

## **Investigating Existing Accounts**

Every company's credit policy should include procedures for updating customer credit applications, keeping in mind that periodically certain specific events should trigger an immediate reevaluation.

### **When to Investigate**

It is recommended that credit departments update applications periodically, especially when a credit grantor's policies or credit terms change, or at regular intervals such as annually or every three or five years. When verifying information, take time to review the contents of the file and archive or destroy all outdated or irrelevant materials to prevent duplication and oversight, as well as make it easier to find items when they are needed.

Likewise, begin an update whenever any of the following events occur:

- An account that usually purchases small amounts suddenly starts to place large orders
- A prompt payer suddenly begins to pay slowly
- A lot of inquiries suddenly come in about an account
- An account has a change in ownership or legal business structure

It is not legally or ethically necessary to obtain a customer's authorization to order a commercial or 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.

### **Methods of Contact**

Don't limit credit correspondence to collection letters. It should include all facets that will build a solid customer relationship. Too frequently, companies don't commend a good account for the manner in which it has conducted its affairs.

Periodic requests for financial statements can point out that it is routine for all customers and that the current statements are used to continue or expand the customer's credit line. 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.

If the seller firm 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. It is always a pleasing task to advise a customer that its line has been increased. 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 advising of a downward revision, also known as an adverse action. Here, it is best to state the facts in a logical, friendly manner, with sufficient explanation so the customer will understand the reasons for the action. If possible, the letter should close on a hopeful note that the circumstances causing the downward revision will soon be remedied and again evaluated for reconsideration.

## **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 the Internet to check a customer's website to determine what the customer is saying about its business. By using search engines such as Google, Ask.com, Yahoo and others, credit departments can immediately gain access to articles or news items about a customer or company.

Source: *Principles of Business Credit*