

BUSINESS CREDIT MANAGEMENT ASSOCIATION

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Ten Rights of Creditors Following a Customer Bankruptcy

This essay is for informational purposes only. It is not legal advice. It is not a substitute for legal counsel nor is intended to be a substitute for the advice of legal counsel.

Following a bankruptcy filing, trade creditors have the right to...

1. Place the account on credit hold
2. Stop shipments in transit***
3. Arrange for the return of merchandise in transit***
4. File a reclamation claim for any shipments received by the bankrupt debtor within a specific time frame prior to the bankruptcy filing date
5. Refuse to extend credit to the bankrupt debtor
6. Ask the Court to appoint a Trustee to run and manage the business if the debtor's management is incompetent, or is involved in some form of theft or fraud
7. Ask to be made a part of the official unsecured creditor's committee
8. Refuse an invitation from the US Trustee to join the official unsecured creditor's committee
9. Petition the Court to convert a reorganization bankruptcy into a liquidation
10. Demand immediate payment against any personal guarantee or inter-corporate guarantee that a pre-petition creditor may have on file. The creditor company can also sue the guarantor if necessary to collect against that guarantee

A creditor's right to stop shipments in transit and to refuse to provide goods to a bankrupt debtor is not clear cut. For this reason, creditors should consult with an attorney before doing so, especially if their agreement to deliver goods is memorialized in a contract rather than based on purchase order(s) received from a customer.

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