

Top 5 Things to Know about a Customer

Knowing your customer is the best way to prevent future payment problems. If you have all the details down and know everything you need to know, then it's easier to conduct a collection proceeding, should one be necessary, and easier to protect yourself and your company in court, should the customer file for bankruptcy protection.

Most of this information will be collected in the initial credit application, which needs to be bulletproof and complete to ensure that nothing gets missed and eventually comes back to bite the selling company. Here are the top 5 things that you need to know about your customer before extending credit:

- 1. Name:** While this is pretty much a no-brainer, it's still the most important piece of information that you could have about your customer. The correct, legal name of the credit applicant ensures that everything else that follows it will be legally binding in a court of law. An incorrect name essentially makes a credit application meaningless. Moreover, having an appropriate legal name, or "doing business as" additions, becomes handy when searching for any suits, tax liens, mechanic's liens or judgments. It ultimately allows the creditor to verify all of the information that will come from the customer on the rest of the application.
- 2. Address Information and Phone Number:** Another no-brainer, but these both need to be collected and verified through directory assistance. The sales department can also help by verifying address information. Collecting a physical address not only serves to pinpoint a customer's location, but also gives a creditor an idea of where their assets will be (which is why creditors should always be wary of a customer listing a mail drop as their address, as this is how most fraud occurs). Verifying this information is a simple, necessary step that could uncover irregularities and inconsistencies.
- 3. Legal Status of Company:** The creditor needs to know the legal structure of the applicant before they can do anything, as this will affect any potential collection or bankruptcy proceeding. It determines who is liable for what the company owes if they default. If a creditor is selling to a sole proprietorship, then the owner of the business is, literally, the business and liable for the entity's debts (this may necessitate a personal credit report on the owner too). When dealing with a general partnership, each partner can be held equally liable for all the debt incurred. Things change if the company is a corporation, limited liability company (LLC), or other entity, and creditors need to be aware of these differences before making the sale.
- 4. Principals, Owners, Officers and Members:** Collecting social security numbers, the home address and telephone information from each person involved in the ownership of the entity is necessary, but creditors must remember that it adds another step to the process because now they are holding personal information, and must keep it safe in accordance with privacy laws. Creditors should also seek ownership history information, in order to ensure that the management of the company is sturdy and worthy of the creditor's confidence.
- 5. Bank Information and Other Creditor Security Interests:** This information can be found at offices of the Secretary of State and elsewhere. Using UCC-1 filing reports the creditor can determine if lenders are willing to continue loaning money to the customer and, perhaps more importantly, determine if the customer is too heavily leveraged to meet the potential credit grantor's needs. If the customer files, the bank will in all likelihood be paid before you, so this information is necessary to ensure that the customer has the capacity to live up to both the creditor company's expectations, and the bank's.