Five Things to Know about a New Customer before Agreeing to Terms

Knowing the customer is often the best, tried-and-true way to identify potential payment and other problems weeks, if not months or years, in advance. It's credit at its basic point, but credit professionals still need to be reminded of this from time to time to help increase the odds of smooth collections sailing. Though perhaps trite, the "five Cs" of credit remain a cornerstone of the industry and help professionals get well on their way to properly knowing the potential debtor in question.

1. **Character:** You, the creditor, have to determine the willingness of a new debtor to pay obligations and the level of integrity at which they operate. Look through the business record and the background of the owners involved. Look for red flags, such as litigation or bankruptcy filings.
2. **Capacity:** Can this applicant repay debts in a timely fashion and remain profitable? Creditors need to determine if the company has the realistic potential to grow as well as if they've ever faced difficult circumstances with any degree of eventual success in their own industries. Look for some kind of record demonstrating an ability to show an ability to generate positive cash flow.
3. **Capital:** Find out the amount of total wealth this company/credit applicant has behind it. That includes not only cash, but fixed assets such as machinery and buildings and inventory such as manufactured goods. Try to determine its trend of operations and figure out what is normal for this type of business.
4. **Conditions:** Take into account how susceptible the business in question is to extraordinary, external factors. This could include new state or federal government regulations, extreme weather events and unpredictable catastrophes such as fires or terrorist attacks. This is an especially important step if the potential debtor is based outside of the United States. The NACM publication *Principles of Business Credit* notes two words can virtually summarize the "conditions" concept: demand and circumstances.
5. **Collateral:** If a creditor determines there is inadequate cash flow to grant terms to a borrower, then it's time to ask for a second, backup source of payment. Collateral can include various types of properties such as equipment, buildings, stocks, inventory and even accounts receivable. Additionally, the creditor needs to know that the collateral is "free and clear," meaning another creditor does not already have a secured interest in it.