
Business Credit News

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**OCTOBER 2013 Chairman: Mark Haley
Johnson Oil Company**

“THE CREDIT APPLICATION”

Contrary to popular belief and much miss-information over the years the function of the credit application is nothing more than a source of information. It is not a requirement of law but rather a form the company chooses to use for the purpose of compiling necessary information to assist in the evaluation of risk.

A CREDIT APPLICATION IS NOT A LEGAL DOCUMENT!

The credit application is nothing more than a source of information. If it were a legal document it would be a requirement of credit. But unfortunately, it's not. It is sad commentary today that more and more firms are not requiring the credit application before providing the customer goods and services. We often assume the customer has agreed to our terms and conditions because they are printed on the application and it has been signed. In reality, all that has been signed was the application for the purpose of providing it to those creditors who require written authorization from the customer before releasing information.

MAKE IT A LEGAL DOCUMENT SIMPLY IN THE WAY IT IS PRESENTED.

What are necessary are two signatures. One at the conclusion of filling out the information requested and the second after the terms and conditions section. In this manner the customer has signed two documents. One being the credit application and the other being our terms and conditions. Even though they may appear on the same page they are two separate documents because of the two signatures.

Prior to including the terms and conditions we should review the language with our legal counsel to make certain that what we are requiring the customer to agree to is truly being stated. Remember, there is a difference between collection costs and court costs; between finance charges and late charges.

THEY DON'T SIGN ONCE, HOW DO WE GET THEM TO SIGN TWICE?

This question often arises and the answer is to change, in this case change the document. Rather than have a credit application why not have a credit agreement? What normally appears at the top of the form, customer information, will be moved to the bottom of the application and the terms and conditions that are now at the bottom we will move to the top of the application. Now what is being signed is an agreement versus an application and we have a legal document with one signature.

WHAT INFORMATION SHOULD BE REQUIRED?

The information found on an application for credit will vary depending on industry and company procedures. The majority of businesses have applications that are unique to both the company and the credit professional in charge. Often what information is requested and where it appears on the form is the prerogative of whoever is leading the credit department.

APPLICATIONS SHOULD REQUIRE THE FOLLOWING INFORMATION:

Legal name of the firm - (especially when dealing with proprietorships & partnerships).

Legal entity of the firm - (there are only three; proprietorship, partnership, and corporation).

Their street address - (a P.O. box is fine for billing purposes but the business is not located at or operated from the post office).

Names of persons authorized to purchase - (proprietor, partners & officers names are easily attainable through a variety of sources, such as our sales team, but only the firm can inform us who is authorized to purchase).

Telephone number of the purchasers - (often these folks have direct telephone numbers which tend not to be the same numbers usually provided on the application).

When the applicant pays bills - (this information is vital for collection purposes).

Professional license numbers - (if applicable) : contractors, DEA, bar numbers, etc.

Landlord name, address, and phone number - if they are renting or leasing.

Trade and bank references - (self explanatory).

Line of credit requested - This is important to know because it gives us an idea of how much time will be spent assessing the risk. We should not be devoting the same amount of time investigating a \$50,000 credit request versus a \$500,000 credit request.

WHAT GOOD ARE THE REFERENCES ANYWAY?

The age old problem with references is:

1. The references are always the customer's best.
2. It is difficult to get information because it is either by mail only or they only provide information between 1:00 and 1:15 on the second Tuesday of every other month.

Neither of the above should be a concern to us and it is our decision whether to accept the references provided or not. After all it is our credit application, not the applicants. We should not settle for anything less then the information we require. First, references should be in our industry; if they are purchasing electronics from us, we should not be willing to accept who they purchase office supplies from or who provides them office equipment. We should require references from the electronics industry.

If they are requesting a \$50,000 line of credit the references should represent creditors who are selling \$50,000 or more. If the applicant can only provide references reporting \$5,000 then they have given us no indication that they have the capacity (ability) to maintain a \$50,000 payable. Remember, capacity (ability) is the second C of credit which should be used to determine a credit line.

Checking references can not only be difficult in attempting to obtain the information.

How reliable is the information we are provided?

Do we know the individual providing the information?

Is there a hidden agenda on their part?

How factual / reliable is the information?

Are we really talking to who we think we are?

All of these questions have entered the investigator's mind at some point in the credit investigation process. Why not place the burden of credit verification on the applicant?

Simply require the applicant to include a copy of their most recent statement from the references they provide. Inform them on the application to attach these statements to the credit application. By doing this, we are obtaining not only the information timely but in many cases we are receiving more information then we would normally obtain through direct contact with the creditor reference.

David Balovich is an accomplished author and public speaker. He is presently the North Region credit manager for Holt Cat.

***** **OCTOBER 2013** *****

Day	Date	Group	Location	Time
Tues	8	Austin Construction	Texas Land & Cattle, 6007 N IH 35 & Hwy 290, Austin TX	11:30
Tues	8	Coastal Bend Group	Holt Cat, 1325 South Padre Island Dr, Corpus Christi TX	11:30
Wed	9	Rio Grande Group	Victoria Palms Resort, 602 N. Victoria Rd. Donna TX	11:30
Thurs	10	SW Food Credit Group	Las Palapas, 4802 Walzem Rd, San Antonio TX	11:00
Wed	16	Victoria Credit Group	Sky Restaurant, 236 Foster Field, Victoria TX	11:30
Thurs	17	Austin Ad Media	Santa Rita Tex Mex, 1206 W38th St. Austin TX	11:30
Thurs	17	Fuel & Lube/Heavy Eq.	Teleconference Meeting 1-800-791-2345	2:30
Thurs	17	HVAC Credit Group	Texas Air Products, 11122 Gordon Rd, San Antonio TX	11:30
Fri	18	SW Electrical Group	Onion Creek Country Club, 2510 Onion Creek Pkwy, Austin TX	11:30
Tues	22	Austin Construction	Texas Land & Cattle, 6007 N IH 35 & Hwy 290, Austin, TX	11:30
Wed	23	Laredo Credit Group	The Laredo Country Club, Laredo TX	11:30
Tues	29	SA Construction	Las Palapas, 4802 Walzem Rd, San Antonio TX	11:30

We still have some Bond & Lien Booklets available for purchase. If you are interested in obtaining one please give us a call at (210)225-7106.