

Credit Policy Boot Camp – Part 2

Create a Credit Policy from Scratch

NACM Credit Congress

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Housekeeping...

Our collective knowledge, experience, & perspective:

Representation from different Industries

“Interactive” Session – PLEASE share your thoughts & ideas –

We all benefit from the exchange of information

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Objectives

- Create A Credit Policy – from Scratch
 - Workshop / Interactive Format
- Insert Critical Information / Details
- Input – Update – Resend to Attendees

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Critical Information - Components

Policy Objectives – aka Mission / Vision Statement
New Accounts – Required Documentation
Existing Customer – File Review Documentation
Terms of Sale
“Hard Stops” / On Hold Parameters
Collections / Legal Action
Terminology / Definitions

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Credit Policy Template – Starting Point Mission / Vision Statement

*The extension of credit is the most important decision of the company's responsibilities to effectively manage risk and exposure of our Accounts Receivables portfolio. Credit decisions will take a comprehensive approach and be determined using:

*Credit investigation that relates to degree of risk & dollar amount of sale

*Avoid excessive high-risk accounts that do not meet acceptable policy requirements & standards determined by investigation and knowledge

*Avoid slow pay accounts and those who require extended terms beyond their related industry normal terms.

*Communication with sales, Controller, President & Corporate

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Credit Policy Template – Starting Point (continued)

- Calculation of Credit Limits will be based on:
- Documentation received from credit investigation
 - Qualification of Credit Insurance Coverage
 - Length of Relationship & Customer Integrity
 - How Long in Business & Business Type
 - Pay History
 - Acceptance of Standard Terms

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Credit Policy Template - New Accounts

- Required Documents in your Credit File:
 - Credit Application Document(s)...
 - Credit Application (includes Terms & Conditions)
 - W9
 - Sales Tax Exemption Certificate
 - Bank Authorization

Additional Considerations: Financials, Personal Guaranty

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Credit Policy Template - New Accounts

(continued)

From Credit Investigation –

***Trade References** – 2 meaningful

***Bank Reference(s)** – Response should include Depository, LOC, Loans.

If no LOC detail is provided, request notation confirming 'non-borrowing' relationship.

Notice anything 'derogatory' - NSF activity, 'special credit status'

***Agency Report(s)**

Notations of any Public Record – Liens, Suits, Judgments

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Credit Policy Template - New Accounts

(continued)

Credit Investigation... more detail

***Financial Statements** – Depending on sales exposure & risk

*Tie Legal Business Entity to Federal Tax ID number (W9)

***Internet Search** / Social Media

***MUST** Qualify for Credit Insurance Coverage

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Credit Policy Template - File Review

- **Trade References** – 2 meaningful

Can be waived IF:

Discounted/Prompt pay history previous 6 months

Favorable Agency Report

Average payment days \leq 5 days within invoice due date

Minimum sales = 12 orders

AND Bank Reference that includes LOC with availability

OR Comprehensive Financial Statement with positive tangible net worth
and profitable business operations

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Credit Policy Template - File Review

- **Bank Reference(s)** – within 2 years @ Credit Mgr discretion
 - Response should include Depository, LOC, Loans.
 - If no LOC noted, request if 'non-borrowing' relationship.
 - Notice anything 'derogatory' - NSF activity, 'special credit status'.
 - Document rationale to support Credit Mgr discretion if waived.
 - **Agency Reports** –
 - **Financial Statement** –
 - **Internet / Social Media Search** –
- **Check List / Summary Sheet of Findings & Results**

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Credit Policy Template - Terms of Sale

- Define 'Core' Businesses who qualify for 'Standard' Terms, based on your industry
 - IF you offer multiple terms, based on product sold or services provided, you should also classify 'non-Core' Businesses
- Important to document in your policy to ensure consistent & fair decisions to like businesses purchasing like materials

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Credit Policy Template “Hard Stops” – On Hold

- NO orders are to be released to customers with consolidated company balances more than 10 days past the invoice due date except non-payment due to an unresolved claim or payments ‘in the mail’ previously backed by customer discount history and integrity.
 - **Account ‘Flags’** –
 - Red Flag (R) – Do Not Sell
 - Special Handling (SH) – Corporate will determine C/L
 - Cash in Advance (C) –
 - Warning (W) – Monitor Closely

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Credit Policy Template – Collections / Legal Action

- At what point are you expected (or required) to request assistance from a collection agency or legal team to help collect debt owed to your company?
- This parameter can be much more difficult to quantify, based on payment commitment & communication from your customer
 - 10 Day Demand Prior to Collections Action?
 - When do you write off balances to bad debt?

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Terminology / Definitions

- Example: Definition of Credit 'Exposure':
- **Credit Exposure** represents the shipped and invoiced balance open on each customer's account (Open A/R). This does NOT include confirmed but unshipped orders, pending orders on credit hold/control, or payments 'in the mail' even if backed by customer pay history and integrity.
 - Acronyms? – C/L, CIA, F/S, A/R, NSF

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Conclusion...

- Your company's credit policy should be an extension of your efforts to effectively manage the risk and credit exposure for your business.
 - A written credit policy will help you make decisions fairly and consistently.
- * Document your policy requirements, procedures, and guidelines
 - *Review credit policy periodically – recommend annually
 - *Ask for Management Buy-In & Approval

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Follow Up...

- Please e-mail suggestions, thoughts, ideas you would include in your own credit policy
 - I will summarize contributions in each category
 - I will send out our 'collective' credit policy suggestion / recommendation if you provide e-mail address or business card

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Questions / Comments

- *Thank You!!!*
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