

Credit Investigations Agenda

- Legal exchange of credit information
- Ethics
- How to do a credit investigation
- Methods of Direct and Indirect investigation
- Anti-Trust issues
- Credit Bureaus / Reports
- Periodic File reviews



Exchange of Factual Information is Legal and Proper

US 588, 603-604
gives us the right
to Exchange
Credit Information

Factual
Historical
Credit Information

Make Your
Own Decisions



Don't Make
Agreements with
Competitors for
Action on Customers

Don't Share
Future Actions

Don't Influence
Others to Take
Your Course of
Action

Anti-Trust in Credit Investigations

- Limit comments to the history of the account
- Do not suggest that credit be extended or denied or to sell or not sell
- Never discuss price
- Never disclose terms of sale
- No black-lists or conspiracy to restrain trade



Business Credit vs. Consumer Credit

- Court rulings are limited to “Business Credit”
- “Consumer” credit is covered by privacy rules

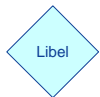


Ethical Perspective

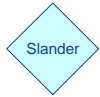
All Credit information obtained by the credit grantor must be considered strictly confidential and under no circumstances should it be divulged, or discussed with any person outside of the credit department.

- Confidentiality
- Accuracy
- Trust
- Reciprocation
- Personal Behavior
- Honesty
- Objectivity
- Knowing Topics to Avoid

Libel vs. Slander



Permanent Form
Written, Filmed,
Internet



Temporary Form
Such as Speech



Slander is hard to prove
Must show intent

Defense to Libel and Slander

Always Tell the Truth!

Do Not Use the following words when giving references or participating in Trade Group meetings



Trade Group Meetings

- Object is to exchange factual credit information relevant to business credit accounts based on actual experience or present knowledge.
- **Do Not** talk about price
- **Do Not** talk about Terms
- **Refrain** from giving opinions
- **No** Libelous statements



Opening a New Account

- Know what your company expects you to investigate
 - Defined in credit policy
- Get a credit application
 - This is your contract
- Do your investigation
- Make your decision
- Inform sales and the customer
- Build a credit file



Direct and Indirect Credit Investigations

Direct Investigations

- Done through direct contact with the customer or other sources of information
- Takes more time which could cost the company more money

Indirect Investigations

- Gathering information from Credit Bureaus and Credit Reports
- 3rd Party reports
- Faster
- More consistent information



Sources of Direct Investigation

- ✓ Credit Application
- ✓ Credit References
- ✓ Credit File
- ✓ Trade Group Meetings
- ✓ Financial Statements
- ✓ Bank References
- ✓ Public Record Info

- ✓ Sales Associates
- ✓ Customer Supplied Info
- ✓ Personal Interview
- ✓ Telephone Contacts
- ✓ Fax Correspondence
- ✓ Mail Correspondence
- ✓ State & Federal Government Info



Downside to "Direct Investigation" is it takes time, and time is money.

Other Sources of Direct Investigation

- County and state government offices
- Lexis-Nexis for background checks and skip tracing
- Government websites such as EDGAR for financial information
- Other internet sites (see handout)
- Bankruptcy court
- Customer's website



Trade References

- Usually done in writing
- Ok to ask:
 - How long they have been buying from referred company
 - How they pay – How many times past due
 - Do they bounce checks
 - Highest credit limit
 - Average days to pay, or days beyond terms
 - Are they current now

Bank References

- Usually will not provide information by phone
- Bank to Bank can provide a source of information
- Robert Morris and Associates (RMA)

RMA's General Figure Ranges

Low 4 figure	\$1,000 – 1,999
Moderate 4 figure	\$2,000 – 3,999
Medium 4 figure	\$4,000 – 6,999
High 4 figure	\$7,000 – 9,999
Nominal	Under \$100
3 figures	\$101 - \$999
4 figures	\$1,000 - \$9,999
5 figures	\$10,000 - \$99,999
6 figures	\$100,000 - \$999,999



Indirect Investigations

- More information readily available
- Speed of gathering information is faster than direct investigation
- Relatively low cost
- Can use data sources for marketing information

Information comes from 3rd party credit bureaus



Credit Reporting Agencies

- Dun & Bradstreet
 - BIR reports and rating systems
 - Paydex score
 - Financial information
 - Background information on owners and officers
 - Can be expensive
 - Information best on larger customers

D & B Financial Risk Score

The following table outlines how to interpret a rating when D&B is able to obtain the financials for a given firm.

Rating	Financial Strength		Composite Credit Appraisal			
	US\$		High	Good	Fair	Limited
5A	50,000,000 and over		1	2	3	4
4A	10,000,000 to 49,999,999		1	2	3	4
3A	1,000,000 to 9,999,999		1	2	3	4
2A	750,000 to 999,999		1	2	3	4
1A	500,000 to 749,999		1	2	3	4
BA	300,000 to 499,999		1	2	3	4
BB	200,000 to 299,999		1	2	3	4
CB	125,000 to 199,999		1	2	3	4
CC	75,000 to 124,999		1	2	3	4
DC	50,000 to 74,999		1	2	3	4
DD	35,000 to 49,999		1	2	3	4
EE	20,000 to 34,999		1	2	3	4
FF	10,000 to 19,999		1	2	3	4
GG	5,000 to 9,999		1	2	3	4
HH	Up to 4,999		1	2	3	4

D & B Paydex Score

This score is based on the customer's past payment performance.

- PAYDEX Score Indicates the following payment practices:**
- 100 Anticipates
 - 90 Discounts
 - 80 Prompt
 - 70 15 days beyond terms
 - 60 22 days beyond terms
 - 50 30 days beyond terms
 - 40 60 days beyond terms
 - 30 90 days beyond terms
 - 20 120 days beyond terms
 - 0-19 Over 120 days beyond terms
 - Unavailable

Experian

- Offers good trade information especially on consumer reports you pull on personal guaranties.
- Intelliscore rates companies between 1 and 100. 100 is the best.
- Gathers financial information from Standard & Poor's. Also shows Days Beyond Terms (DBT).

Experian Commercial Intelliscore

Small Business Intelliscore™ V3 enhanced performance table

Approval rate	Score range	Score range — bad percentage	Cumulative portfolio — bad percentage	Score range odds of goods to one bad	Cumulative odds of goods to one bad
5%	92.59-100.00	0.72%	0.72%	137.45	137.45
10%	92.12-92.57	1.04%	0.88%	95.28	112.58
15%	91.71-92.11	1.07%	0.94%	92.69	105.07
20%	91.31-91.70	1.11%	0.98%	89.13	100.58
25%	90.88-91.30	1.26%	1.04%	78.63	95.27
30%	90.41-90.87	1.35%	1.09%	72.88	90.64
35%	89.87-90.40	1.55%	1.16%	63.36	85.41
40%	89.21-89.86	1.83%	1.24%	53.57	79.54
45%	88.35-89.30	2.26%	1.25%	43.19	72.79
50%	87.17-88.34	2.71%	1.49%	35.95	66.10
55%	85.55-87.16	3.59%	1.68%	26.88	58.49
60%	83.74-85.54	3.97%	1.87%	24.19	52.43
65%	81.34-83.73	4.67%	2.09%	20.43	46.92
70%	77.86-81.33	6.53%	2.40%	14.32	40.60
75%	73.11-77.85	8.18%	2.79%	11.22	34.85
80%	64.86-73.10	11.17%	3.21%	7.96	29.18
85%	48.17-64.85	16.17%	4.07%	5.18	23.57
90%	24.54-48.16	28.27%	5.41%	2.54	17.47
95%	1.86-24.53	49.93%	7.76%	1.00	11.89
100%	0.00-1.85	86.46%	11.68%	0.16	7.55

Equifax

- Provides business reports
- Provides consumer reports
- Provides predictive scoring
- Reports show information in graphs and charts, easy to read



NACM Sample Report Continued

--Trade Payment Trending--		Total	Current	1-30	31-60	61-90	Over 90 Days
							past due
12/06	7 ACCOUNTS ADP = 96	\$12,385	\$ 2,641	\$ 4,709	3,630	4,599	\$ 9,027
11/06	6 ACCOUNTS ADP = 76	\$36,096	\$16,477	3,960	10,08	15,4	4,679
			23,7	7,7	10,08	15,4	18,4
10/06	7 ACCOUNTS ADP = 65	\$87,634	\$23,116	25,108	25,408	23,993	
			23,9	26,8	26,8	23,3	
09/06	6 ACCOUNTS ADP = 49	\$81,128	\$18,024	14,901	2,371	1,804	30,348
			19,4	24,4	15,4	37,4	
08/06	11 ACCOUNTS ADP = 79	\$76,701	\$2,897	11,197	6,893	1,304	34,430
			25,1	11,456	16,722	11,2	34,430
07/06	11 ACCOUNTS ADP = 74	\$55,937	\$2,368	1,206	16,722	11,2	34,430
			22,3	12,0	17,5	11,2	36,7
06/06	10 ACCOUNTS ADP = 59	\$90,609	\$27,029	13,829	4,293	3,3	34,430
			22,3	17,2	2,8	1,4	42,7
05/06	9 ACCOUNTS ADP = 40	\$65,601	\$41,024	45,290	1,268	329	
			25,6	21,4	1,4	4	
04/06	9 ACCOUNTS ADP = 34	\$78,228	\$12,024	45,547	1,279		
			27,247	45,547	1,279		
03/06	9 ACCOUNTS ADP = 34	\$94,287	\$27,428	45,547	1,279		
			27,2	45,5	1,1		
02/06	7 ACCOUNTS ADP = 20	\$34,668	\$37,683	3,165			
	(ADP=Average days to pay)		90.9%	9.1%			

--Principals--
 Principal: John Doe

--Bank Information--
 11/21/06 02/16 Return to Maker Check \$670

--Accounts Placed for Collection-- (This activates a Watching Alert)
 COLL - DATE 5/07 Amount \$2,035 Member # 01073

--Public Record Information-- (This activates a Watching Alert)
 STATE TAX LIEN 02/13/06 \$6,000 Case #006911158
 PLAINTIFF STC

STATE TAX RELEASE 5/01/06 \$9,000 Case #006911158

STATE TAX LIEN 6/01/06 \$10,000 Case #01488347

FEDERAL TAX LIEN 7/01/06 \$49,173 Case #10951796
 PLAINTIFF IRS

JUDGMENT GRANTED 11/07
 PLAINTIFF SUNRISE CORP \$9,000 Case #030903066

--Secretary of State UCC Records--
 UCC Filing - SEC OF STATE 1/01/04 #11232444
 SECURED PARTY - SMART BANK
 COLLATERAL - AS Inventory, Accounts Receivable

UCC Filing - SEC OF STATE 5/14/05 #038765427

Consumer Credit Reports

- You must have authorization to pull the report
- Authorization must be in writing
- Authorization usually given when a personal guaranty is signed
- Authorization must be kept separate from other signatures on the credit application
- Personal guaranties signed with a title void the guaranty



Getting International Credit Information

- Financial statements may be hard to obtain
- Customer supplied information is the best way to start
- Domestic banks usually can help with credit information on foreign firms
- Foreign Banks vary in their cooperation for information
- FCIB-NACM provides international credit reports, conferences, and has export groups & country reports

Investigating Existing Accounts

Accounts should be updated at regular intervals

You may also want to update an existing account whenever any of the following events occur

- Change in payment habits
- Change in ownership
- Increase in sales dollars
- Large project awarded
- Rumors on the street
- Request for a higher credit limit
- Receiving many credit inquiries

Your sales people are your eyes and ears on the street...use them.

Information Overload

In today's world it is possible to get information overload. Use common **sense** when doing your investigation.

Gather as much information as you need to make a good decision, but don't over-do it.