Under-utilized tools to build credit sales and collections

When you're not satisfied with the information standard credit data provides, several often overlooked tools can make you more comfortable about extending credit - without the hassle or UCC fillings.

Eric Shaw, president of New York Credit, Inc., explains how using these low-cost, under-utilized tools can help you determine a customer's creditability and guarantee payment.

1. Checking creditability
These days, you need more than three trade references and a bank to verify credit. You should ask for whatever data is necessary to make you feel comfortable about granting the full limit desired. Here are two useful things you might request:

- **Bank statements from the last three months**
- For smaller accounts (under $10,000) or when a customer's balance sheet isn't current, we always ask for the last three months' bank statements. Any customer should be able to give you this data, which can uncover valuable information about their operations that you might not find elsewhere.

The value of bank statements

The last three months' bank statements will reveal valuable information such as:

- A complete quarterly picture of the company's cash disbursements and cash receipts.
- The largest check written in the last 90 days.
- The times during the month when the customer has the highest and lowest balances. If there were any NSF checks, and whether the bank covered them.
  For example: One customer wanted a $20,000 credit limit and we were inclined to grant it. But bank statements revealed the customer had never written a check for over $6,000, and its checking account balance over a three-month period was running Medium 4 ($5,000).

  Based on that information, we decided we needed a financial statement before making a decision.

- **Financial statements**
- Financial statements are more readily available than many credit people realize. At New York Credit, we found an easy way to get them. Our credit application has a little box next to the line: "Financial statement available upon request." If this box is checked and it frequently is we know we can get the statements. Even if the box isn't checked we often push to get these statements especially on big ($20,000) orders. We always ask for the most recent year-end financial statement. If the current year-end statement is over eight months old, we also get the most recent quarterly statement. This gives us a means to track trends.

2. Guaranteeing payment
Even if you can't get all the information you want, some devices still make if possible for you to do business and control risk. For example:

- **Joint-check agreements** We often use joint-check agreements for companies that don't warrant high credit limits but happen to have a big order from a respectable customer. Here's how it works: Our client's customer pays our client with a check made out to both us and our client. This way when the customer pays our client, we have the leverage to make sure that we get paid, too. Why? Our name is on the check and we have to endorse it before it can be cashed.

- **Letters of credit** In many cases, customers with little creditworthiness are solely dependent on one large customer who must pay them before they can pay you. These customers need a slightly different technique. Obviously a promise that we'll get paid when our client does isn't an acceptable risk. Save get the client to take out a standby, domestic, irrevocable letter of credit (L/C). If the customer doesn't pay within 90 days, the bank will. We're willing to give something in exchange for that security. For example, once we offered our client net 90-day terms. This gave the customer a chance to pay our client before he had to pay us. We also offered to split the cost of the L/C (we always do). In this case, the cost for a $20,000 L/C was 1% of the face value, or $200. We split it with our client. So for $100, we got a $20,000 order and a guarantee of payment. It was a win/win situation. The client got extended terms and we got paid on time.

- **Credit cards** We often deal with brokers, sole proprietors or companies that don't have many assets, and we found that ordinary credit cards call help finance purchases. Consider opening a merchant MasterCard or Visa account. Let these customers pay with credit cards. Having them finance the transaction is a good way to secure your credit.