Stop Credit Process Guide

When to Put an Account on Stop Credit

IMPORTANT: This article is provided for general information only and does not constitute legal advice. It is intended to offer practical suggestions on how credit processes might be tightened or improved, but it is not a substitute for legal review or for business-specific judgment. Each credit team should decide for itself what is appropriate for its own context, risk profile, customer base, and operational needs, and should obtain legal advice where required.

Stop credit is one of the most effective tools a credit team has, but it only works if the trigger is clear and the process is consistent. This guide covers when to act, how to get internal sign-off, how to tell the customer, what to do with orders already in the pipeline, and how to lift the hold once the account is back on track.

When Stop Credit Is Warranted

Not every overdue account needs a stop credit. The decision should be based on a combination of factors, not a single trigger.

Consider placing an account on stop credit when:

- The account is trading outside agreed terms and has not responded to a payment reminder or demand
- The outstanding balance has reached a level where further exposure would be unreasonable given the customer's payment history
- There are clear signs of financial distress, such as returned payments, requests to restructure, or uncontactable principals
- A credit limit has been exceeded and the customer has not made a payment to bring the balance back within terms
- The customer is disputing invoices in a way that appears designed to delay payment rather than resolve a genuine issue

The key question is: would continuing to supply on credit make the situation better or worse? If the honest answer is worse, stop credit is the right call.

Internal Approval Process

Stop credit should never be a unilateral decision made by one person in the heat of the moment. A short approval chain protects the business and the customer relationship.

A workable internal process:

The credit officer identifies the account, documents the reason, and records the current balance, payment history, and any recent contact with the customer.

The credit manager reviews and approves the stop, or escalates to a director if the account is high-value or commercially sensitive.

The sales or account management team is notified before the customer is contacted, not after. This gives them a chance to flag any context the credit team may not have, such as a payment already in transit or a contract milestone about to be invoiced.

Approval should be documented, even if it is just an email thread or a note in the CRM. If the matter later goes to dispute or litigation, a clear internal record matters.

Communicating Stop Credit to the Customer

How you tell the customer is as important as the decision itself. The goal is to be clear and firm without being aggressive or giving grounds for a complaint.

Say what you need to say directly: credit terms have been suspended because the account is outside agreed terms, and supply on credit will not continue until the outstanding amount is addressed. Give the customer the specific figure you need to receive, and a contact name and phone number to call.

What not to say: do not threaten legal action in the same breath as the initial notification unless you are genuinely prepared to act immediately. Do not use language that implies the customer is insolvent or dishonest. Do not promise that paying a partial amount will automatically reinstate credit, unless that is actually your position.

Written notice is always preferable to a phone call alone, even if you follow up by phone. A brief, factual letter or email creates a record and reduces the chance of a misunderstanding about what was said.

Orders Already in the Pipeline

This is where stop credit decisions get complicated, and where clear policy saves time.

As a general rule: orders that have already been dispatched should be fulfilled. Stopping a delivery that is already on a truck rarely recovers the debt and often triggers a dispute. Orders that have been picked and packed but not dispatched sit in a grey zone, and the right answer depends on the value, the reason for the stop, and whether the goods can be returned to stock without cost.

New orders received after the stop credit decision has been made and communicated should not be processed on credit. If the customer wants to continue trading, cash in advance or payment by card before dispatch are reasonable options to offer.

Document the status of any in-flight orders at the time of the decision. This prevents internal confusion and gives you a clear baseline if the customer later disputes what was supplied and when.

Getting the Account Back to Normal Trading

Stop credit should not be permanent by default. The account should be reviewed when:

- The overdue amount has been paid in full, or a payment plan is agreed and the first instalment received
- Any underlying dispute has been resolved
- The customer has provided a satisfactory explanation for the arrears

When lifting the stop, confirm in writing that credit terms have been reinstated and on what basis. If the terms are changing, such as a reduced credit limit or a shorter payment window, state that clearly. A verbal agreement to lift the stop that later gets misremembered is a source of unnecessary conflict.

If a payment plan is in place rather than full payment, credit should be reinstated cautiously. Consider a reduced limit until the plan is completed, and document the agreement as a signed arrangement rather than an informal understanding.

Quick Checklist

- Document the reason for stop credit before contacting the customer
- Get approval from the credit manager (and escalate if the account is high-value)
- Notify sales or account management before the customer is told
- Send written notice to the customer with the amount owing and a clear contact to resolve it
- Confirm the status of any orders in the pipeline before the stop takes effect
- Lift the stop in writing once the account conditions are met, and confirm the reinstated terms