

NACM Connect Cleveland Annual Meeting

The ABC's of Credit Application Drafting and Review

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Weltman 

Weltman, Weinberg & Reis Co., LPA

The single solution for every single creditor.™

Speaker Introduction

- Shareholder Donald Mausar
- Weltman, Weinberg & Reis Co., L.P.A.
- 9:30 – 10:30 a.m. EDT

Topic Introduction

- A. Credit application
 - i. Nuts and bolts with practical tips
- B. Credit application review and credit decisioning
- C. Can a credit application become a bonding contract?
- D. Questions and answers

Credit Application Nuts & Bolts

1.) Who? What? Where? When? Why?

- Who – The parties and third parties
- What – Written documents
- Where – Anywhere
- When – Before, during, and after with proper language
- Why – Solid business practice and when you are not getting paid, it helps identify the proper parties and potential terms of the contract or credit extension

Credit Application Nuts & Bolts Cont.

- 2.) The “why” is the reason you get a credit application
- In order to make an informed credit decision, you need information
 - Standard process of requesting a credit application helps to standardize and reduce risk
 - Helps treat all customers equally
 - Can impact credit terms
 - Can cause rejection of customers

Credit Application Nuts & Bolts Cont.

3.) Credit reports and references

- The use of credit reports and contacting references can be important supplements to the credit extension process

Credit Application Nuts & Bolts Cont.

4.) General checklist:

- Contact information
- Bank information
- Trade references
- Ownership structure
- Payment terms
- Personal guarantee
- Jurisdiction
- Signatures
- This information is a hybrid of credit application information and terms and conditions of sale
- Exact business name and type (LLC, Inc., etc.)
- E.I.N. number

Credit Application Nuts & Bolts Cont.

4.) General checklist cont.:

- Mobile number and email address
- Landline
- Address(es)
- Credit check permission
- Accountant information
- Personal property security (U.C.C.'s)
- Social Security numbers
- Proof of identity
- W2/paystubs
- Bank statements
- Proof of income

Credit Application Nuts & Bolts Cont.

5.) Defined and Beware

- A borrower can make a formal request for an extension of credit from a lender through a credit application. This can be oral or in writing.
- Beware at times that credit applicants have a right to fair treatment under the law.
- Standardization and credit extension policies in writing or having a written standard operating procedure (SOP) help show equitable treatment or disparate treatment as well.
- Rejection of credit at times requires notice of why credit was denied.

Credit Application Nuts & Bolts Cont.

6.) Types of credit in general

- Revolving
- Installment
- An “account”
- Single sale
- Structured sale

Credit Application Nuts & Bolts Cont.

To fully understand your options, you need to know your customer:

- Who is your customer?
- Do you have a personal guarantee?
- If it is a legal entity, is it a partnership, LLC, sole proprietor, corporation, or limited partnership? What is the impact?
- What is the typical payment cycle from your customer? You need to understand their business to understand what you can expect.
 - Example: government vendor
 - Example: third-party vendor pay portal
- Knowledge is strength

Credit Application Nuts & Bolts Cont.

Knowing your customer includes:

- Contact information
- Who is the decision maker?
- Who is involved in the account payable process?
- Who is the owner?
- Who is the boss?
- Where are they located?
 - Example: home office vs. regional office
- Where was the product sent/services provided?
- Where do they own?
- Where can they be contacted?
 - Example: email address, fax number, cell phone, mailing address, etc.

Credit Application Nuts & Bolts Cont.

Strengthening your position by knowing your customer:

- Practical tip: By knowing your customer and their business, you have a better chance of getting paid. Information is key to breaking down the payment obstacles.
- Practical tip: The more information you have on your customer and their payment habits, the stronger your position will be if you have to use a third-party collection professional.
- Practical tip: Keep records and documents of who pays for further use.
 - Credit card information, copies of checks, wire transfers, etc.

Credit Application Review and Decisions

1.) General comments

- Sales vs. bad debt
- The cost of a bad sale is more than just the sale
- Stratified credit level decisioning by location or balance
- Debt to income ratio
- Unlimited factors to consider
- What does your “gut” tell you?

Can a Credit Application Become a Binding Contract?

Yes, with the inclusion of terms and conditions:

- Terms of sale
- Terms of payment
- Service charges/interest
- Liquidated damages
- Personal guarantee line(s)
- Jurisdiction
- Venue
- Security
- Jury waiver
- Arbitration (mediation [binding/non-binding])
- Unlimited terms to include damages limitations
- Warranty waivers

Questions?

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Please feel free to contact me anytime:



Donald Mausar
Shareholder

216.685.1037

DMausar@Weltman.com