

Engagement Letters and Bill Payment Question

So I am reworking our engagement letter a bit. Right now, it states that payment is due upon billing and bills are either sent out at the end of each month for ongoing hourly matters, or upon delivery for estate plans, business formations, and the like. I am thinking of adding something along the lines of "Payments not received within thirty days may incur a X% per month late charge." Does anyone else do this and what is your X%?

In New York we are not allowed to charge anything over 9% annually which works out to practically nothing monthly. It is a pain in the neck bookkeeping wise.

http://nysbar.com/blogs/generalpractice/2007/06/lawcom_lawyers_interest_charge.html

Deborah Kaminetzky, New York

I do. X is either 15 or 18 %, I forget which. I keep it high because I don't want to be a lender, and if forced to be, I want to be compensated well for it. I also want the interest to be an incentive to pay on time.

Shell Bleiweiss, Illinois

Each state has their own rate with respect to interest on late payments.

Also, I would imagine the reason, you are bringing this up is because clients are not paying you or paying late. My suggestion, if you do not already is to get some money upfront and stick it in your IOLTA account.

For hourly matters, estimate the cost of the overall project and ask for some percentage of that estimate up front. For estate planning, I always take 1/2 of the overall cost up front. I then write in my engagement letters and explain to the clients that I earn that money upon sending the client the first draft of their estate plan and how they can dispute it if they want. That way I am at least paid for some of the work I have done.

Knock on wood, but I have never had a fee dispute, yet, but if I did I would just make sure to follow the ethics guidelines and keep the money in my IOLTA account or move it back.

You shouldn't be chasing clients for fees.

Christopher Guest, District of Columbia

I have such a provision in my engagement letter, but I don't bother with the hassle of actually charging interest unless the account is seriously delinquent enough that it is worth my while to compute it, or if (gasp!) I have to sue to recover a fee.

Very truly yours,

Timothy A. Gutknecht, Illinois

I would characterize it as a "late charge," not interest. That's what it is. As noted, you are not a bank and you do not want any suggestion that clients are allowed to carry a tab. They are being penalized for not paying when due.

It may not make a difference under the usury laws, but it should.

To avoid this whole problem is why so many of us collect in advance.

Norman Solberg, Japan

We do an engagement letter for new clients the first time they contract with us. It covers our "office policies" (i.e., if you call me every day, I'm going to start charging you per telephone conversation). It also covers fee structures (flat rate, hourly, contingency...we use all 3 depending on the case). It also covers us for our bar requirements b/c it includes the "you can complain about us" language. When we have repeat business, we only do a new engagement letter if it's been a while since we worked with the client or our office policies have changed.

As far as fee agreements, I have some clients (usually business clients) who I have an open-ended fee agreement with. Other than that, I do very narrowly tailored fee agreements for specific matters.

Carole
