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



- 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



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



3.) Credit reports and references

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



- 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



- 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



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.



6.) Types of credit in general

- Revolving
- Installment
- An "account"
- Single sale
- Structured sale



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



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.



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



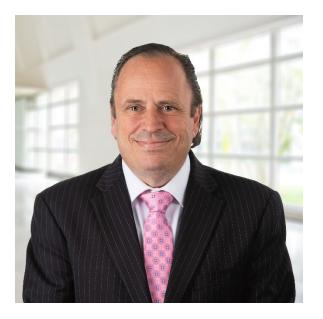




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Please feel free to contact me anytime:



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