

## The Unequivocal Importance of a Credit Application

There are many intelligent, strategic and legal reasons why your customers should sign a credit application.

A signed credit application should be considered as the cornerstone of a credit relationship. However what constitutes a good credit application form, information disclosure clause, validity of information, contractual debt reconnaissance and legal implications. This confidential and voluntary source of information is critical however there is a syntax order to follow;

A good credit application contains the following;

### The Technical Elements

- Written in the official language or at the choice of the debtor
- Use a professional looking application
- Information disclosure clause
- Key information captured is; exact corporate names, bank, trades and officers

### The Strategic Element

- How aggressively should a customer get sales/credit penetrated
- What credit terms can bump the competition
- Based on the ability to pay, should product price get adjusted to absorb slow payment costs
- Risk-Neutral or Risk-Aggressive credit adjudication policies

### The Legal Element

- Did the debtor officially and legally ask for trade credit
- Legal reconnaissance from the debtor requesting trade credit
- Terms and conditions
- Creditor security

A successful Credit Application Treatment Process should be tooled for speed and efficiency to enhance order flow.

The quality of your credit decisions is in direct correlation to the quality, accuracy, age and dependability of your sources of credit information.

The application can also request financial statements. Financial statements can contain inaccuracies or questionable information but it also helps in corroborating information provided by the applicant on the credit application.

In general practices; all the accounts should be opened after receiving and evaluating a satisfactory Credit Application. A well-reviewed account will help save valuable time in attempting to either collect or enforce in the event of a default.

A Credit Application serves the following purposes:

- It is an information gathering tool
- It is an assessment tool to determine amount and duration of credit
- It is a collection tool
- It is a legal document that binds the applicant to your terms and conditions
- It is an enforcement tool
- It is a monitoring tool. Revisit the credit applications of your important customers
- It is a marketing tool that markets your loan. In essence a 'loan application'

As a commercial creditor here is a list of factors that would require attention in drafting a Credit Application:

1. **Legal Name:** It is crucial that the applicant reveal their legal corporate name on the Credit Application and indicate the 'Trade style' or 'doing business as'. An incorporated company can operate under various Trade names but it all rolls up to one 'Legal' name. Always use the legal entity on contracts and invoices.
2. **Type of Business and Industry:** Find out the applicants business sector such as; in a) Retail b) Service c) Wholesale d) Manufacturing. This information will help in evaluating the risk that you are dealing with based the risk particular to each industry.
3. **Legal Structure of the Business:** Whether the business is a) Sole Proprietorship b) Partnership c) Limited liability Corporation. In the case of a Sole Proprietorship and partnership the liability extends to the individuals running the business and thus it becomes important that the personal information of the principals along with their full names, home address and telephone numbers are sought on the credit application.
4. **Number of employees:** Will give a fair assessment of size and resources.
5. **Estimated Annual Sales:** Number of Employees and Estimated Annual Sales not only gives an idea of the size of the applicant but also helps evaluate the 'sales to employee' ratio that would indicate if they are over or underemployed.
6. **Number of years in this business:** It is important to ask 'in this business'. Obvious reasons being that the applicant could have in business for a long time but could have only recently started this or the current business
7. **Bank Reference:** Ask for a 'borrowing account'. Get the account numbers and also the Account Manager's name. Some even insist on a copy of a void cheque. This helps in a roundabout way to substantiate the company's legal name.
8. **Trade References:** Normally three references are asked for. However, asking for more than three could further test the credit worthiness of your applicant. If possible ask for one Trade reference from your industry. This could indicate if the applicant is coming to your company after having shortchanged another from your industry.

9. **Web site URL and Email address:** Email address is a vital tool of communicating and can aid quick collection and transfer of documents especially when a customer claims that they have not received the invoice.
  
10. **Signing officers and accounts payable contacts:** email, telephone and fax numbers.
  
11. **Authorized Signature:** The credit application should be signed by someone who is authorized to do so. It should then bear the person's title the date and place.
  
12. **Terms and conditions:** The credit application should bear the terms and conditions of sale.
  
13. **Disclaimers:** Some of the important considerations in writing your disclaimers would be as follows:
  - a. Permission to do a check with the applicant's bank/financial institution and trade references not just at the time of setting up of the account but from time to time.
  - b. If you need to check the personal credit history of any individual or principal then you would require their permission in writing. If you are making provisions for 'Personal Guarantee' then make sure that your state/provincial laws do not require that to be notarized and as a separate addendum.
  - c. Statement that upon signing the information that has been provided is certified to be true and correct and that it will be used and based to make the credit decision.
  - d. The applicant will be bound by the terms and conditions on the Credit Application whether on the front or reverse.
  - e. That a faxed application will be deemed as original
  - f. A statement of interest to be charged. Certain jurisdictions might require this as a separate addendum. The allowable rate could also vary. Check with your attorney regarding the state/provincial laws
  - g. Discounts and the definition of overdue. Discounts and payable dates.
  - h. Statement that no oral agreements or modifications will be accepted or effective.
  - i. Statement that in the event of dispute the laws of which state or province would apply and in which state would be the forum for the court proceedings.
  - j. A statement whether the attorney fee or collection cost will be added on to collect past due accounts.

It is highly recommended that your lawyer over-view such documents as; credit application, personal security, general security or any such documents.