



**A. Probably, but you may have to do so in a Tribal Court in which the advantage is clearly with the ‘home team.’**

**Q. What are my duties with regard to extending credit to a Disadvantaged Business Enterprise?**

**A. A DBE is a company which is at least fifty one percent owned and managed by one or more socially and economically disadvantaged individuals. To the best of my knowledge, you are not required to give any special consideration to these companies when considering whether to extend open account credit terms to the company classified as a DBE.**

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**Q. Can I use credit cards for international sales?**

**A. I am not sure, but it costs nothing to try. If your processor is incapable of processing the card, the charge will be declined. FYI, please be aware that the chances of fraud are likely to be significantly higher with foreign sales rather than domestic sales.**

**Q. This has to come up all the time, but here goes: Our invoices list Net 30 terms with no discounts. A particular customer’s PO lists terms of 2% 15, net 30. They pay in 15 days or so and take the discount. My boss expects me to collect. My customer(s) tell me to drop dead. Who is right and what do you suggest?**

**A. I am not an attorney and I cannot offer legal advice, but in my opinion there is no clear answer as to which party is correct or who would prevail if this went to trial – which incidentally I am not suggesting should happen. This is a common question and the best response I can offer is that your company should not be processing purchase orders with unacceptable terms or unacceptable conditions. It**

**is ironic and frustrating for many credit managers that their employers would not think twice about rejecting a PO with the wrong price or with an unrealistic delivery date, but many companies ignore other important language on the purchase orders they receive from customers such as terms and conditions of sale.**

**Q. Do you accept post dated checks?**

**A. Yes, but there is a widely held belief that post dating checks is unlawful. I do not believe this is true. I would encourage readers to ask their attorney for advice on this controversial topic.**

**Q. Do you have a policy on extended dating?**

**A. I am not sure I understand the question, but the basic answer is that extended dating should be approved by the credit department in writing and in advance of shipment. A customer should not wait until after the goods were delivered to ask for a payment extension.**

**Q. As a follow up, what happens if a customer asks for extended dating after the fact?**

**A. Generally, I prefer not to offer dating extensions under these circumstances. Instead, I consider the account to be past due – and treat the customer accordingly.**

**Q. How large a credit limit would you extend without requiring a privately held customer to provide financial information?**

**A. I recommend establishing a dollar threshold above which you require privately held customers to share financial information. I rarely approve credit limits in excess of \$100,000 without at least seeing some financial data from the customer or applicant.**

**Q. You mentioned in a webinar the idea of rating customers and applicants. I never got a chance to ask how this works.**

**A. I rate customers and applicants on a scale of 1 to 5. I use this rating system as a quick way to identify customers that require more attention when they become past due and more frequent review and updates.**

**1. = high risk companies**

**2. = those with a moderately high risk of failure**

**3. = companies with what appears to be a moderate risk of slow pay of failure**

- 4. = reserved for relatively low risk customers
- 5. = reserved for the best [lowest risk] accounts

**Q. Can you recommend a good but inexpensive deduction management software program?**

**A. I have used inexpensive software and I have used good software --- but I have not seen good *and* inexpensive deduction management software. Sorry. Does anyone have a recommendation?**

**Q. I was told to try to get credit insurance for a small company 8(a) SBA registered company that needs to buy significant amount of merchandise on open account terms on a project that a general contractor is building the Department of Defense. What do you think of this idea?**

**A. I think it will be difficult and relatively expensive to get credit insurance on a single customer. Credit insurance companies usually want to insure the entire portfolio and not just the customers you consider to be high risk. I would suggest that you ask your attorney for information about how you might be able to use a Miller Act Payment Bond. For more information about credit insurance, you may want to request a copy of my White Paper about credit insurance. There is no charge for this report.**

**Q. What do you think of using a percent of net worth as a tool for establishing credit limits? For example, the credit limit could be set at 20 percent of a customer's net worth.**

**A. I think it is a simple and easy to use shortcut for setting credit limit. I think that something this simple has obvious limitations as a risk management tool.**

**Q. I heard a rumor that one of our customers is planning to file for Chapter 11 bankruptcy protection. Is there something I can do right now to protect my company?**

**A. You may be able to stop shipments in transit to this customer and you may be able to stop orders in production for this customer. I suggest you check with your attorney to determine your rights and the customer's remedies if it turns out that the rumor is not true.**

**Q. How do you develop an appropriate bad debt reserve?**

**A. I recommend a three pronged approach consisting of:**

1. A general reserve based on a percent of prior year sales. Example 2/10 of 1 percent of prior year sales
2. A specific reserve for accounts already identified as problematic – including accounts in bankruptcy or placed for collection
3. A high-risk reserve - for on accounts identified as problems - including customers that are slow pay, and/or highly leveraged and/or disputing the outstanding balance.

**Q. How do you know the answers to these questions? Why do you publish this bulletin?**

**A. I have been working in commercial credit and collection for the last twenty five years and I have worked in a number of different industries and I have been teaching this subject matter for the last fifteen years. I also have a group of colleagues that I bounce questions off to get their perspective. The answer to your second question is that I am an advocate of lifelong learning and this publication is a way for me to share ideas with others.**

**Q. Where can I get a reliable credit report on a company in Southeast Asia?**

**A. There are a number of options. If you already have a contract with a credit reporting agency, contact them. They will either be able to produce the report for a fee or will have an affiliate or sister company that can and will produce the report you need for a fee. For example, D&B® now has more than thirty owned companies or affiliates in its international business data gathering network.**

**Q. We have an ongoing problem with low response rates from bank and trade references we contact. Do you have any suggestions?**

**A. Consider including this statement on your credit application, and including a copy of the application and the authorization when following up to request bank or trade references. The statement is:**

**I authorize the bank and trade references listed above to provide *Your Company Name* with information requested by *Your Company Name* necessary to evaluate our request for open account terms from *Your Company Name*.**

**Signature of Applicant:\_\_\_\_\_ Title:\_\_\_\_\_ Date:\_\_\_\_\_**

**Q. Can you recommend a collection agency?**

**A. I have a policy of not offering this type of information in this Bulletin.**

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**Reader Comments**

**One reader wrote: Sometimes you take shortcuts and do not present complete answers to questions in the Q and A section. I think you may be doing a disservice to people just starting out in credit and collection because what you or I may take for granted may be important information to them. For example, you responded to a question about collecting a debt from the U.S. Navy with a suggestion about writing to the base commanding officer but you failed to say that before starting the collection process the collector should confirm for themselves that the debt is due.**

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**Website of the Month**

**This month’s website is National Fraud Information Center at <http://www.fraud.org> and the site includes fraud watch daily reports as well as archived fraud information reports.**

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**Essays on the following topics will be emailed to readers on request. Please send your request to me at [mcdennis@coveringcredit.com](mailto:mcdennis@coveringcredit.com)**

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A Webinar utilizes the internet to deliver a Web-based PowerPoint presentation along with an interactive telephone conferencing feature making web based training is a simple and cost effective way for credit managers and the entire credit department to stay current on topics of interest to credit professionals. I will be teaching an online webinar on September 21<sup>st</sup> titled *The Roles and Responsibilities of the Credit Department*. For more information, please follow this link: <http://www.acacredit.com/Role%20of%20Credit%20Department%20Webinar%20092106.pdf>

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