

## *Protecting yourself when you supply goods on credit*

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Do you supply goods to another business on credit? If that business failed, you might think that you could walk in and reclaim the goods that haven't been sold, right? Unfortunately, it's not that simple, and if you want to protect yourself, you need to take certain steps.

Let's take a closer look at reducing the risks of supplying goods on credit. We'll also cover a common pitfall that sometimes catches businesses out when loaning equipment to others.

### Supplying goods on credit

Let's imagine you supply goods to a business. You could be a brewer supplying beer to a restaurant, a baker supplying pies to a café, or a company supplying photocopiers to an office. We'll keep it simple and call the other business "the customer".

You hopefully have some terms of trade that your customer agrees to. If you've talked to a lawyer or used a good industry standard template, those terms of trade should say something like "we retain ownership of the goods until the retailer pays for them". This gives you a "security interest" in the goods, but that's only the first step. For full protection, you need to "perfect" this security interest, by registering it on the Personal Property Securities Register (the PPSR).

### Perfected security interests and the PPSR

The PPSR is essentially a noticeboard that shows who has a security interest in someone else's property. If you search a business on the PPSR, you'll probably see security interests (called financing statements) registered by other creditors. These creditors could be the bank, trade creditors or companies renting out goods. The security interests could be over specific goods, or over all that person's property.

The PPSR also determines who can enforce their security and recover their goods or debt if a business fails. This concept is called "priority", and you can think of it like a ladder.

At the bottom rung is someone with no security. Slightly better off is someone who has an unperfected security interest under a contract. Even better is someone with a perfected security interest that is registered on the PPSR. Near the top of the ladder, the time you register becomes important – if someone else has already registered on the PPSR, they will probably have priority over you (unless you qualify for the exception below).

### **PPSR applies where a business fails**

If your customer's business fails, the PPSR will help determine who gets what. Unless you're at the top of the priority ladder, you might not be able to recover your goods, or the money you're owed for them.

So, what if other creditors have already registered on the PPSR before you – does this mean you're out of luck? For example, a bank will often register a security interest over all current and future assets of the customer. This often means the bank is at the top of the priority ladder, leaving nothing for other creditors.

### **PMSI priority**

However, there is one type of security interest that sits above the top rung on the priority ladder. This is called a "purchase money security interest" or "PMSI" for short (pronounced "pimsey"). To get a PMSI, you must register your security interest within 10 working days of the first supply of goods on credit. A PMSI should give you priority, even if someone has already registered on the PPSR before you (like the bank in the example above).

Registering on the PPSR is a relatively simple and cheap process, but is often missed out. If you don't perfect your security interest by registering on the PPSR, then your security interest is potentially worthless.

### **Take care with year-long leases**

One other point to consider – have you ever loaned a machine or piece of equipment to someone for more than a year? If so, their creditors might be able to claim that equipment – so if the business goes under, you won't be able to claim it back. This applies even to informal arrangements, or to leases that don't have a specified end date. If this sounds like you, it may be worth taking a closer look, and getting the necessary agreements and PPSR registrations in place quickly.

## What you can do to protect yourself

If you supply goods on credit, it's worth investing the time and money into figuring out how to protect your exposure. Ensure you have good terms of trade, and that you then follow up with PPSR registrations. There's no substitute for good advice here (and this article only skims the surface, so talk to a professional).

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