



CREDIT POLICIES AND PROCEDURES

Annual Meeting – Dayton, Ohio



Presented by:

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March 28, 2023

Agenda

- What is a Credit Policy?
- Why have a Credit Policy?
- What to Include in a Credit Policy

What is a Credit Policy?

A Credit Policy is a set of procedures and guidelines, developed to instruct behavior as it relates to generally recurring credit and collections situations and designed to achieve specific results.

A Credit Procedure is the actual action or set of steps one must take, depending on the situation, as set forth in the Credit Policy.

Each set of decisions, whether approving or extending credit, adjusting credit, or seeking to collect A/R, should be addressed by a Credit Policy.

Why Have a Credit Policy?

- It is a source of stability and continuity in operations - for the whole company
- Standardizes evaluation of risk
 - Provides certainty in the business process
 - Can be adjusted, amended, or scaled back by management
- Keeps everyone on the “same page”
 - No rogue granting of credit
 - Narrows scope of authority as one heads down the organizational chain

Why Have a Credit Policy?

- Keeps sales on same page as the credit department
 - Reduces inter-departmental conflicts/disputes
 - Ensures sales force does not overpromise
- Acts as a guide for less experienced credit employees (both in credit and sales)
- Keeps customers apprised
 - Is there a change in terms?
 - When do we ask for updated credit application
 - Preserves relationship with sales
- Monitor effectiveness of credit procedures

Formation of a Credit Policy

- Should come from top management
- Consulted and guided by head of credit
- Consider how your credit policy influences and aligns to other corporate documents and initiatives
- Does your credit application support investigation initiatives?
- Align with terms of any secured lending arrangements or enhanced credit protections
- SOX related controls

Formation of a Credit Policy

- Considers goals of company and pays attention to industry specifics
 - Are types of goods readily available?
 - Are they specialized?
 - Profit margin?
 - How risk averse is company?
 - A/R balance outstanding? Secured creditor compliance?
- Create separate policy for foreign transactions

Contents of Credit Policy

- Organizational Chart
 - Include roles of each credit professional (roles not names)
 - Should discuss interplay with other groups (like sales and/or those that can override credit procedures)
- Tasks
 - Credit Applications
 - Turnaround times for credit review
 - Modes of communication (e-mail, fax, phone, etc)
 - File procedures (updates, maintenance, organization, naming conventions)
 - Government restriction review
 - SOP on establishing credit limits

Contents of Credit Policy

- Credit Terms

- What are your standard terms? Net 30? Net 15? Net 30, but 2% discount if paid in Net 7?
- Your policy should dictate what terms you grant and when and under conditions you can deviate from standard terms
- Classes of customers – maybe you give better terms (or worse) based on class/How do you classify risk
- Blanket allowances of credit amount
- When can terms/limits change
- Who authorizes changes
- When/who can use changes to negotiate enhanced credit protections
- How do you make updates and inform others of same

Contents of Credit Policy

- Investigation to determine creditworthiness
 - Set limits based on tolerance of company
 - Investigate if limits requested are beyond
 - Which credit reporting agencies should you use (required to use)
 - Bank references/trade references/NACM trade reports
 - Request/review financial statements
 - Payment history
 - Reimer reports
 - Use Google, social media, etc...
 - Lien and litigation searches
 - Guaranties, lines of credit/letters of credit/pledges
 - Who signs off on investigation/approves increased limits?
 - Chain of credit employees/management to approve

Contents of Credit Policy

- Collections
 - Who monitors accounts to determine if collection is needed?
 - At what time does collection begin (90 days past due)?
 - Who provides/reviews reports and what are they?
 - A/R aging reports
 - Overlimit reports
 - High risk reports (how do we know they are high risk accounts)?
 - Reserve/Bad debt allowances

Contents of Credit Policy

- Who has communications with defaulted customers?
 - What type of communications?
 - E-mail? Telephone? Letter?
 - Who follows up and when?
 - Retention of same?
- Involve sales in discussion (any issues with goods/services)?
- Change in terms because of delinquency? (hold back goods)?
- Tip – Call first and keep friendly – try not to sabotage relationship
- Tip – do your best to stick to the policy – helps avoid preference liability

In-house Collections

- Prepare a guideline for your credit professionals
 - When does the first collection call/email take place
 - What does that e-mail/collector say
 - Do not bluff
 - Do not threaten
 - Use phone until it is time to escalate – otherwise discoverable
 - Use interest, fees, costs, as fodder with which to negotiate full payment

Contents of Credit Policy

- Policy on bad debt
 - Who/How will reserves be established
 - When does debt go to a collection agency
 - Criteria for selecting agency
 - When do you hire attorneys
 - Do you have a policy on serving on creditors' committees in chapter 11 cases
 - What if a customer files for bankruptcy
 - Filing a claim (pay careful attention to section 503(b)(9) claims)
 - Critical vendor status

Complete Credit Policy

- A complete credit policy must address at least the following situations:
 - New customer accounts
 - Foreign accounts
 - Updating and maintaining credit files
 - Extending/increasing credit terms/limits
 - Selection of collection agency and counsel
 - Charge offs
 - Communications with Banks
 - Managing/creating reports
 - Others???

Consistency

- Review all company produced documents
 - Terms and conditions (net 30, 1.5%/18% interest, late fees, collection costs, etc..) should all be consistent between policy, credit application, invoices, etc...
 - Credit Policy and other documents/contracts should all include identical choice of law/venue provisions
 - Credit Policy should mandate credit application including acknowledgment that invoice terms apply, despite any further offers/acceptances; any change in terms must be via a signed, separate acknowledgment, requiring two non-electronic signatures.

Improved Relations

- Having written policies and procedures aids in internal relationships
 - Advocates for increased communications with sales and other departments
 - Collaboration with sales
 - Less conflicts (because sales understands you and knows the process)
 - Creates better morale and team spirit
 - Facilitates acclimatization of new employees

Litigation

- Credit Policies assist a number of ways
 - Outlining your standard collection policies adds to the “ordinary course” defenses and reduces arguments of “untoward collection practices” in preference litigation
 - Enhanced document preservation and organization reduces litigation costs and enhances your ability to recover in litigation
 - Following procedures will allow for jurisdiction, venue, choice of law, and chance of fee recoveries

Improved Customer Relations

- Create a “cliff notes” version of your credit policy and share with customers
- The customer will know not to be offended when you ask for updated credit applications or draft an e-mail requesting payment
- This can avoid confrontations and losses of customers

QUESTIONS



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