

## 3 ESSENTIAL STEPS FOR GETTING PAID ON EXPORTS TO MEXICO

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Www.hmhlegal.com (October 19, 2004)

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When you are selling on credit, having a sound credit and collection policy and executing it properly is essential. A credit and collection policy can be reduced to these three components: know whom you're selling to (that is, perform due diligence on your prospective buyer); know how to sell (that is, get the right supporting documents for the sale); and keep a close eye on your money, and act fast when there's a potential risk. This three-fold policy proves even more valuable when you're selling internationally.

### Undertaking your due diligence

Whenever there's a potential customer at your door, you have to ensure that this prospect will be a likely payer. Requesting financial information from him or her is just the beginning: you need to go beyond that by getting a current credit report from a reliable source in the prospect's own jurisdiction. An attorney or a credit reporting agency can easily obtain information regarding the prospect's assets, the legal situation of his company, and any lawsuits filed against him.

There are three factors that need to be evaluated from your prospect:

- 1) **Personality.** Can you relate the prospect to notions of integrity, honesty, and moral responsibility? Do you trust him or her personally?
- 2) **Capital.** Is the prospect's business doing sufficiently well financially to ease your mind? Does he or she have assets to secure the debt?
- 3) **Capacity.** Is the prospect good and competent at business? Is he or she knowledgeable and experienced enough to be entrusted with your money?

### Documenting the sale properly

It is not enough for your debtor to have money. If you need to file suit against him, you have to make sure that you have the proper weapons to ensure success. There are three essential qualities that need to be proved in court during a collection case: 1) the debtor's offer to buy goods; 2) the seller's acceptance and performance; and 3) terms and conditions of sale. You can easily prove this

with proper documents, and give yourself an advantage in court by using these items, which you should request from the prospect.

- 1) **Credit application.** The application alone will not help you in the case of a dispute before the courts. You can and should include your terms of sale, a personal guarantee, and even a special pledge (available in Mexico) to create a security interest in the goods you are selling.
- 2) **Purchase orders.** You should request written purchase orders from all buyers. These can be sent via fax, and should include the authorized person's full name and signature.
- 3) **Delivery receipts.** You have to request signed receipts upon delivery. These can be your own packing slips, or bills of lading. And they have to include the full name and signature of the individual receiving the goods on behalf of the buyer.

If you want to add security to your transactions, you should request from the buyer either one floating *pagaré* (promissory note), executed according to Mexican law to guarantee the general credit granted, or one promissory note per shipment for that specific amount. If you are selling good whose value exceeds USD 100,000.00, be sure you get collateral from your buyer to guarantee the debt. It's a common practice in Mexico.

### **Keeping a close eye on your money**

The latest survey done by the Commercial Law League of America (March 2002) revealed that, after three months, the probability of collecting delinquent accounts drops to 69.6%. After six months, recovery drops to 52.1%. And after one year, the probability of ever collecting on a delinquent account drops to 22.8%. This means that you have to act fast – and not let delinquent accounts grow old.

First, you need to establish a strict collection policy, and enforce it. You have to set up a final dateline for debtors to pay their outstanding invoices. A good policy for international accounts is from three to four months. After that time, you should make a decision to forward delinquent accounts to your attorney or collection agency – no matter what.

Secondly, you should always monitor your debtors to see how they're doing. There are several warning signs that can tell you when to act faster than what the policy otherwise suggests. We should be in a position to get to the debtor first, before other creditors do. Here are some examples:

- Customer asking for clarification or proof of services more frequently
- General slow-downs or loss of business in the customer's industry
- Order levels shrinking, or empty shelves in warehouse

- Loss of key staff members, or large lay-offs or reductions in hours
- Telephones disconnected, or decision makers not taking your calls
- NSF checks, or no pre-printed name or address on the checks

### **Final recommendations**

International sales are different from local sales, and the stakes and risks are higher. There are different legal systems involved, different business practices, and different mindsets. So, in essence, your credit and collection policy should be slightly different from what's in place for local sales. Due diligence should be made through a local source. Terms and conditions of sale should almost always be revised by a local attorney with international law experience. They are the ones who best know how to give you an advantage over your debtors in court, should it come to that. And, finally, your collection policy should be more alert than usual: keep a close eye on the debtor's business (and general) situation.

With the proper credit and collection policy in place and by following these guidelines for international sales to Mexico, you will surely be able to achieve the following: 1) reduction in the risk of non-collectible accounts; and 2) a higher score on your date sales outstanding (DSO), collection effectiveness index (CEI), and bad debt write-off percentage.

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