes the most important decision concerns the goods that have not yet been delivered. If the customer has failed to make a payment due before delivery, repudiated, or if another UCC basis exists to withhold or stop delivery, the seller may have rights concerning undelivered goods or goods still in a carrier's or other bailee's possession. See Ohio Rev. Code § 1302.79.

Those rights can be operationally time-sensitive. A truck that is still in transit presents a different problem from goods that have already been unloaded, incorporated into a customer's product, resold, or delivered to the customer's own buyer.

The larger lesson applies beyond the UCC. When an account deteriorates, management should separate sunk exposure from future exposure. The old receivable may require negotiation or litigation. The next shipment, service call, production run, subcontractor commitment, or mobilization may still be within the company's control.

8. COD and Prepayment Are Credit Decisions, Not Punishment

Moving a customer to COD or prepayment can feel confrontational, particularly when the relationship is longstanding. It is better understood as a change in credit terms.

A seller can continue doing business without continuing to finance the customer's operations. The customer may dislike the change. It may reduce sales. In some cases the customer may leave. But continuing to supply a customer that cannot support additional credit can turn a manageable receivable into a material loss.

The transition should be handled carefully. Existing contracts may limit a seller's ability to change payment terms unilaterally. Open purchase orders, supply agreements, requirements contracts, installment contracts, and course-of-dealing issues can affect what the seller may do. The credit decision and the contract decision therefore need to be made together.

9. Security and Guaranties Work Best Before the Account Is in Trouble

When a business expects to extend meaningful credit, it can consider whether the relationship justifies additional credit support. Depending on the customer and transaction, that might include a personal or affiliate guaranty, a letter of credit, a deposit, a purchase-money security interest, or another negotiated form of collateral support.

A guaranty should be treated as a contract, not as a signature line added after the credit application. Ohio's Statute of Frauds generally requires a promise to answer for the debt or default of another to be evidenced by a signed writing. See Ohio Rev. Code § 1335.05.

A security interest requires even more attention. The parties must create an enforceable security interest in identified collateral, and the creditor ordinarily must take the steps required for perfection if it expects its rights to stand against competing claimants. See Ohio Rev. Code § 1309.203 and Ohio Rev. Code § 1309.310.

Those protections are easiest to negotiate when the customer wants credit, not when the customer is already sixty days late. Asking for collateral after financial distress appears can also raise different commercial and insolvency issues that deserve careful review. **The lesson is not that every customer should sign a guaranty or grant a lien. It is that the amount of unsecured credit should be intentional**.

10. Contractors Have a Different Clock Running

For contractors, subcontractors, and material suppliers, an unpaid receivable may carry rights that do not exist for an ordinary service invoice. Ohio's mechanic's-lien statutes can provide security against improved real property when their requirements are satisfied.

Those rights are deadline-driven. For many nonresidential liens, the lien affidavit must be filed within seventy-five days from the claimant's last labor or work or furnishing of material. Different periods apply to specified residential and other categories, and notice-of-commencement, notice-of-furnishing, service, and other statutory requirements can affect lien rights. See Ohio Rev. Code § 1311.06; see also Ohio Rev. Code §§ 1311.04-.07.

That makes construction receivables particularly poor candidates for passive aging. A contractor that spends months negotiating payment may be allowing a valuable statutory remedy to expire while everyone is still saying the check is coming.

The accounting department therefore needs a lien-calendar trigger, not merely an aging report. When an unpaid construction account approaches the point at which lien rights may be affected, the issue should be escalated while there is still time to evaluate and preserve them.

11. A Dispute About Quality or Quantity Is Not the Same as a Credit Problem

Not every overdue account is a credit problem. Sometimes the customer has a legitimate commercial dispute. A buyer may claim that goods were nonconforming, quantities were wrong, freight was damaged, services were incomplete, a change order was never approved, or a warranty credit is due. Treating every withheld payment as financial distress can cause the seller to miss the real issue and damage a relationship that could have been preserved.

Management should separate three questions: Is the invoice actually due? Is there a bona fide dispute over some portion of it? And, apart from the dispute, is there reason to question the customer's ability or willingness to pay?

That distinction also helps with negotiation. If $8,000 of a $75,000 balance is genuinely disputed, the company should consider why the undisputed $67,000 remains unpaid. A narrow quality dispute should not automatically become an excuse for an entire aging account.

12. Reservation of Rights Matters When the Business Keeps Performing

A supplier may decide that stopping performance would cause more damage than continuing. The customer may be strategically important. The seller may have contractual obligations to keep supplying. A contractor may need to finish work to protect the project and its own position.

Continuing the relationship does not mean the business should allow the record to suggest that the default has been forgiven. Communications should identify overdue amounts, disputed and undisputed balances, promised payment dates, any temporary accommodation, and whether future performance is being provided while rights are reserved.

For contracts governed by the UCC, waiver and retraction can become important when parties repeatedly accept departures from written terms. Ohio's Article 2 recognizes that an attempted modification can operate as a waiver and that, subject to reliance limits, a party may give reasonable notification that strict performance will be required going forward. See Ohio Rev. Code § 1302.12(D)-(E).

The point is not to send a threatening reservation-of-rights letter every time an invoice reaches thirty-one days. It is to avoid an extended pattern in which the company says one thing in its contract, accepts another in practice, and later assumes the original terms remained untouched.

13. The Credit File Should Tell the Story Before Litigation Does

When a collection matter reaches counsel, the quality of the file can determine how quickly the problem can be evaluated. The useful file is not just a stack of invoices. It includes the governing contract or credit application, purchase orders, acknowledgments, delivery records, proof of performance, account statements, payment history, credit-limit approvals, guaranties or security documents, customer complaints, credits, returns, correspondence, promises to pay, partial-payment records, and notes showing who authorized continued shipments after the account became delinquent.

That record helps answer the questions that matter: What is actually owed? Is any amount disputed? What defenses are likely? What collateral or guaranties exist? Are there goods still in transit? Are UCC remedies still available? Are mechanic's-lien deadlines running? Has the company made promises or accommodations that affect its position?

A collection lawsuit should not be the first time those questions are asked.

14. Build an Escalation System Before the Customer Is 90 Days Late

A practical credit system does not require a large credit department. It requires predetermined escalation points. A company might decide that certain events require review regardless of account size: a customer exceeds its credit limit; an invoice crosses a specified aging threshold; a promised payment is missed; a check is dishonored; a material dispute appears; the customer requests a substantial new order while delinquent; financial distress becomes known; a mechanic's-lien deadline approaches; or sales asks for another exception.

The escalation should force an actual choice. Continue normal terms. Reduce the credit limit. Require a catch-up payment. Move new work to COD or prepayment. Obtain additional credit support. Demand adequate assurance where legally available. Suspend future performance if the

contract and law permit. Preserve lien or UCC remedies. Negotiate a documented payment plan. Or refer the matter for collection.

The right answer will vary by customer. The value of the system is that the answer is made consciously before another $20,000 leaves the building.

15. The Business Lesson: Stop Measuring the Problem Only by What Is Already Owed

Collection problems look backward. Credit decisions look forward. Once a customer becomes delinquent, management naturally asks how to collect the existing balance. It should ask a second question at the same time: What additional exposure are we creating while we wait?

That question changes the conversation. The customer may deserve time. The relationship may justify accommodation. The company may decide to keep shipping. But those should be decisions made with an understanding of the account, the contract, available remedies, and the amount of additional capital being put at risk.

The question is not merely whether the customer owes you money. The question is how much more money you are willing to let the customer owe you. **Know the aging. Control the exposure. Preserve the remedies. Then decide whether the next sale is still a good sale**.

A Practical Commercial-Credit Checklist

• Do aging reports trigger management action, or merely record delinquency?
• Does each significant customer have a real credit limit and a defined approval process for exceptions?
• Who can authorize shipments or additional work when an account is past due?
• Are missed promises to pay and partial payments changing the credit decision?
• Are bona fide invoice disputes separated from general nonpayment?
• Does a payment plan reduce total exposure, or does the company keep adding new unsecured debt?
• Do the contract and credit documents address interest, late charges, collection costs, guaranties, security, and default remedies?
• For sales of goods, has the company considered adequate assurance, withholding delivery, stopping delivery, reclamation, or other UCC remedies when appropriate?
• Are COD or prepayment options available for customers that remain commercially valuable but no longer justify unsecured credit?
• Are guaranties or security interests considered before large credit exposure develops?
• For construction receivables, are mechanic's-lien and notice deadlines separately calendared?
• Are reservation-of-rights and waiver issues considered when the company continues performing after default?
• Does the credit file contain the contract, invoices, delivery/performance records, disputes, payment history, and communications needed to prove the account?
• Is there a defined point at which a delinquent account is escalated to management or counsel?

If a significant customer is stretching payment terms while continuing to order goods or services, reviewing the credit relationship before the balance grows can preserve options that may disappear once the account becomes a collection file.

This article is for general informational purposes only and does not constitute legal advice. Commercial-credit rights and remedies depend on the governing contract, the nature of the transaction, the customer's financial condition, applicable UCC provisions, lien statutes, insolvency law, and other circumstances.