11 Credit Investigations

Overview

One of the core functions of the credit department is credit investigations. The greater the effort made to gather information at the beginning of the buyer/seller relationship, the easier it may be to collect accounts later. This chapter discusses all phases of gathering credit information—from the legal right to do so to the reasons such investigations are important to setting up the process. Sound credit decisions can only be made on the basis of adequate information about a customer's business, its financial condition, the character of the principals and other business matters.

THINK ABOUT THIS

Q. What ethical considerations should be taken into account when investigating a customer's credit worthiness?

Q. When does a customer visit become beneficial to a credit professional?

Q. What value does an industry credit group bring to a credit investigation?

DISCIPLINARY CORE IDEAS

After reading this chapter, the reader should understand:

- How to conform to the legal requirements and ethical principles of credit investigation.
- The sources of direct credit investigations.
- The sources of indirect credit investigations.
- The importance of conducting credit investigations on existing accounts.
- The sources of international credit investigations.

Chapter Outline

Legal and Ethical Aspects of Credit Investigations

The credit department, owners, officers, sales management and other key management personnel must have a secure knowledge of their legal right and privilege to gather and disseminate credit information about mutual business customers to which open account credit is provided by the company. They must also know, and understand, the ethical implications of this process.

Exchange of Credit Information—The Legal Perspective

The exchange of credit experience information on a particular customer is legal only if the information exchanged is restricted to factual, historical data. Since 1925, various U.S. courts have recognized in numerous decisions the legitimate business interest in the exchange of factual credit information among businesses with legitimate interests. One important case supporting the right to gather business and trade credit information is the 1925 U.S. Supreme Court case that held:

> "... The gathering and dissemination of information which will enable sellers to prevent a perpetration of fraud upon them, which information they are free to act upon or not as they choose, cannot be held to be an unlawful restraint upon commerce, even though, in the ordinary course of business, most sellers would act upon the information ..." *(Cement Manufacturers Protective Association vs. United States,* 268 US 588, 603–604)

In a 1976 case, the U.S. Court of Appeals for New York commented on the exchange of credit information as follows:

> "... Unlike exchanges regarding prices which usually serve no purpose other than to suppress competition, and hence fall within the ban of the Sherman Act ... the dissemination of information concerning the creditworthiness of customers aids sellers in gaining information necessary to protect themselves against fraudulent or insolvent customers. ... Given the legitimate function of such data, it is not a violation of the Sherman Act to exchange such information, provided that any action taken in reliance upon it is the result of each firm's independent judgment, and not of agreement." *(Michelman vs. Clark Schwebel Fibre Glass Corp.,* 534 F2d 1036)

These cases are the foundation for conducting all business and trade credit investigations and exchanging business credit information on specific customers among competitors. These cases, however, do not permit the exchange of credit information or allow for gathering of credit data on consumers who obtain credit for "personal, family or household use." While commercial (business and/or trade) credit is specifically set up to avoid "personal, family or household use," there may be cases where under the law special consideration is needed. Every business-to-business credit grantor should recognize the respect the law itself discerns for business credit grantors and should adhere to those legal and regulatory parameters as well as to the ethical standards observed in the realm of business credit.

Antitrust, anti-defamation and confidentiality are the core principles for exchanging business credit information in industry credit group meetings *or any setting*—whether among two or 200, in a formal meeting or office, or in a parking lot or restaurant. These principles must also be adhered to in conversations among business credit grantors by phone, fax or electronically.

Comprehension Check

What are the three core principles that should be followed when exchanging business credit information in industry credit group meetings or other settings?

Antitrust in Credit Investigation

Figure 11-1 Antitrust

The object of this discussion [in an industry credit group meeting] is the collection and exchange of credit experience information relevant to the credit of accounts based upon actual experience or present knowledge as it relates to past and completed transactions only. It does not imply in any manner that the creditors [party to such exchange] recommend that any credit relationship be conducted or modified in any way.

There should be no agreement or understanding, express or implied, to fix or determine to whom sales should be made or credit extended, establish joint or uniform prices, terms or conditions under which sales are made or credit extended; and creditors may not boycott or blacklist any customers or suppliers. Creditors may not plan with another, or report, any future actions or policies.

Creditors may not give advice or otherwise attempt to influence the independent judgment of other creditors in the extension of credit.

Figure 11-1 focuses on the antitrust concerns a credit grantor must consider when inquiring or disseminating information about a customer's credit history, payment pattern, etc. In the context of information exchanged among commercial/business credit grantors, the primary objective is to avoid violating various antitrust laws. The intent of these antitrust regulations is to avoid any behavior that could lead to conspiracy, restraint of trade, price setting or fixing, or boycotting certain customers or suppliers. At the same time, the regulations also attempt to allow for the free-flow of credit information in a very specific manner so that creditors and competitors can avoid fraud, including the non-payment of an outstanding debt. U.S. antitrust laws are designed to give creditors the right to ask and find out how a customer or potential customer meets its obligations. The credit grantors who exchange such information must do so in a manner consistent with these laws.

The credit grantor must limit comments to the history of the customer's account. How long has the subject of the inquiry been a customer? What has been the highest amount of credit given/allowed? What were the credit terms offered to the customer? Does the customer owe money now? How much of what the customer owes is current? How long is the account past due 30 days, 60 days, 90 days or longer? How did/does the customer usually pay the account? What has been the experience with this customer regarding credit dealings and transactions?

No credit grantor may suggest that credit be either extended or denied or offered in such a way as to create, or appear to create, any form of agreement to sell or not sell a customer in any way other than by each creditor's independent decision. To do so could be considered a conspiracy in restraint of trade, which is a potential violation of the Sherman Act. Comments such as "I wouldn't sell (customer) on credit if I were you," "If we (all) sell (customer) on COD terms," or "Maybe we should" could indicate a threat of antitrust violation.

A credit grantor cannot enter into discussions of any nature with regard to prices. For the credit department, this relates to the terms and conditions of sale or credit. Under the Robinson-Patman Act, sales term, common vernacular that is often used interchangeably with credit terms, is an element of price. In some instances, a credit grantor will not release information regarding terms of sale when asked in order to avoid any concern about the question of price as it relates to the Act. Robinson-Patman does permit the inclusion of this information as it relates to the credit information trade line; however, if a company sets its own policy to prohibit sharing this information, then a customer's payment history in relation to sales/credit terms will likely not be available.

Credit grantors may not agree to do business with certain customers according to certain terms or conditions (i.e., conspiracy in restraint of trade). Nor may they report something that has not yet occurred or been acted upon such as: "We will never sell this customer on open account terms again"; "This customer is permanent COD"; "We are going to file suit"; "We are filing liens today." These comments are stated in such a way as to indicate that the actions themselves have not yet occurred. This means that the customer still has time to redeem itself and prevent these intended actions from taking place. When comments like these are shared, the recipient of the information tends to factor them into its credit decision. If the provider of the future action comment does not act on the comment because the customer subsequently pays or makes arrangements to pay, or management determines not to take action, then the customer may have been harmed and an antitrust violation will have occurred.

Each credit grantor must use the information obtained as a basis to make independent, unilateral credit decisions in accordance with their own company credit policy and/or judgment without influence, suggestion or coercion to make a credit decision in any manner.

Conspiracy, Restraint of Trade, Joint Actions

While the courts have held the exchange of factual credit information to be legal and proper, any agreement, express or implied, between competitors on any action concerning a common customer or class of customers is clearly illegal. Such an illegal agreement or conspiracy could be an agreement not to do business with a certain customer or class of customers or it could be an agreement on terms to be offered to a customer or class of customers. While exchange of factual information about the credit experience with customers is perfectly proper, care should be taken that no agreements are made for any common action, nor should there be any effort made to influence the credit decision of another company. Any joint action can have the effect of eliminating the element of competition from the marketplace; to do so is unlawful.

Comprehension Check
What types of behavior constitute **antitrust** when exchanging business credit information?

Defamation in Credit Investigation

Figure 11-2 Anti-Defamation

Libelous statements among creditors must be carefully avoided; they may subject all creditors to major damage suits by persons who consider themselves to have been defamed.

Creditors must also avoid giving opinions or making statements which imply that any individuals are dishonest, fraudulent or immoral since no specific damages need to be proven in court to recover for these kinds of statements.

Statements which might be considered *libelous* or *hearsay* should not be used unless it can be proved from clear evidence that the statement is true.

People operate businesses. As such, it is common to discuss a business credit transaction with the owners, partners or principals of the business credit customer. This is the issue referred to in Figure 11-2. Even though the customer is the business entity itself, the principal of the entity is looked to for management decisions such as payment of invoices. It is impractical to consider the business without considering the management of the business. Whoever makes management decisions, that *person's* track record, previous business experience and knowledge have an impact on current and future business credit decisions.

Credit grantors who are party to any such objectionable or disparaging remark or writing about the character or personal conduct of an owner or principal of a common customer can be sued by that customer. Defending the remark or writing is solely the legal burden of the parties involved in making the writing or remark. The only legal defense to the claim is "fact" or "truth." The injurious claim made by a customer is called defamation.

Libel and Slander

Defamation *is a false statement made to others that injures the name or reputation of a third party.* The two types of defamation are libel and slander. **Libel** *is defamation in some permanent form, such as printed media or writing in any form, including electronically-generated emails, computer files, folders or documentation.* **Slander** *is defamation in a temporary form, such as speech.*

The law has always been very protective of the reputation of businesses and business individuals. Legislatures and the courts have recognized that a person or business firm may suffer real damages by being lowered in the esteem of any substantial and respectable group, especially when that group may represent suppliers.

Examples of Libel and Slander

While it is proper to pass on information that is of public record to another supplier, such as the filing of liens, legal actions or criminal convictions, such information should not be reported with any malicious intent. For instance, continuous reference to a person's or company's unfavorable past history could hinder that person or company with such a record from being reestablished in society. This is especially pertinent where many years of good conduct have ensued or where nothing either good or bad is definitely known about the intervening years.

It is not defamatory to say that a customer is past due, has broken payment commitments, has bounced a check, is cautious with money or has led an eventful life. These statements lack the element of personal disgrace necessary for defamation in the eyes of the law. However, saying that a business "refuses to pay its bills" or that a firm is "insolvent" (unless it is an established fact) obviously damages that entity in the business community and may result in a charge of defamation.

Matter of Libelous Per Se

Generally, ***matter libelous per se*** *is any communication that falsely suggests a criminal act or immorality, or which tends to deprive a person in business of public confidence and esteem.* Examples would be to accuse someone of fraud or of being dishonest. The charge need not be made in a direct, positive and open manner. If the words used, taken in their ordinarily accepted sense, convey a degrading imputation—no matter how indirectly—they are libelous. A written communication that states a particular debtor has not paid debts that are owed and past due is not libelous, if true. If written communication imputes insolvency, bankruptcy or lack of credit on the basis of this fact, it becomes libelous.

The following are examples of libelous per se:

1. To charge by letter that a person knowingly made false representation with intent to deceive, or lacks veracity.
2. To publish a false statement imputing insolvency to a merchant or trader.
3. To charge falsely that a person has failed in business or has made an assignment for the benefit of creditors.
4. To falsely claim that the person committed a crime of moral turpitude (conduct that is considered contrary to community standards of justice, honesty or good morals).
5. To charge in writing that a business individual is embarrassed, inferring insolvency or lack of creditworthiness.

The best way to explain this aspect of anti-defamation is to say: if it hasn't happened yet, then it should not be reported. If a statement is made that a customer has filed bankruptcy, the creditor making the comment should have the case number, date of the filing or other information evidencing the fact of the bankruptcy. Therefore, there should be no speculation or further discussion about a customer filing bankruptcy unless newspaper articles, the public record or other written documents are published for all to know. Comments based on speculation from salespeople, management, other creditors, the trade or others do not constitute evidence that can be cited as support of the fact that the action has been taken or that the comments are based on public knowledge.

The element of **publication,** *communication of the libel to some third person,* is essential to an action in libel. Communication to the defamed person alone is not actionable because no third person has learned of the defamatory matter; consequently, there is no possible injury to the defamed party's reputation.

Defenses to Charges of Libel

Truth is a complete defense to an action in libel and must be so pleaded. Where several statements are published, however, of which only some are true, the defamer does not escape liability. Some defamatory statements are not actionable as libel because they are **privileged communications:** *statements made by one person in pursuance of a duty to another person having a corresponding duty or interest.* Such privilege is conditional, however, in that a community of interest must exist and must be exercised in good faith; malicious intent or a wanton and reckless disregard of the defamed person's rights will destroy the privilege. A person bringing suit must prove the existence of malice in order to sustain the action.

The courts have considered the following as privileged communications:

1. Statements made by a former employer whose name has been given as a reference to a prospective employer of an employee.
2. Communications between creditors of the same debtor in reference to their respective claims.
3. Communications by banks, such as a statement as to the financial standing of a person offered as a surety.

Comprehension Check
Explain the terms **libel, slander** and **matter libelous per se,** providing an example of each as it pertains to credit management.

Exchange of Credit Information—The Ethical Perspective

There are two cardinal principles in the exchange of credit information: *confidentiality* and *accuracy* of inquiries and replies. Confidentiality includes the identity of inquirers and sources, which cannot be disclosed without their permission. Adherence to these and other principles embodied in this age-tested code is essential as offenders jeopardize their privilege to participate further in the exchange of credit information.

Confidential Nature of Credit Information

Confidentiality relies upon the fidelity, or trustworthiness, of the party with whom information is being exchanged. All parties involved trust that the information has been requested for a legitimate purpose and will not be used indiscriminately.

When conducting a credit investigation, the identity of the inquirer should not be divulged without its authorization. Similarly, the identity of the source of the information should not be made known without its authorization.

Figure 11-3 Confidentiality

All information obtained by credit grantors must be considered strictly confidential and not to be divulged or discussed with any person outside of the creditors own credit department under any circumstances.

The facts presented must be accurate because the reference is one of the most pertinent sources of credit information. When discussing data, favorable or unfavorable, the responding party must give a reply that is restricted to or based on fact. If a discrepancy is discovered within a reasonable time after an inquiry has been answered, and is considered to be significant in relation to the purpose of the inquiry, it is prudent and ethical that the discrepancy be disclosed to the inquirer. It is expected that, as a matter of professional courtesy, no liability will be attached to, or result from, the good faith exchange of information.

The law protects the free interchange of credit information among business credit grantors. Without these laws, the flow of information could not survive. However, it is important that information either provided or being provided can be trusted. In this respect, confidentiality can be viewed in two ways. Each creditor party to any credit information exchange must have confidence that the information exchanged is accurate and without personal or emotional overtones. There is also the expectation that the party receiving the credit information will conduct itself in such a way as to protect the provider and/or the recipient of the information from any undue harm, injury, embarrassment or other unnecessary complication as a result of either providing information requested or obtaining information from a willing provider.

The credit grantor must trust that information:

- Being provided by a responding credit grantor's request is accurate and factual.
- Provided by the credit grantor to the inquiring party will be used solely by that individual to make a credit decision.

- Received will not be used for any purpose other than to make a credit decision and that it will not be repeated to any other party including the business customer on which the inquiry is made.

Ethical principles are violated when one creditor either purposefully or inadvertently violates the confidence of another credit grantor who provided credit information about a customer. In rare cases, competitors have been known to use accurate but adverse credit information to undermine a customer/seller relationship in order to gain a competitive edge. A creditor who intentionally provides false information may violate certain laws.

Can the party receiving the information be trusted to know how to handle it after the fact in order to avoid a "breach of confidence" from occurring? Consider the following scenario:

> You provide factual credit information about a customer to another credit grantor to whom the customer gave your name (company) as a credit reference. You provide factual, accurate credit information about the customer: the customer has a specific history of late payment with your company. Later, the customer contacts you and takes issue with the negative or derogatory reference about their company's credit experience with your company.

In the scenario above, a *breach of confidence* has most likely occurred. In other words, the credit details you provided in confidence were repeated to the customer, or yet another party, by a credit grantor.

This breach may set up a lengthy customer service and satisfaction process between your company and the customer that can involve the sales and management teams and even go so far as to involving legal counsel for one or both parties and possibly beyond, depending on the extent of the complaint.

This is only one of several types of ethical issues that can occur if a credit grantor is not familiar with the inquiring party and does not know if the party will treat the information confidentially.

When a breach of confidence occurs, there is likely no legal recourse available; the credit management profession more or less polices itself by limiting credit information to other credit grantors whom they know and can trust. In the event that a breach occurs, the credit grantor who has been affected may put restrictive conditions in place, such as withholding credit information from the party who has failed to treat the confidential information properly. In other words, credit information "dries up."

The process of exchanging information among creditors in confidence is strictly voluntary. It is important to know and recognize the ethical principles involved in such exchanges—whether between two parties exchanging credit information—or among several credit grantors who participate in specialized industry credit groups. Open email credit information exchanges are not recommended.

Summing Up Ethical Considerations

The purpose of a credit investigation should be to obtain information to make a specific decision about granting credit to a company. The goal of the investigation is to obtain factual and accurate information that will lead to an appropriate credit decision.

Personal Behavior. The credit professional has an obligation to their employer and to the credit community in general to behave professionally and to guard against violating, even unintentionally, any laws against restraint of trade.

Honesty. The credit professional should always present their company's experience honestly to any party requesting credit information. Misrepresenting oneself or one's company can have serious legal and ethical consequences.

Objectivity. Information requested must be factual. It is important to phrase questions and requests objectively in order to foster clear communications and avoid relying on someone else's opinion.

Topics to Avoid. Credit professionals should avoid discussing the following topics with anyone outside the credit department of their own company: future prices, future terms or future discounts. Furthermore, credit professionals should avoid any conversations touching on discriminatory trade practices or anything that might be construed as restraint of trade or in violation of antitrust legislation. For example, it is inappropriate to agree with other companies not to sell supplies to another business. That is forming an illegal boycott and is in violation of one or more of the federal antitrust laws.

Company Policy

Information gathered during the investigation must be kept confidential within the organization itself. A policy should be established as to who is permitted to access credit files. This policy must be appropriate to the size of the organization, the extent and nature of information contained in the files, and the use to be made of the information. An untrained person could seriously jeopardize the relationship between the customer and the company, and even subject the company to a lawsuit, by unwarranted or unguarded revelations of information that the customer might consider detrimental to its reputation or character. Therefore, it is important that all persons dealing with credit inquiries be properly trained in the legality and ethics of communicating credit information both inside and outside the company. Correct and accurate information, readily available at all times, is critical when reporting to management and the sales department, or when disclosing information to another credit grantor upon request, to a credit reporting agency or to an industry credit group.

Direct Credit Investigations

Direct investigation *occurs when the creditor collects credit information either through direct contact with the customer or through direct contact with noncommercial sources of information such as competitors, banks and other trade references that may have relevant details to share.* Sources of direct investigation include customer-supplied trade references, bank references and financial statements; information obtained from a Secretary of State's office; information found in public records; details collected through personal or telephone interviews with principals; and material found in search engines such as Google, Yahoo and others, as well as the customer's, or potential customer's, website.

Direct investigations were once the norm, but given the incredible amount of information online today, their frequency and value has diminished. However, they are still useful when information is not readily available or if the investigating company does not use commercial information services. Direct investigations can also be used to verify information obtained on a credit report or other online source, especially when a current or potential customer is high risk, a new business or has a high exposure.

Direct investigations can be labor intensive and should be conducted with a certain knowledge and understanding of the process. For instance, specific questions other than those relating to facts and completed transaction experience are inadvisable. Also, making an inquiry to a competitor without disclosing that the subject is a prospect is unethical, and when this information is properly disclosed, the reply is at the discretion of the account holder (respondent).

Comprehension Check
Define **direct credit investigation.**

Customer Visits

The benefits of customer visits by credit department representatives include:

- Developing and enhancing the customer relationship.
- Strengthening the relationship with the sales department.
- Observing customer facilities (the inventory, condition of the equipment, the plant, the location and attractiveness of retail operations, etc.).
- Discussing financial information in more depth.
- Reviewing financial information that might otherwise be unavailable.
- Observing how other suppliers' products are being used.

- Developing connections between various internal company functions and the customer's counterparts (i.e., logistics departments, advertising departments, etc.).
- Resolving disputes.
- Sharing best practices.
- Discussing account status and collection of payments.

Comprehension Check
Explain the benefits of visiting a customer.

Building Customer Relations

Customer visits provide many valuable opportunities to build customer relationships. Visits may include representatives from credit, sales and other members of company management. Joint customer visits may have an additional benefit of enhancing internal communications among sales, credit and other departments instrumental to the maintenance of the account. A customer visit delivers a strong and unified message to the customer that its business is important to the creditor and that the protocol for doing business with the credit grantor has certain expectations. A good customer visit should be educational with regard to the expectations of both the creditor and the customer.

It is important for company representatives to review key discussion points prior to the visit so that management, credit, sales, production, distribution and other departments clearly understand the goals and objectives of the customer meeting. Based on these pre-visit discussions, a clear vision of the outcome of the visit will be ensured.

Figure 11-4 suggests possible questions to ask a customer during a visit. Not all questions will apply to every customer or every visit. It is important that the credit professional analyze the customer's situation and prepare to ask pertinent questions.

Comprehension Check
What questions can a credit manager ask a customer during a visit?

Figure 11-4 Questions to Ask Customers

1. What is their corporate structure?: Is it a corporation, partnership, LLC, LLP or proprietorship?
2. Do they have affiliated companies? If so, what is their relationship to the company being investigated (vertical: supplier or end-user; horizontal: differentiated by product type or geography, etc.)?
3. What is their product cycle, from ordering to shipment of raw materials to finished product to receipt of cash? What is the impact of seasonality on their business?
4. What are their inventory policies? Are there markdown procedures in place, or other plans to relieve slow-moving stock? What is the size of order backlogs?
5. Who are the principal customers of the company being investigated? How would their creditworthiness be described?
6. What terms of sale do they offer to their customers? What is the payment performance of their customers?
7. What is their market share? What is their product niche? Who is their competition, their advantages or disadvantages (price/quality/delivery), and their relative market shares?
8. Are there plans for expansion, new product developments or curtailments of unsuccessful lines? How will any expansion be financed? How will overhead be eliminated or absorbed if unsuccessful lines are curtailed? Are the facilities owned or leased? If leased, what are the expense implications if facilities are closed? Are the plans realistic?
9. Who are their major suppliers? What terms do they offer? Do any of them hold letters of credit, guarantees or security instruments such as liens?
10. What are projections for sales and income? What factors would influence possible variances?
11. What are their borrowing arrangements (availability, advance rates, factoring arrangements, security held, mandatory cleanup periods)?
    - What is the impact of seasonality?
    - Is refinancing under consideration?
    - Are personal assets or assets of affiliated companies pledged?

Observe the Facilities

A great deal can be learned from viewing the customer's operations first-hand. An observant credit professional can note irregularities and inconsistencies with information that has been previously provided by the customer. For example, a recent financial statement may indicate a large volume of inventory on hand. If the inventory seems low during a facilities tour, the credit professional can point out the discrepancy and allow the customer to offer an explanation. Customer visits break down barriers to understanding the customer. Plan to visit the most important sites first, but not necessarily the ones the customer seems most inclined to have you visit. Credit professionals can observe an operation and the subject company's performance relative to similar businesses that have been visited.

- What is the condition of inventory?
- What is the appearance of the equipment?
- Is retail traffic light or heavy?
- Are stores well located?
- Are the office facilities too extravagant or in need of modernization?
- Are a competitor's products in use and in what quantities?

When visiting a customer's facilities:

- Observe the impact of competition in terms of product use, amount on hand, etc. Try to ensure that you are not misled by what you observe. If there is a large backlog, what factors are involved (heavy buying in advance of season, poor acceptance of the suppliers' product, spot buying due to advantageous pricing, purchase of supplier's product due to credit problem, etc.)?

Real World Perspectives

RWP 11-1

RECLAMATION FROM DOLLARS TO TEARS

Clarence, the store owner, forcefully and purposefully handed me the keys to the store and said to me, "It's yours!" I was in shock by the turn of events, never expecting a customer to simply hand me the keys to their business! Although not prepared for this drama, I told Clarence that I was there to find a mutually agreeable solution to address the pharmacy's delinquency issues. Clarence began to listen to me closely, while cautiously still displaying some fear and trepidation.

Reflecting back to my interactions with Clarence before our first face-to-face meeting, maybe his behavior should not have surprised me. Clarence, the owner of a small drug store in St. Louis, would never commit to a payment plan and with great reluctance he agreed to our meeting. The meeting time also was unusual—7:00pm, after the store had closed. Clarence's slow opening of the store's entrance door confirmed a lack of trust and a feeling of dread to meeting with the "Credit Manager" from Chicago! The behavior may have been a tip off, the store keys being handed to me by Clarence, however, seemed to be a little over the top. All I knew was that I was going to have my work cut out for me.

The pharmacy was built in 1894, and Clarence certainly had a long history with the pharmacy. He told me about working in this drug store in high school and purchasing the drug store shortly after graduating from pharmacy school, fulfilling his boyhood dream. Clarence went on to tell me about the quadruple bypass surgery that he had in the prior year and the resulting health complications which led to his current financial difficulties. Being unable to work for six months, Clarence had to hire a pharmacist and manager for the store, increasing his expenses significantly. Furthermore, the newly hired personnel mismanaged the drug store.

My face-to-face meeting with Clarence would not be my last, although it helped build a foundation of trust on both personal and business levels between Clarence and me. I appreciated Clarence's sincere and honest overview of his financial difficulties, and I could tell that Clarence was truly a man of good character. I asked Clarence to put together the store's financial information and told him I would visit the next time I was in St. Louis. Clarence agreed to my request.

- Observe what other suppliers are present in the on-hand inventory. This may provide reference information that can be used for follow-up after the visit.
- Observe the efficiency of customer logistics. Is the facility located advantageously to customer locations and supply routes?
- Observe the traffic flow of employees' work areas, receiving and shipping facilities.
- Observe manufacturing efficiency and productivity. Look for signs of excess capacity.
- Are they busy? Depending on the industry, be aware of the kind of activity that should be taking place.
- Does employee morale seem high or low? If possible, ask employees to describe their functions in the organization.
- What is the condition of equipment and other fixed assets?
- Are there plans to relocate any facilities?
- Include the salesperson in the visit to help explain the facility and add their interpretation. Ask the salesperson to compare this operation to competitors' facilities.

Comprehension Check
What key factors should be observed during a customer visit?

Discuss and Review Financial Information

Many privately-held companies will only permit onsite examination of financial information. In such instances, if there were no visit, financial information would be unavailable to the credit department. It is important in these cases to capture as much information as possible during a customer visit. If the customer will permit it, take notes.

Even when copies have previously been given to the credit manager, a face-to-face discussion with customers about their financial statements provides a clearer understanding of the numbers. There are two reasons for this.

RWP 11-1 continued...

Two weeks later, I was again on a plane to St. Louis to see my friend Clarence. When I arrived we went back to the prescription dispensing counter as we had done at our first meeting to review the financial statements (if that was what you would call them). Essentially, it was a list of assets written on a green legal pad. It even included a bicycle from the 1950s used to deliver prescription orders! We went through the inventory items and discussed inventory management opportunities to improve his cash flow along with the store's operating performance and profitability. At the end of our meeting, we arrived at a mutually agreeable payment plan. Clarence told me that the payment plan would also require the approval of his attorney.

As I returned to Chicago, I thought that I was in a continuous loop leading to no resolution. I had already made a substantial investment with my time. I expected that the attorney, who was a friend of the family, would put up additional roadblocks due to the fact that I was requesting to become the only secured creditor for all of the business assets.

I did go through a challenging tug-of-war with Clarence's attorney and was now ready to finalize our agreement. Once again, I was on a plane to St. Louis to see Clarence. When I arrived, Clarence happily greeted me and we walked to the prescription dispensing counter. I went through each document and explained its purpose and significance. Clarence appreciated my attentiveness to these details and then I advised him where he needed to sign and date the documents in order to fully execute our agreement. Clarence slowly and carefully raised the documents to view at eye level and then he began to cry, telling me, "Shane, I thought there was no way out." I put my arm around his shoulder and told him that everything was going to be all right.

The next day Clarence's attorney called me by phone to thank me for helping her client and that it was a pleasure to work with me. A week followed and Clarence called me to tell me how he appreciated everything I had done for him. The whole experience was now indelibly stamped into my mind.

By helping business owners, I have learned that you not only can make a difference in their lives, but also make a difference in the lives of their families, the employees and their families, and the communities they serve. Look for the "Clarences" in your business and make a difference in their lives!

Shane Stevenson, CCE

First, the assets may now be visible to the credit professional. Second, there is usually more unrestricted time allotted for the review than for a telephone conversation. This permits more time for clear, concise questions and the ability to observe how the customer responds to certain questions.

A visit is a good time for the credit manager to learn in detail about the components of the customer's cash flow, especially if balance sheet analysis indicates weakness (heavy debt to worth ratios or lower than desired working capital). The credit manager can determine and observe if inventory or accounts receivable are turning within a normal range for the industry and/or the current economy. Suggestions may be offered that could help the customer take corrective measures and improve certain functions. For example, could the customer turn receivables and/or automate inventory management?

The credit professional can learn about opportunities the customer has explored, while observing the customer's responses to suggestions and inquiries that may reveal management philosophy and implementation skills.

A credit professional should be alert to the attitude the customer takes during the visit itself. Answers to complex questions that are inconsistent or inaccurate could be indicative of a cavalier approach to what should be a serious discussion about the importance of a future relationship with this customer. Here, the credit professional can observe the customer's body language in response to certain inquiries or listen for conflicting answers from different employees to the same question. The credit professional should use the opportunity to observe the company and management for signs of fraud or misrepresentation.

Industry knowledge and advance preparation are crucial to a successful customer visit. A strategy for the visit itself is also important. The customer should not be surprised by the nature of questions being asked during the visit. If financial information is to be discussed, then the customer should be asked to prepare this information in advance of the meeting. There should be no surprises for the creditor representatives during the visit. If certain sensitive questions are to be asked of the customer, then all participants joining the discussion should be aware and in agreement about the questions to be asked. Because interaction between the sales and credit departments and the customer can be sensitive, it is important for all participants to be fully aware of the information to be discussed.

Sometimes customers are reluctant to discuss financial information in the presence of the sales representative. This issue should be addressed before the visit through individual conversations with those involved. Usually, it is best to arrange for a time when the credit professional and management can meet privately to discuss financial information.

Resolve Disputes, Develop Interaction

The credit department is in a unique position to help avoid situations that could lead to disputes, claims and other problems that can negatively affect prompt payment within terms. The credit department has more opportunities to monitor interactions between the customer and other departments, including sales, distribution, production and management. For example, if a dispute exists from a drop-shipment made directly to the end-user (the customer's customer), or there is a quality issue, breakage, pricing or product application misunderstanding. A customer visit provides an opportunity for the parties to reach a resolution or settlement.

Freight and Logistics

Differences in interpreting or accepting routing guides are often reduced to a paper war between the logistics departments of two companies. The credit department, by virtue of its role in resolving customer deductions, is able to coordinate joint visits to address these problems. Quite often, an understanding can be reached eliminating the problem entirely, offering the subject company competitive advantages.

Pricing and Terms

Visiting a customer is an opportunity to clarify terms and conditions that may be conflicting or ambiguous. Once conflicts are identified, it is important to follow up with the customer service department so that future purchase orders from the customer can be monitored based on the information gathered during the visit.

Advertising

Interpretation can differ widely between supplier and customer on cooperative advertising programs. These are often not properly understood at time of sale and become apparent only when deductions surface. Credit's role in arranging onsite meetings of the advertising functions of both companies can become instrumental in resolution of the dispute.

"Team" Approaches to Visits

Many companies follow a "team" concept. That is, members of several different departments may form teams to visit customers to address broad supplier/customer strategies. Wherever possible within the framework of company policy, a credit professional should work toward becoming part of these teams. This allows the credit department to be seen as a vital resource to overall customer relations.

Customer Education and Best Practices

The credit professional may be in a position, due to their knowledge and experience, to provide suggestions to the customer. This is particularly true with a small or start-up business that may not have the resources available or the information needed to resolve a problem. The credit professional can share successes and best practices that have worked well internally, can suggest publications and referrals to various trade organizations and help mentor the business to growth. This willingness to be of assistance strengthens a customer/supplier relationship and builds loyalty from the customer's perspective.

Account Status and Collecting Money

Part of the customer visit may include a discussion of the customer's account status and collection of payment for past due accounts. Preparation is very important, the credit professional will want to have all pertinent facts with them and be knowledgeable prior to the discussion. The discussion may be deemed a sensitive one, so that a sales or manufacturing representative may be excused during this portion of the meeting. The credit professional has the opportunity to set the tone for the discussion and close the meeting amicably. Even when collection of payment is the primary purpose of the visit, the credit professional should take advantage of the onsite trip and include other discussion points when appropriate.

Preparation

There is no substitute for preparation. The credit professional should prepare for each customer visit with a written agenda, list of questions, time frames and participants. This list may be reviewed with company management prior to the visit to ensure their information needs are met. Including management in the preparation of visit objectives also provides the credit professional with an opportunity to stress the value of credit department attendance at these meetings.

The following preparation checklist will help ensure a successful visit:

- Define the objectives of the meeting.
- Determine who will attend the meeting and arrange a brief pre-meeting conference to agree on objectives and visit details.
- Schedule the meeting with all parties so that ample time is allotted for all necessary discussions.
- Review all relevant receivables and financial information such as detailed account status, financial statements and credit file material, noting any additional information needed.
- Obtain as much information as possible from other departments. What is the sales department's opinion of the account? Are distribution and other policies being properly observed by the customer? What is the unshipped order position? Review customer purchase orders for terms, prices or other issues. Are invoices being billed to the correct address?
- Contact other credit managers who may have visited the account recently and be certain credit investigation information is up to date.
- Prepare a follow-up list of things to be accomplished or learned.

After the Visit

Once the customer visit is completed, it is important to make immediate notes about the meeting's discussions, decisions and outcomes, etc. These reports may be referred to as: trip reports, call reports, meeting minutes or customer memos. The documentation of these meetings should be kept in the customer file and may first be circulated among the internal meeting participants or reviewed with company management. Observations made about the facilities, financial information discussed and questions specific to the customer's business should be clearly noted in the documentation.

Several items were most likely discussed and possibly assigned to various meeting participants, e.g., the credit professional was to check on an invoice problem, the company president was to provide a copy of their most recent financial statements, the sales representative was to inquire about a backorder that had been promised last week, etc. Most companies use an automated tickler system to track task due dates; other firms use a shared calendar. However tracked, it is critical that a follow-up practice be in place and that someone is responsible for managing completion of the tasks. The credit professional is well-positioned to serve as a central point of communication.

Figure 11-5 Sample Customer Visit Memo

Customer Name: ______________________________

Location of Meeting: ______________________________

Date/Time/Duration: ______________________________

Key Discussion Points: ______________________________

____

____

Assignments: ______________________________

____

____

Responsible Participant: ______________________________

Task: ______________________________

____

____

Due Date: ______________ Date Completed: ______________

Responsible Participant: ______________________________

Task: ______________________________

____

____

Due Date: ______________ Date Completed: ______________

Submitted By: ______________ Date: ______________

Comprehension Check

What are some important steps in the follow-up process?

Trade References

A **trade reference** *is the payment experience information provided by a supplier on its customer*. Information from other trade creditors (trade references) describes how the customer actually pays its vendors, regardless of other strictly financial facts that might indicate the company's ability to pay or not pay. The payment record should be examined for specifics, including payment trends, and should be reconciled with the condition indicated by the customer's financial statements if warranted and available. Though slow trade payments are often a sign of trouble, they may also characterize a business that is having growing pains but is substantially healthy; the slowness may also be seasonal or due to expansion. Trade references are comprised of base variables, which represent the creditworthiness of the suppliers' customers, such as the following:

- Reporting date.
- Manner of payment, whether customer payment is prompt or slow, and by how many days.
- Rolling 12-month high credit (highest amount of credit used).
- Current total amount owing.
- Current total past due.
- Selling terms or days beyond terms.
- Date of last sale.
- Length of time the supplier has sold the account.
- Whether supplier referred account to a collection agency or if a history of NSF checks.
- Other facts about the customer's purchase and payment records.

Bank Information

Though many banks are cautious about releasing information about customers, they are valuable sources of credit information. Creditors can make direct inquiries of the customer's bank, or may ask their own banks to inquire of the customer's bank. In either case, the information is helpful in establishing a complete picture of the customer's record and financial ability.

The caution existing in the banking environment creates a common problem when seeking bank credit information. Banks are regulated by a set of "lender liability" rules and laws that do not affect trade creditors, causing banks to create policies regarding the release of credit information.

A proper inquiry should contain:

1. **Subject.** The subject of the inquiry should be identified as completely as possible including full name of the entity, address and name(s) of principals.
2. **Purpose.** The reason for the inquiry should be given in sufficient detail to allow the recipient to make an appropriate response.
3. **Experience.** If the inquirer has had experience with the subject, a summary of that experience should be provided. Doing this creates an exchange of information between the parties. Each gains important credit information on the mutual customer.

Comprehension Check
When contacting a bank about a potential account, what information should the inquiry contain?

How to Properly Request Information from Banks and Suppliers

Each inquiry should specifically indicate its purpose. One of the most important elements of an inquiry is its purpose. The creditor receiving the inquiry has a right to know why the information is needed. If no purpose is given, there is no obligation to respond. Knowing and understanding the purpose of an inquiry places the recipient in a better position to respond with the type and amount of information needed to satisfy the inquirer. When the purpose of the inquiry is solicitation, acquisition, merger, competition or legal action, replying is at the discretion of the respondent.

When contacting a creditor, the inquirer should state the initial steps taken, as well as the information on hand, in order to avoid duplication of effort.

Clearly identify the inquirer's organization. The legitimate use of credit information is to assist an inquirer who expects to extend credit or to otherwise rely on the subject of the inquiry in business dealings. The inquiry may not be answered without the creditor first determining its legitimacy and establishing the organization making the request. For example, when the creditor receives a telephone inquiry, information may not be disclosed on the first call unless the creditor has already identified the organization. Most creditors will request contact information (especially the main telephone line of the business) and then return the call to establish the identity prior to releasing information. Many creditors will not provide references over the phone and will suggest s written request be sent to them or simply provide access to the commercial credit repository that they share their information with electronically.

Clearly communicate the amount involved. Providing the amount of credit requested is standard procedure and helps provide the creditor with information about their existing customer. When initial trade credit is involved and no amount is established, the inquiring party should provide the normal size of its transactions. A range of figures such as $500-$1,000 or $50,000-$100,000, etc., is acceptable. If for some reason there is no amount involved, the inquirer should state this in a manner that would logically satisfy the respondent to the overall purpose of the inquiry.

To ensure accuracy and consistency in interpretation, figure ranges, as provided by the Risk Management Association (RMA), should be used:

Figure 11-6 RMA's General Figure Ranges

Low 4 figures	$1,000 to 1,999
Moderate 4 figures	$2,000 to 3,999
Medium 4 figures	$4,000 to 6,999
High 4 figures	$7,000 to 9,999

The ranges are adjustable to accommodate all amounts in the following manner:

Nominal	under $100
3 figures	from $101 to $999
4 figures	from $1,000 to $9,999
5 figures	from $10,000 to $99,999
6 figures	from $100,000 to $999,999, and so on

Comprehension Check

If a bank reports that an account balance is in the medium four-figure range, what is the numeric balance range for this account?

Provide the numeric figure ranges for the following dollar ranges: (a) Nominal, (b) 5 figures.

Statement of Principles for the Exchange of Credit Information

In 1955, recognizing the need to foster and maintain a high level of ethical standards in the exchange of business credit information between banks and business credit grantors, the NACM and RMA (www.rmahq.org) formed a joint committee that developed a *Statement of Principles for the Exchange of Credit Information between Banks and Business Credit Grantors.* The *Statement of Principles* was revised in 1978 to reflect current usage. Figure 11-7 lists the seven principles with explanatory comments.

Figure 11-7 Statement of Principles for the Exchange of Credit Information

1. Confidentiality is the cardinal principle in the exchange of credit information. The identity of inquirers and sources should not be disclosed without their permission.
2. All parties involved in the exchange of credit information must base inquiries and replies on fact.
3. The purpose of the inquiry and the amount involved should be clearly stated.
4. If the purpose of an inquiry involves actual or contemplated litigation, the inquirer should clearly disclose this fact.
5. The inquirer should make every effort to determine the subject's bank(s) of account before placing an inquiry, and indicate the extent of information already in the file.
6. Proper identification should be provided in all credit communications.
7. Replies should be prompt, containing sufficient facts which are commensurate with the purpose and amount of the inquiry. If specific questions cannot be answered, the reasons should be clearly stated.

Other Sources of Direct Investigation

The following sources are by no means exhaustive of the information available for credit investigations.

County and State Government Offices

Perhaps the office contacted most frequently is that of the Secretary of State, which possesses information about a company's incorporation status: the date, the officers, the type of corporation/LLC, any changes to the articles of incorporation or operating agreement of the LLC and whether assumed names must be registered with the state. Depending on the customer, it may be prudent to obtain a copy of the articles of incorporation or operating agreement of the LLC. [Secretary of State, Headquarters, National Association of Secretaries of State (NASS), Hall of States, 444 N. Capitol Street, NW, Suite 401, Washington, DC 20001 (phone 202-624-3525, fax 202-624-3527 or web http://nass.org/)]. Other items to check at the state level are professional licenses and permits, driver's licenses and UCC filings.

The county courthouse is another resource as its records can provide details about lawsuits filed or judgments rendered against a customer or potential customer. Tax and/or mechanic's liens filed by or against a customer may also be researched. This information can serve as a red flag that there may be contingent demands by taxing authorities or other creditors that could lead to the seizure of assets or otherwise usurp a creditor's claim. Assets that the creditor assumed would be available could be reallocated as a result of these legal filings.

Bankruptcy Court Information

To research a bankruptcy filing or possible filing, the credit professional needs to know the name of the owner, the name of the company and in what county of the state the company was doing business. Information about bankruptcy cases can be found online through the United States Judiciary's Public Access to Court Electronic Records (PACER) system. This resource can be found at http://pacer.psc.uscourts.gov. Creditors can also contact the office of the U.S. Bankruptcy Court Clerk with jurisdiction for the particular county of the businesses' residence. This information is also available online and is listed in the *Manual of Credit and Commercial Laws.*

Internet

The Internet is a resource for direct investigation that brings general information to the credit professional almost immediately. Because of the legal implications, payment, banking and other pertinent credit data are not available to the general public on free Internet websites. Likewise, because of the confidential nature of critical data, email is not generally recommended as a medium of exchange since emails may or may not be private and confidential at all times. If email is to be used as a method for exchanging credit information, the credit professional should take every precaution to maintain standard levels of confidentiality. This may mean using encryption or other security measures to secure messages and transmissions. Security also encompasses controlling access to the computer where email messages are stored.

For general information, Google, Yahoo, Wikipedia, Ask.com and similar search engines can reveal information about a company or the principals of a company. The amount of general information available online can be drawn from resources such as publications, periodicals and news services. Internet access makes research easy, and the various search engines can help narrow the search for very specific information.

Online tools such as Google alerts on key customers can help creditors stay abreast of any newsworthy events, and online mapping tools can shed significant insight into whether the customer's address is truly at their business location or simply a ship to or mail/post office box storefront. When among other credit professionals, it can be helpful to identify particular sites that have yielded useful and pertinent information. Take the time to review the company's online presence.

Customer Website

A considerable amount of information can be gleaned about a customer from their website, or lack of one. At best, it is likely to provide useful details including the number of employees, a full accounting of owners or officers, its geographical reach, related concerns (family tree of companies), history of the company, how long in business, management plans for expansion, product lines (which may lead to additional credit references) and other data that can be verified against the information offered in the credit application or customer information questionnaire. At worst, the lack of a website or a non-functioning site, may be a red flag.

Like references listed on a credit application, a company's website is subjective and presents the company in the best perspective possible. Investigation is necessary to confirm and verify information obtained from this source.

The following actions may be helpful:

1. Investigate site to see if there are any upcoming projects or jobs that would require the company's products.
2. See if the customer has an investor relations section, including financial statements.
3. Learn other current news or information that would be pertinent to establishing credit.
4. Add any information to the credit file and discuss with sales if needed, i.e., in case the requested credit limit needs to be adjusted.
5. Check date of the company's domain name or website to validate when they initiated their online presence. Use online programs or IT department to obtain this information.
6. Check social media sites to validate the information received about the company and the officers and to learn how the company markets itself.
7. Google the company's and/or officers' names for additional information.
8. Social media sites can validate information already received, or can spark new questions for the customer or sales before opening an account.
9. A customer's website can help the credit analyst determine if any other investigations are necessary.

Comprehension Check

In addition to trade references and banks, what sources are available when conducting a direct investigation?

Indirect Credit Investigations

An **indirect investigation** usually refers to *acquiring information from* **third-party sources** *that are in the business of preparing information on businesses/companies as opposed to individuals (principals of businesses/companies). These third-party sources are referred to as commercial credit agencies, bureaus or "repositories."* A credit report purchased from a commercial credit reporting agency is an example of information obtained by indirect credit investigation. In early American credit history, these third-party resources were referred to as "mercantile agencies" or agencies that gathered payment information on merchants. Credit reporting agencies have existed in America since 1841.

Third-party sources exist because gathering credit information directly can be time consuming and costly in terms of labor. Credit reporting agencies have on file, or can gather quickly, large quantities of data at a cost that is lower than the labor, time and overhead (such as telephone, postage, supplies, storage and related operating expenses) otherwise needed.

Industry Credit Groups

Sometimes, the credit grantor needs or desires more detailed and/or industry-specific credit information. Industry credit**,** or trade, groups can often fill in possible gaps. In their capacity as a form of credit reporting, such groups usually operate as a service feature or division of an agency that gathers and disseminates commercial credit information for banks and suppliers.

An **industry credit group** *is composed of credit managers from a number of different companies who share factual credit information about mutual customers and prospects.* The first credit group was established in 1875 by stationery and office equipment merchants. The concept mushroomed, and, today, NACM Affiliates sponsor and operate more than 1,200 industry credit groups throughout the United States. Still others are sponsored by private agencies.

An industry group pools information related to customer payment habits, financial histories, business changes (e.g., ownership, address, merger or acquisition), and problems such as NSF checks, judgments, liens and accounts placed for collection. Group members supply accounts receivable and other information to NACM Affiliates or servicing organization database. The service provider compiles the data, generates formal credit reports and makes them available to industry group members. In the early days, all of this was done manually. Over the years, automation on all sides has helped to reduce the time involved—and has improved the currency, freshness and completeness of the information in most groups. Today, many groups (and/or their hosts) require electronic full A/R file reporting to participate. Membership in a credit group can often lead to opportunities to gather more complete customer credit histories. Groups also keep members up to date on new legal rulings, developments in technology and continuing credit educational opportunities. NACM Affiliate staff facilitates group meetings to ensure compliance with the antitrust laws and regulations.

Industry groups can be local, regional, national or international. Local industry groups usually encompass a city or metro area, several counties or an entire state and meet the most frequently, often on a monthly basis. An industry credit group can be regarded as both a direct and indirect investigation resource of information.

Industry credit groups allow credit managers and analysts who sell to a common customer base to engage in discussions designed to examine the current payment patterns and practices of specific customers. They permit credit managers and analysts to separate "fact from fiction" by comparing the customer's reasons for slow or non-payment to what other industry group members are experiencing.

Commercial (Business) Credit Reporting Agencies

When it comes to determining customer creditworthiness, commercial credit grantors rely heavily on credit bureau reports as key sources of information. While there are many choices available, and the task to determine the best sources to use may seem daunting, it is easy and inexpensive to obtain good quality information to support a business transaction. Researching, comparing and choosing which sources to use is a key component of the credit professional's role.

Credit reports seek to help the user assess several, if not all, of the five Cs of credit by providing insight into corporate structure, type of business, industry, ability to pay, willingness to pay, existence and performance of secured and unsecured debt, existence and status of liens, judgments or even bankruptcy. Most credit bureaus or reporting agencies provide reports on all types of business structures.

Reporting agencies typically provide basic business and trade credit reports that may reveal payment history, business background, public records, collection activity, banking relationships, UCC filings and credit scores.

In addition, some credit reporting agencies will include more specialized reporting features such as:

- 'Flash' or 'alerts' representing pertinent events.
- Financial and operating statements.
- Accounts payable contact information.
- Antecedent information on principals of the business entity.
- History of the entity ownership.
- Description of the business' operations.
- Related concerns or family tree information.

There are *general, specialized* and *aggregating* credit reporting agencies. **General credit reporting agencies** *gather credit information on any business regardless of industry or upon receipt of an inquiry from a subscriber or member, delivering the information to the inquirer and then storing that information on file for future delivery and updating of the subject file.* **Specialized credit reporting agencies** *are more restrictive in the scope of the industries on which credit information is gathered and of the type of information reported.* They usually serve a particular industry for which they gather very specific credit information. The jewelry and furniture industries are two such examples that use specialized credit reporting. Manufacturers inquire about wholesalers, and wholesalers inquire about retail stores or shops in order to determine exactly how the particular customer pays other wholesalers or manufacturers within the industry. Other reporting agencies that offer more focused industry information include agencies or services that provide credit reports for the apparel, textile, aerospace, automotive, chemicals, golf and giftware industries; seafood; and toy and drug wholesalers. While all agencies gather information from creditors, members and subscribers about how a subject of an inquiry pays vendors and suppliers, they also may source other information unrelated to payment history that is of value. **Aggregating credit reporting agencies** *are typically resellers of the general or specialized agencies and use either individual data elements or entire credit reports from these agencies, and may also include news feeds and external econometric or publicly available data, to create a consolidated report.* Aggregated reports are an excellent way to compare sources of information and to reduce the likelihood of a "no record."

Commercial credit reports can be also defined as compiled or developed, or a combination of both. **Compiled reports** *are pulled together from automated sources of data and are matched, merged, de-duplicated and updated without any or much human intervention.* **Developed reports** *are usually freshly investigated, potentially using compiled reports as a source, but often including interviews with the subject itself and direct verification of references.* Both are valuable, with developed reports usually priced much higher due to the intensive work required.

While certain suppliers and vendors may report to, or participate in specialized repositories, their participation does not preclude them from reporting to general credit reporting agencies as well. Many companies report to several types of credit reporting agencies for many reasons.

There are four major general credit reporting agencies that offer business credit reporting services to subscribers, users and members: D&B, Experian, Equifax and NACM. All are national in their scope of coverage, report on multiple industries and offer unique features that distinguish them from the other agencies.

While some creditors use one source exclusively, given the diverse and substantial amount of information available, along with pricing flexibility, it is suggested that comparisons on a diverse range of clients be done on a periodic basis to determine the best sources.

As each creditor's customer mix, risk tolerance, budget, staffing, profit margins, industry, size and quantity of new orders are different, what may work well for a peer in the same industry may not be the best fit for a specific company. Many credit reporting agencies are usually willing to provide a reasonable number of sample reports free of charge for this purpose.

Comprehension Check

What sources are available when conducting an indirect investigation?

What are the types of commercial credit reporting agencies?

Figure 11-8 Sample NACM National Trade Credit Report

MAXIMIZE THE IMPACT OF REPORTING TO NACM

You can create goodwill with your customers while setting the stage for improved payment performance from those slower to pay. Consider sending this letter to all of your customers (or to just your slower pay or delinquent customers) to advise them that your company reports its customers' payment histories to the National Association of Credit Management (NACM). Your good-paying customers will appreciate your support, your customers with legitimate disputes may contact you to resolve them, while others will simply send in payment. Those that don't take any action may warrant additional review.

Initial Notice Letter

Dear Valued Customer,

In today's business environment, we understand the vital role that good credit plays in every company's ability to access capital. We know that many companies today, of all sizes, have to rely on lines of credit to buy inventory, supplies or even to meet payroll. As a commercial trade supplier, we want to do everything we can to support your businesses—whether large or small—in building a complete and robust credit history. This will ensure that valued customers like you will continue to have access to the commercial credit you've earned and deserve.

To support our goal of meeting best-in-class commercial credit practices, we are active members of the National Association of Credit Management (NACM). NACM's mission is to promote honesty and integrity in commercial credit transactions. Without business credit, our global economic system would not exist. Business credit is, in reality, the capital required to conduct business.

Next month, we will report all open and paid account balances to NACM. This information will become a part of your business' credit history and may be accessed by your existing and future creditors—those within our industry and others, such as banks, leasing companies, service providers, transportation companies, advertising or construction firms, etc.

Reporting your payment history will help your company to not only build, but to also maintain a strong credit history in a database that is instantly accessible to NACM members worldwide. NACM is not only our go-to source for information, it is also a trusted source to businesses across our industry.

We hope that you'll review the enclosed open invoice(s) and act upon them within the next few days. We'd like the information we report to NACM to be factual and as up-to-date as possible.

Thank you for your support and for your continued business!

Final Notice Letter

Dear Valued Customer,

We've made repeated attempts to collect the past-due balance on your account. Since your account has not been brought current, we are prepared to take further action. In 30 days, your account will be turned over to a collection agency, at which point you may be liable for added collection fees and court costs. On that same date, the past-due status of your account will also be reported to the National Association of Credit Management (NACM). As you know, this information will become a part of your business credit history and may be accessed by your existing and future creditors as they review the creditworthiness of your company.

To avoid such actions, please review the enclosed invoice(s) and remit payment immediately for before collection actions are initiated.

Figure 11-8 Sample NACM National Trade Credit Report continued

NACM
National Trade Credit Report

NACM National Trade Credit Report

Distributed By:
NACM Anywhere
123 Main St - Anywhere NY 10101
(888) 999-8888

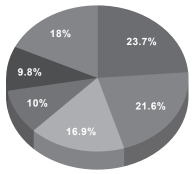
CONFIDENTIAL
DO NOT DISCLOSE TO SUBJECT

INFILE: 6/5/2009 9:33:50 AM
Accessed: 4/28/2015 11:22:54 AM

A

DEMO CORPORATION 6070675

123 MAIN ST
TAMPA FL 32309-1111 UNITED STATES
(555) 666-7777
Fax: (800) 555-1212



SUMMARY OF TOP INDUSTRIES

IND CODE	INDUSTRY TYPE	DBT	LINES	BALANCE
APRL	APPAREL	7	6	$853,320.00
FTWR	FOOTWEAR	32	2	$775,366.00
ELDS	ELECTRICAL DISTRIBUTOR	2	2	$607,913.00
NEWS	NEWSPAPER/PRINT MEDIA	4	3	$357,676.00
HTWH	HEATING & A/C WHOLESALE	24	2	$353,615.00
OTHER	OTHER INDUSTRIES	11	24	$646,343.00

OTHER NAMES

NAME	TYPE
SAMPLE, INC.	DBA
TOTAL: 1	

RELATED SUBJECTS CONSOLIDATE REPORTS

RELATED SUBJECT NAME
SAMPLE PROPERTIES INC (4943698)
TOTAL: 1

B **PREDICTIVE SCORE**

PREDICTIVE SCORE (RANGE: 450 - 850)	RISK CLASS (1,2,3,4A,4B,5)	PREDICTIVE FACTORS	THE SCORE LEVERAGES 12 MONTHS OF HISTORICAL TRADE DATA TO PREDICT FUTURE BEHAVIOR.

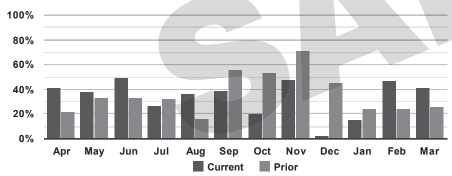
4A
High Risk

- Over previous 12 months, as a firm's Past Due 60+ balances increases this is indicative of higher risk
- In previous 12 months, a firm's percentage of balances 90+ Past Due is higher (greater than 10%) which is indicative of higher risk
- A firm's higher balances in the current bucket is indicative of lower risk
- Score is better then 75.1% of subjects in the database.

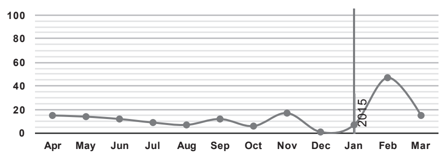
SAMPLE

C **CHARTS**

% Past Due: Apr 2014 - Mar 2015 compared to Apr 2013 - Mar 2014



DBT: Apr 2014 to Mar 2015



D **TRENDING SUMMARY**

	YEAR	TRADELINES	DBT	BALANCE	FUTURES	CURRENT	----- DAYS BEYOND TERMS ----- 1-30	31-60	61-90	91+
MONTHLY										
March	2015	(30 Lines)	15	$3.20**M**	0%	58%	21%	13%	6%	1%
February	2015	(7 Lines)	47	370,151	0%	53%	2%	0%	0%	45%
January	2015	(3 Lines)	7	52,707	0%	84%	2%	13%	1%	0%
December	2014	(3 Lines)	1	18,220	0%	98%	1%	1%	1%	1%
November	2014	(25 Lines)	17	4.34**M**	0%	52%	32%	3%	12%	1%
October	2014	(26 Lines)	6	5.33**M**	0%	80%	13%	5%	2%	0%
QUARTERLY										
Jan - Mar	2015	(40 Lines)	18	$3.63**M**	0%	58%	18%	12%	6%	6%
Oct - Dec	2014	(54 Lines)	11	9.68**M**	0%	67%	21%	4%	7%	1%
Jul - Sep	2014	(57 Lines)	9	7.04**M**	0%	65%	27%	6%	0%	1%
Apr - Jun	2014	(68 Lines)	14	6.48**M**	0%	57%	30%	5%	5%	4%

The accuracy of this report is not guaranteed. Its contents have been gathered in good faith from members but no representation scan be made as to the accuracy of the information gathered and contained in the report. This bureau disclaims liability for the negligence of any person or entity resulting in an inaccuracy in the report. This report is prepared and distributed for use in the extension only of commercial and business credit.

Figure 11-8 Sample NACM National Trade Credit Report continued

E TRADELINES

MBR	IND CODE	----- DATE -----			DBT	HIGH CREDIT	BALANCE	FUTURES	CURRENT	----- DAYS BEYOND TERMS -----				TERMS / COMMENTS
		REPT	OPEN	LAST						1-30	31-60	61-90	91+	
TAMPA														
253	RFSP	0315		1111	51	$15,840	$1,110	$0	$0	$444	$222	$222	$222	
10001	AGRI	0115	0107	0714	2	47,728	6,550	0	5,600	950	0	0	0	P30NET 30
ATLANTA														
	HWRS	0315		0614	9	193,112	193,112	0	89,254	101,743	815	(22)	1,322	
	PLWH	0315		0614	0	3,960	630	0	1,285	0	0	(655)	0	N10
BIRMINGHAM														
	LEIS	0315		0614	0	190,696	284	0	972	2,048	(81)	(2,655)	0	NET 90
	HTWH	0215		1113	48	2.18**M**	353,720	0	190,420	0	0	0	163,300	
BOSTON \ HARTFORD \ PROVIDENCE														
	FTWR	0315	1001	0514	14	301,882	209,505	0	64,112	126,125	17,883	0	1,385	
	COSV	1114		0913	0	778	538	0	538	0	0	0	0	NET30
CHICAGO														
	HWRS	0315	0507	0614	5	17,320	16,932	0	10,760	6,172	0	0	0	NET 30
	HMCR	0315		0614	19	46,769	46,769	0	38,113	0	0	114	8,542	
DALLAS														
	COSV	0315		0614	0	29,091	29,091	0	29,091	0	0	0	0	US
	CHWH	0315		0612	105	25,745	1,752	0	0	0	0	0	1,752	
HOUSTON \ NEW ORLEANS														
	TRAN	0315	1103	0514	14	515,630	148,289	0	85,820	27,855	30,534	4,080	0	
	CNST	0215		1113	8	1,409	1,409	0	663	746	0	0	0	NET 30
INDIANA \ MICHIGAN \ OHIO														
	HWRS	0315	0312	0614	6	11,105	7,368	0	4,402	2,966	0	0	0	N45
KNOXVILLE														
	NEWS	0315	0196	0514	0	284,200	284,200	0	281,480	2,720	0	0	0	NET 30
	APRL	0315	0108	0514	17	691,281	217,292	0	7,777	193,433	30,527	(2,452)	(11,993)	NET 30
LOS ANGELES \ NORTH CALIFORNIA \ LAS VEGAS \ RENO														
	BRCS	0315		0614	6	2,169	2,169	0	1,349	820	0	0	0	1%10N
LOUISVILLE \ MEMPHIS														
	APRL	0315	0111	0514	5	144,927	144,927	0	99,213	45,714	0	0	0	Varies
	HTWH	0315		1012	0	0	(105)	0	0	0	0	274	(379)	
MINNEAPOLIS														
	CERM	0215		0512	15	40,666	5,924	0	0	5,924	0	0	0	
	APRL	0315	0509	0514	0	29,282	18,142	0	19,334	0	0	0	(1,192)	VARIED
NASHVILLE														
	CNEQ	0215	0911	0314	41	7,436	7,436	0	3,686	1,028	0	0	2,722	NET 10
OKLAHOMA CITY														
	FLWH	0315	0194	0514	0	118	118	0	118	0	0	0	0	NET 30
ORLANDO \ CAROLINAS \ VIRGINIA														
	ELDS	0215		0414	0	713	713	0	713	0	0	0	0	
		0315		0311	65	4,201	3,444	0	0	1,294	0	675	1,475	Due Upo
PITTSBURGH														
	PETR	0215		0414	0	566	566	0	566	0	0	0	0	0
PORTLAND														
	APRL	0115	0199	0713	8	45,379	45,379	0	38,117	(93)	6,697	420	238	NET 30
	APRL	0315	0198	0614	17	243,220	243,220	0	185,775	16,653	4,763	3,203	32,826	NET 30
SALT LAKE CITY														
	ADVT	0315		0614	0	171,480	171,480	0	171,480	0	0	0	0	
	APRL	0315		0614	0	271,238	184,360	0	183,452	0	0	293	615	VARIED
SAN DIEGO \ COLORADO \ NEW MEXICO														
	WLSP	0315	0110	0514	0	39	39	0	39	0	0	0	0	NET 30
	ELDS	0315		0514	5	1.44**M**	607,200	0	544,800	0	51,600	10,800	0	NET 30
SEATTLE \ ALASKA \ HAWAII														
	ELCT	0315		0514	6	1,821	811	0	745	0	0	66	0	ROI
	FLMF	0215		0214	0	383	383	0	383	0	0	0	0	CCP
SPOKANE														
	HDWE	0315		0614	0	139	139	0	327	0	0	0	(188)	
	NEWS	0315	0600	0514	0	61,533	61,533	0	62,681	(1,148)	0	0	0	NET 30
ST.LOUIS														
	FTWR	0315		0514	50	565,861	565,861	0	12,786	74,102	293,019	182,451	3,503	VARIED
UPSTATE NEW YORK														
	NEWS	0315	0111	0614	12	32,293	11,943	0	10,086	0	0	1,857	0	DISCNT
(39) TRADELINE TOTAL				**AVG**	**14**		**$3.59M**	**$0**	**$2.15M**	**$609,496**	**$435,979**	**$198,671**	**$204,150**	
				WT	**18**			**0%**	**60%**	**17%**	**12%**	**6%**	**6%**	

Figure 11-8 Sample NACM National Trade Credit Report continued

F COLLECTION CLAIMS

MBR	IND CODE	ENTRY DATE	STATUS	CLAIM AMOUNT	CURRENT BALANCE
DALLAS					
	CNEQ	03/02/2012	Open	$418.41	$595.44
PORTLAND					
	FURN	07/26/2013	Open	$400.00	$302.00
COLLECTIONS: 2					

G ALERTS

MBR	IND CODE	DATE	CODE	AMOUNT	MISC COMMENTS
ATLANTA					
	MISC	08/26/2013	NON SUFFICIENT FUNDS	$1,266.74	
DALLAS					
	MISC	02/02/2014	MISCELLANEOUS, PAST DUE	$221.57	
ALERTS: 2					

H FINANCIAL INSTITUTIONS

MBR	IND CODE	REPT DATE	OPEN DATE	INST	TYPE	ORIG	CUR	COMMENT
410	BANK	02/17/2014	01/01/2012	BANK	CHECKING	M5	L5	
FINANCIAL INSTITUTIONS: 1								

I PUBLIC RECORDS

DATE	TYPE	COUNTY	BOOK/INSTR #	PAGE	LIENOR	AMOUNT	OWNER
TAMPA							
04/13/2015	JDG	BREVARD COUNTY			DEMO CORPORATION	$15,230.00	
11/07/2014	STL	PINELLAS COUNTY		3424	DEMO CORPORATION	$5,600.00	JON P
	Property: SOUTH TAMPA			**Satisfied Date:** 03/01/2014 **Satisfied Book:** 9999 **Satisfied Page:** 3424			
PUBLIC RECORDS: 2							

J BANKRUPTCIES

DATE	ATTORNEY NAME	STATUS	CHAPTER	CASE NUMBER	ASSETS
TAMPA					
11/05/2012	JON SMITH	CONFIRMED	7	12-56789	
BANKRUPTCIES: 1					

K UCC FILINGS

REFERENCE #	FILED	EXPIRES	SECURITY/ADDRESS
TAMPA			
7800098012	01/06/2013	01/06/2019	JOHN DOE TRACKER COMPANY 123 ORANGE AVE TAMPA, FL 33622
	Comments: FARM EQUIPMENT		
UCC FILINGS: 1			

L CORPORATE INFORMATION

TAMPA (02/07/2014)

CORPORATE NAME/ADDRESS	REGISTERED AGENT/ADDRESS
DEMO CORPORATION 123 MAIN STREET ANYWHERE, FL 32309	

DOC#/FILING NUMBER	FEI/EIN	TYPE	STATUS	INC. DATE (STATE)	LAST FILED
FL123-06890	54-4874946	Domestic For Profit	Active	08/26/1985	01/02/2014

YRS IN BUSINESS	# OF EMPLOYEES
	150

COMMENTS

Comment section of Corporate Data.

OFFICER NAME	OFFICER TYPE	OFFICER ADDRESS
TAMPA		
STAN SMITH	PRESIDENT	123 MAIN ST ANYWHERE, FL 32309
WILLIAM SAMPLE	OWNER, PRINCIPAL, RABBI, TREASURER	111 ELM STREET OLDSMAR FL 33711
DALLAS		

M NOTES

DATE	CREATED BY	NOTE	FOLLOWUP
11/11/2014	jonp	Public records searched and nothing new found.	02/18/2015
NOTES: 1			

N INQUIRIES

MBR	IND CODE	DATE
253	MACH	04/13/2015
253	MACH	04/10/2015
253	MACH	04/09/2015
INQUIRIES: 6		

O REQUESTOR INFO

Accessed: 04/28/2015 11:22:55 AM
253 (sjh)
XYZ Member Company
5521 W Cypress St
Suite 200
Tampa FL 33607
(813) 269-1022

Figure 11-8 Sample NACM National Trade Credit Report continued

A In the **HEADING** section, you'll find the contact information for the NACM Affiliate furnishing the report. The name and address of the business subject appears on the left; on the right, the "InFile" date and time signals when the file on the subject was initially created.

The "Other Names" section shows any AKA, DBA, FKA (Also Known As, Doing Business As and Formerly Known As); related business subjects are included in the "Related Subjects" section and can be consolidated into one online virtual report at no additional charge.

B **PREDICTIVE SCORE:** Based on the unique tradelines gathered by NACM Affiliates, the scoring model predicts late payments and severe delinquency looking forward 6 months. The predictive variables include current aging status, historical aging (including trends and variance in payment trends) and other business characteristics. From the data on hundreds of thousands of businesses, common characteristics are examined on the business subject and, depending on how closely or remotely that subject matches the characteristics, the score is assigned a range, from high risk to low risk. In cases where not enough data exists, no score is assigned. If the business subject is already delinquent to the degree that the score is trying to predict, no score is assigned in the Low to High range because there is no need to predict something that has already occurred. Each report contains a complete credit score explanation.

C **CHARTS:** Past due percentages are used for the past due trend analysis, which compares the prior year to the current; DBT figures are used to graph the DBT trending for the past year.

D **MONTHLY & QUARTERLY Trending**: Total number of tradelines reported by month and quarter (report date is the month/year/quarter the tradeline was reported).

E **TRADELINES** supplied by the members of the Affiliate furnishing the report are always displayed first. NACM member numbers are displayed only for the members of the Affiliate furnishing the report honoring the longstanding "local" credit report tradition. Subsequent trade data is displayed by participating NACM Affiliates; member numbers do not appear, but industry codes do. YOUR member is NOT displayed or shared if the report is purchased by a member of ANOTHER participating NACM Affiliate. Protecting the identity of your company is a top priority for NACM.

DBT (days beyond terms) is automatically calculated by the database using a system-wide algorithm.

HIGH CREDIT is the highest balance owed in the past 6 months, on a rolling basis.

Any COMMENTS or remarks provided by the member/source are displayed.

TRADELINE TOTAL displays the total of ALL tradelines and AVERAGE DBT.

WT: DBT x balance for each tradeline then summed and divided by the total balance.

F **COLLECTION CLAIMS** include claim status, amount and current balance. Balances are updated when payments are made. Member numbers and industry codes are displayed for members of the NACM Affiliate furnishing the report and are always shown first. Subsequent claim data is displayed by contributing NACM Affiliates and is identified by industry codes (no member numbers).

G **ALERTS** are reported by NACM members and reflect pertinent changes in account activity. Some examples are NSF checks, past due status, accounts placed with attorneys, ownership changes, etc. Subsequent alert data is displayed by participating NACM Affiliates and is identified by industry codes (no member numbers).

H **FINANCIAL INSTITUTIONS** data, reported by banks, savings and loans, credit unions, etc., may include account types (such as checking, savings, construction loans, credit lines, etc.). The data may also include original and current amounts and comments.

I **PUBLIC RECORDS** are furnished by many different sources and may include, but are not limited to, judgments, state or federal tax liens, release of liens, mechanic's liens, etc. They also include country information, book, page numbers, lienors, amounts, etc. (Third Party Data may be available for purchase.)

J **BANKRUPTCIES** data may include, but is not limited to, attorney name, chapter, case number, date filed and possible assets. (Third Party Data may be available for purchase.)

K **UCC FILINGS** (Uniform Commercial Code) data may include, but is not limited to, reference numbers, dates filed, expiration dates and secured party information. (Third Party Data may be available for purchase.)

L **CORPORATE INFORMATION** may include, but is not limited to, any officer/director names on file with the Secretary of State. (Third Party Data may be available for purchase.)

OFFICER data may include, but is not limited to, any officer names on file with the Secretary of State. (Third Party Data may be available for purchase.)

M **NOTES** are key items of relevance pertaining to the business subject added by a Participating Affiliate report provider.

N **INQUIRIES** display other companies recently inquiring about the subject. Identity is NOT disclosed.

O **REQUESTOR INFO** displays information about the requestor: date and time accessed, member number, operator's initials and contact information. This information is only visible on the Requestor's/Purchaser's report.

Figure 11-8 Sample NACM National Trade Credit Report continued

NACM National Trade Credit Report

Why Should My Company Report Its Credit Information?

✓ Increase leverage with customers
✓ Reduce fraud
✓ Reward prompt payers
✓ Enhance your customers' creditworthiness profiles
✓ Protect your company
✓ Save time in preparing for NACM industry credit group meetings
✓ Save staff time responding to credit reference requests*
✓ Meet "best in class" corporate standards
✓ Support the NACM credit community

Credit is a privilege granted by a creditor to a customer. The decision to extend trade credit is based in part on current, factual information, which includes payment habit history.

Increase Your Leverage

You can create goodwill with your customers while setting the stage for improved payment performance by those that may be slower to pay. Your good-paying customers will appreciate your support, your customers with legitimate disputes may contact you to resolve them, while others will simply send in payment. Those that don't take any action may warrant additional review. Better customer payment habits improve your own DSO.

Reduce Fraud

Billions of dollars worth of goods and services are transacted daily through the business credit process. In many instances, fraudulent activity can be detected by carefully reviewing the information on a credit report. The more data reported, the more focused the picture becomes.

Enhance Your Customers' Creditworthiness Profiles

Reported accounts receivable information becomes a part of your customers' credit histories, reviewed by existing and future creditors—those within your industry and others such as banks, leasing companies, service providers, transportation companies, advertising or construction firms, etc. Reporting your customers' payment histories will help them not only build, but also maintain a strong credit history in a database that is instantly accessible to NACM members worldwide.

Protect Your Company

Without business credit, the world's economic system would not exist. Business credit is, in reality, the capital required to conduct business. Reporting your company's payment data will strengthen your customers' financial position by keeping their credit history robust, accurate and current.

Save Time

By electronically contributing your full A/R data file, you'll substantially reduce the amount of time it takes to prepare for an NACM industry credit group meeting. You'll also save time and resources by not responding to file revision or Poll My Group requests.*Depending upon availability, you may be able to direct non-member inquires to an online portal to electronically check credit references, saving even more time.

Meet "Best in Class" Corporate Standards

A lack of information interferes with the free and complete ability of a business to make a sound, accurate and equitable credit decision and is an impediment to the commerce of this country. If every business around the world reported data, commerce would grow. Great companies are growth leaders.

Support the NACM Credit Community

NACM is the go-to source for information; more than 15,000 businesses nationwide rely on NACM for credit information. By contributing your data, you're supporting the entire NACM commercial credit community!

Share credit where credit is due!

✓ It's easy, free and legal!
✓ NACM can accept your data in most formats:
  - D&B, Equifax and Experian
  - Spreadsheets (saved as .csv)

✓ Data can be transmitted via email, FTP or through an NACM Preferred Software Partner. Where available, members may upload a file directly from their participating Affiliate (once successfully logged in).

Sharpen the Focus

Trade payment information paints a powerful picture. Help maintain the crisp, sharp focus by contributing your company's data today. NACM's data is used exclusively in the credit decision process by its members—it's never used for marketing purposes.

For more information on business credit reporting and other great services, contact your local NACM Affiliate or visit us at:

www.tradecreditreport.com
www.nacm.org

NACM's mission is to promote honesty and integrity in commercial credit transactions. Join the cause.

International Credit Investigation

Credit information is available on international customers and their countries, but financial statements are more difficult to obtain. Furthermore, they are difficult to evaluate because accounting practices and tax regulations differ widely from country to country. The time required to gather information is greater than in domestic cases, so many export credit professionals build a comprehensive file of information on prospective global customers so they may make quick decisions when necessary. Credit information sources range from the customer to the comprehensive economic and business data compiled by U.S. governmental agencies, the international departments of banks, private trade promotion organizations and publishers and organizations that foster commerce globally.

Customer-Supplied Information

The best starting point for international credit information is the customer. At best, the buyer may volunteer data, including financial reports, a detailed biography of the principals and a history of the business going back over several generations. At worst, the buyer will provide no information at all, feeling that such a request reflects upon the integrity of the principals. Due to differences in accounting methods, international financial statements generally cannot be analyzed in the same way as domestic statements.

Bank Information

An excellent source of credit information is the exporter's bank. An inquiry directed through this source stands a better chance of obtaining useful information than one directed to the foreign customer's bank. Bank information generally includes a history of the foreign firm, antecedents of the principals and some financial data. A fairly complete picture of a firm's credit standing may often be obtained; however, depending on the seller's risk, bank reports should be supplemented by information from other sources.

Banks usually have extensive credit information on many international firms. Credit information on a buyer may already be in the bank's record or may be obtainable from other domestic sources. In other cases, it may be necessary for the bank to obtain the information from its international correspondents.

Banks vary widely in their cooperation with requests for information; similar to information received from the customer, the credit information secured directly from the bank varies in value. It may include business history, business background of the principals and financial data, or it may consist merely of a comment that the buyer is a respected member of the community.

Exporter's Foreign Sales Representative

The exporter's sales representative abroad can also be a valuable source of information. In all probability, the sales agent has had the opportunity to study the customer's business practices first-hand. The agent is known in the customer's trade circle and has access to credit information from local banks and commercial sources. The representative can therefore offer a fair picture of a customer's financial condition, as well as confidential data that would be difficult to obtain from any other source.

International Credit Reporting Agencies

A number of agencies provide business information reports on companies located outside the United States. Some of these also provide domestic credit reports, while others focus primarily on non-U.S. companies. FCIB, D&B, Experian and Equifax are some of the groups that report on non-U.S. companies. Reports on international companies are similar in content and format to domestic reports. They may be purchased individually or contracted for in advance.

FCIB

The **Finance, Credit and International Business Association (FCIB)**, is a wholly-owned subsidiary of NACM, which serves professionals involved in worldwide export financing, credit, treasury and international subsidiary management. FCIB's purpose is to raise the level of expertise and professionalism of members and to provide enhanced job enrichment through relevant discussion and exchanges of experiences. Among the services are:

- **International Credit Reports.** FCIB offers access to top independent credit reporting resources at attractive prices. The reports can be customized to answer specific questions and contain credit recommendations within the report as well as currency trend analysis.
- **Country Reports.** These reports summarize current experiences of international finance and credit professionals, capturing timely, in-depth information on the credit risks of export sales. FCIB's country reports assist international credit professionals to forecast foreign exchange availability, transfer risks and prospective currency changes.

Organization for Economic Cooperation and Development (OECD)

The **OECD** *is a Paris-based intergovernmental organization, established under a 1960 convention, whose purpose is to provide its 34 member countries with a forum in which governments can compare their experiences, discuss problems they share and seek solutions that can be applied within their own national contexts*. The fundamental task of the OECD is to enable its members to consult and cooperate with each other in order to achieve the highest sustainable economic growth in their countries and to improve the economic and social wellbeing of their populations.

Original OECD members were the countries of Europe and North America. Next to join were Japan, Australia, New Zealand and Finland, followed by Mexico, the Czech Republic, Hungary, Poland, Korea and the Slovak Republic. In 2010, Chile, Slovenia, Israel and Estonia became the latest members. The OECD is currently engaged in "enhanced" membership discussions with Brazil, China, India, Indonesia and South Africa; several other countries are in various stages of membership discussions. Visit the OECD website at www.oecd.org for additional information.

Comprehension Check
What sources are available when conducting an international investigation?

Investigating Existing Accounts

When to Investigate an Existing Account

Periodic Updating

It is recommended that credit applications be updated whenever there is a change in the credit grantor's policies or credit terms, or at certain timeframes (e.g., annually, every three years, every five years). In the process of verifying information, the credit professional should take the opportunity to review the contents of the file and archive or destroy all outdated or irrelevant materials. This will prevent duplication and oversight and make it easier to find items when they are needed.

Special Event Updating

Reviews for updates should occur for any of the following events:

- An account that usually purchases small amounts, suddenly placing large orders.
- A prompt payer suddenly beginning to pay slowly.
- A lot of inquiries suddenly coming in about an account.
- A change in ownership or legal business structure of an account.

It is not necessary, legally or ethically, to obtain a customer's authorization to order a commercial/business credit report. No personal or private information about the individual owners or principals of the business entity exists on a commercial credit report that would create a violation of privacy.

Comprehension Check
When should existing accounts be reviewed?

RWP 11-2 **Real World Perspectives**

SURVEY QUESTION:
HOW OFTEN SHOULD YOU UPDATE AND REVIEW CUSTOMER FINANCIAL STATEMENTS?

- **Credit consultant:** The frequency of reviews should be aligned with the perceived risk associated with extending open account credit terms to a particular individual customer.
- **A producer of long steel:** Quarterly or yearly. A higher risk account should be reviewed quarterly until the analyst is comfortable enough to change the schedule to once a year. Regular review on active customers will help minimize loss exposure.
- **Credit consultant:** The risk involved must be judged for what the company considers (dollar size-wise) is a large dollar amount to risk. For some firms a $5K open credit limit is a lot of exposure, where for others a $10 million dollar exposure is small. Quarterly or yearly depends upon the dollar risk size, the level of importance that the customer holds for the company and any "disturbing news" about that particular customer.
- **A designer and manufacturer of analog, mixed-signal and DSP integrated circuits:** They review high balance customers yearly, high risk customers semi-annually, distributors yearly and any customer requesting higher limits—they ask for an interim review at that point.
- **A fluid power distribution company:** The timing is determined by their industry and the dollar risk size they are comfortable with. Review times and limits are as follows: >$500K every three months, >$250K every six months, >$50K every 12 months. They suggest that each company decide as a team what it considers a big risk or a small risk and adjust from there.
- **A manufacturer of backup power generation products for residential, light commercial and industrial markets:** They obtain financials quarterly or annually depending upon the risk, which could either mean a large balance and/or financial stress. For a few highest risk accounts, they obtain statements monthly. The financials are not audited, reviewed or compiled, but allow them to see any unusual or large changes monthly and watch for trends.
- **A leasing company:** It depends on many things. For example, where they have approved LOCs in place, they do reviews annually, but it depends on the exposure and utilization. Large public companies are done every quarter upon release of their interims and for large private companies, they request interims depending on what the financial position was at the time of the LOC approval being put into place for 12 months. It also depends on the industry, so with the downturn in the oil sector, a lot more scrutiny and review of large, particularly non-core business transactions, would be looked at on a case-by-case basis and recent financial statements would be reviewed again.
- **A manufacturer of valves:** Most of the company's customers are private companies or partnerships, so they don't get access to their financials. In that case, they check the news regularly for any mention of them and of course, any change in payment habits leads to a look. Also remember, that in some countries, it is important to stay on top of what the government is doing. In Argentina, for example, it's quite possible for a business to be very healthy, but the government limits how much they can pay each month since the payment is leaving the country.

Strengthening Customer Relations

Written Communications

Credit correspondence should not be limited to collection letters, but should also include all facets that will build a solid customer relationship.

Periodic Requests for Financial Statements

Business finances can change greatly from one period to the next, so financial statements covering the year, or even a shorter period, are very important. A request can point out that the frequency is routine for all customers and that current statements are used to continue or expand the customer's credit line.

Revision of Credit Availability

If the creditor makes it a practice to notify customers of their credit limits, the revision of a limit offers an opportunity to express the seller's position to the customer. With a marginal account, particularly, notification may be important. To be most effective, it should emphasize that the increased credit line is a direct result of the customer's payment performance and financial growth. More difficult is the letter to a customer notifying of a downward revision, also known as an adverse action. It is best to state the facts about an adverse action in a logical, friendly manner, with sufficient explanation. If possible, the communication should close on a hopeful note that the circumstances causing the downward revision will soon be remedied and again evaluated for reconsideration.

There are four kinds of adverse actions as defined by the **Equal Credit Opportunity Act (ECOA):**

1. Refusal to grant credit.
2. Refusal to increase credit on an existing account.
3. Reduction of credit availability on an existing account.
4. Termination of credit on an existing account.

When an adverse action is made, "... the creditor must notify the applicant *either orally or in writing* within a reasonable time of the adverse action taken."

Sales Reps

Through frequent calls on customers, salespeople may receive early news of changes in sales trends, collections or movement of inventory. When changes are promptly reported, the credit department can be alerted to investigate further.

Comprehension Check
How can customer relations be strengthened?

Sources of Information

The sources of information for updating a credit file are the same ones used for opening a new account. In addition, it may be useful to search online to check a customer's website to determine what the customer is saying about their business. Using search engines, the credit department can immediately access articles or news items about a customer. The reporting of a creditor's entire A/R and the corresponding daily or weekly monitoring of those customers can provide excellent indicators of potential problems before they impact the creditor's own receivables. Many credit sources also provide monitoring services, and some may provide daily or weekly listings of warnings free of charge. If they are integrated into the daily process of the credit department, these warnings or triggers can stave off losses and more than pay for the costs of the credit service many times over.

Key Terms and Concepts

Aggregating credit reporting agencies, 11-20
Anti-defamation, 11-4
Antitrust, 11-3–11-4
Compiled reports, 11-20
Confidentiality, 11-6–11-8
Country reports, 11-28
Customer visits, 11-8–11-14
Defamation, 11-4–11-6
Developed reports, 11-20
Direct investigation, 11-8–11-18
Equal Credit Opportunity Act (ECOA), 11-30
Finance, Credit and International Business Association (FCIB), 11-28
General credit reporting agencies, 11-20
Indirect investigation, 11-18–11-26
Industry credit group, 11-19
International credit reports, 11-28
Libel, 11-4–11-6
Matter libelous per se, 11-5
NACM National Trade Credit Report, 11-21–11-26
Organization for Economic Cooperation and Development (OECD), 11-28
Privileged communications, 11-5–11-6
Publication, 11-5
Slander, 11-4–11-5
Specialized credit reporting agencies, 11-20
Third-party sources, 11-18–11-19
Trade references, 11-15

Comprehension Check

1. What are the three core principles that should be followed when exchanging business credit information in industry credit group meetings or other settings?
2. What types of behavior constitute **antitrust** when exchanging business credit information?
3. Explain the terms **libel, slander** and **matter libelous per se**, providing an example of each as it pertains to credit management.
4. Define **direct credit investigation**?
5. Explain the benefits of visiting a customer.
6. What questions can a credit manager ask a customer during a visit?
7. What key factors should be observed during a customer visit?
8. What are some important steps in the follow-up process?
9. When contacting a bank about a potential account, what information should the inquiry contain?
10. If a bank reports that an account balance is in the medium four-figure range, what is the numeric balance range for this account?
11. Provide the numeric figure ranges for the following dollar ranges:
    a. Nominal
    b. 5 figures
12. In addition to trade references and banks, what sources are available when conducting a direct investigation?
13. What sources are available when conducting an indirect investigation?
14. What are the types of commercial credit reporting agencies?
15. What sources are available when conducting an international investigation?
16. When should existing accounts be reviewed?
17. How can customer relations be strengthened?

Summary

- The exchange of credit information is legal as long as the information transferred is restricted to factual, historical data. In particular, the information given cannot represent any action that has yet to occur.
- The core principles for exchanging business credit information in any setting are: **antitrust, anti-defamation** and **confidentiality.**
- This is particularly important as it pertains to antitrust regulations. The intent of antitrust regulation being to avoid any behavior that could lead to conspiracy, restraint of trade, price setting or fixing, or boycotting certain customers or suppliers.
- A creditor must be careful to avoid any kind of defamation. **Defamation** being any occurrence of **libel** or **slander.** This includes matter **libelous per se.** A simple way to understand it is to say: if it hasn't happened yet, then it should not be reported.
- Truth is a complete defense to an action in libel. Some defamatory statements are not considered actionable because they are considered privileged communications, unless the purpose of the actions can be proved to be of malicious intent.
- The relationship between credit professionals needs to be one of trust. A credit professional must feel confident that the information they are providing will remain confidential. That being said, the person seeking the information must take extra care to keep the information confidential. Any breach of confidence may cause the exchange of credit information too simply "dry up."
- The credit granter must trust that:
  - Information provided is accurate and factual
  - The information will be used solely by that individual to make a credit decision
  - The information will not be repeated to any other party
- Ethical considerations should be made for the following:
  - Personal behavior
  - Honesty
  - Objectivity
  - Topics to avoid
- Direct credit investigation used to be the norm, and its use has since diminished as the availability of online information has increased. Direct credit investigations include:
  - **Customer visits**
  - **Trade references**
  - **County and state government offices**
  - **Bankruptcy court information**
  - **The Internet**
  - **Customer website**
- Customer visits may be essential to ensure the creditworthiness of a customer. The following are a few benefits of visiting the customer:
  - Enhancing the customer relationship
  - Strengthening the relationships between departments
  - Discussion of financial information in more depth or that is otherwise unavailable
  - Observing the facilities

- It is essential to be prepared when going on a customer visit. The credit professional should be prepared for each visit with a written agenda, list of questions, time frames and participants.
- Banks may have their own rules about providing customer information, and may be cautious when releasing the information about their customers. When requesting information from banks and suppliers, creditors should do the following:
  - Indicate the purpose of the inquiry
  - Clearly identify the inquirers organization
  - Clearly communicate the amount involved
- Indirect investigation includes:
  - **Industry credit groups**
  - **Commercial credit reporting agencies**
    - **General credit reporting agencies**
    - **Specialized credit reporting agencies**
    - **Aggregating credit reporting agencies**
- The four major credit reporting agencies are: NACM, D&B, Experian and Equifax. Third-party sources, such as the ones mentioned, have on file, or can gather information directly, that could be too time consuming or costly for most businesses.
- International credit information is available, but more difficult to obtain. The information can be obtained from customers, banks, the exporter's foreign sales representative or international credit reporting agencies. An excellent example of an international reporting agency would be the Finance, Credit and International Business Association (FCIB), which is a subsidiary of NACM.
- Investigating existing accounts should occur periodically due to special events, such as a sudden increase in purchase volume or a prompt payer suddenly beginning to pay slowly.
- Investigating existing accounts can strengthen customer relations and improve sources of information, ultimately reducing the risk to the creditor.

References and Resources

Business Credit. Columbia, MD: National Association of Credit Management. (This 9 issues/year publication is a continuous source of relevant articles and information. Archived articles from *Business Credit* magazine are available through the web-based NACM Resource Library, which is a benefit of NACM membership.)

Cole, Robert H. and Lon L. Mishler. *Consumer and Business Credit Management,*11th ed. Boston: Irwin/McGraw Hill, 1998.

Credit Executive Handbook. The Credit Research Foundation, 1986.

Credit Professional's Handbook: The Technical Reference Manual for Credit and Customer Financial Management. Cavendish Publishing, 1999.

"Credit Risk Review." NACM Graduate School of Credit and Financial Management project, 2016. Kathie Knudson, CCE; Lisa Ball, CCE; Stacy Parker, CCE; and Dawn Dickert, CCE.

Institute of Management and Administration. "Customer Visits: A Real Step Toward Improving the Quality of Receivables." *Managing Credit, Receivables and Collections*. October, 1998.

Institute of Management and Administration. "How to Make the Most of Those Important Customer Visits." *Managing Credit, Receivables and Collections.* October, 1998.

Manual of Credit and Commercial Laws. Columbia, MD: National Association of Credit Management, current edition.