

# Standards for Trade Interchange for the Exchange of Credit Information between Trade Creditors

## FOREWARD

These guidelines have been written to assist the business credit grantor in exchanging commercial credit information with other business credit grantors. By developing these standards, NACM has recognized the need to foster and maintain a high level of professionalism in the exchange of business credit information between business credit grantors. Although comprehensive, these guidelines may not cover every circumstance under which credit information might be exchanged. It is important to remember that the exchange of credit can take place in several ways: by telephone, through the mail, in an industry group meeting, through fax transmission and via the Internet.

When used in conjunction with the Statement of Principles for the Exchange of Credit Information Between Banks and Business Credit Grantors (prepared jointly by NACM and Robert Morris Associates, an association of bank loan and credit officers), these guidelines offer an important framework for those participating in the exchange of credit information and serve as a training tool for individuals who are new to the business credit environment.

NACM encourages its members and others with whom credit information is exchanged to become familiar with and respect both these guidelines and the Statement of Principles. Proper education and training are essential when handling customer information. Each party involved in the exchange of business credit information must understand its obligation to its respective customers and recognize the need for complete, accurate and prompt replies in relation to the extension of business credit.

In particular circumstances, laws may apply relating to defamation and the right to privacy, antitrust laws, credit reporting regulations and limitations on the use of confidential records and customer information or computerized data. The advice of legal counsel should then be sought.

## PREAMBLE

The National Association of Credit Management (NACM) represents 30,000 business credit grantors in manufacturing, wholesaling, service industries and financial institutions. NACM is a member-owned organization which includes 55 Affiliated Associations nationwide and a wholly owned international subsidiary, FCIB, that operates worldwide.

These guidelines are designed for commercial transactions, and their use is subject to applicable federal and states laws affecting the exchange of credit information.

## GUIDELINE 1 - ACCURACY

**A business credit grantor is not generally obligated to respond to business credit inquiries. Once a decision has been made to respond to an inquiry, however, full disclosure of all material facts is essential. It is important not to withhold known information when responding to an inquiry that might have an impact on someone else's credit decision.**

*Comments: The credit information exchange process is very important to the American economy. Approximately 98% of all business transactions conducted in the U.S. are based on credit. Without the proper flow of credit information, businesses would suffer through a reduction in the availability of credit and in higher losses for those companies extending credit. Opinions, statements based on conjecture and any statements pertaining to possible future action must be based on completed transactions.*

## GUIDELINE II - CONFIDENTIALITY

**Confidentiality is of primary importance in the exchange of credit information. The identity of inquirers and sources of credit information should not be disclosed without their permission.**

*Comments: Business credit grantors are willing to provide credit information with the understanding that their names will not be disclosed. To release the identity of an inquirer or source of information obtained during a credit investigation to the subject of inquiry, could have a negative impact on customer relations for those disclosing the information.*

Note: Existing federal law does not require the disclosure of sources of credit information except in the exchange of consumer credit information. State law may vary; therefore, advice of counsel should be sought in such situations.

## GUIDELINE III - RECIPROCITY

**The purpose of an inquiry and the amount involved must be clearly stated at the time an inquiry is placed. Business credit grantors exchange credit information with the understanding that the party initiating the inquiry will also provide a recap of their experience, if any, with the subject of the inquiry.**

*Comments: Each inquiry must identify a clear need for the information. If there is no purpose given, then there is no need to respond to an inquiry. By knowing the purpose of an inquiry, a true "exchange" of credit information takes place.*

## GUIDELINE IV - RESPONSE

**Responses to credit inquiries may include:**

- **Opening date of relationship.**
- **The high credit within the past 12 months or longer if available.**
- **Current balance owing.**
- **Percentage of the amount owing which is past due, along with an aging of each past due amount.**
- **Rating of the account; discount, prompt or statement of days past due. Terms such as "satisfactory" are appropriate, but be certain the definition is understood.**

## GUIDELINE V - METHODS

**It is generally accepted practice that response to a credit inquiry be made in the same manner in which the inquiry itself is made. For example, if the inquiry comes in via letter, the response should be by letter.**

*Comments: As a matter of practice, the following guidelines have been developed:*

### **Inquiry Type & Response Time from Receipt**

**Letter:** Within four working days

**Telephone:** Within 24 hours

**Fax:** Within 48 hours

## GUIDELINE VI - DOCUMENTATION

**It is recommended that a written record be maintained of all verbal inquiries and responses.**

*Comments: To answer any questions which may arise at a later time relative to a business credit inquiry or response, a document memorializing the exchange should be retained in the customer's credit file.*

## GUIDELINE VII - CHARGING

**Although policies vary from company to company, charging for business credit inquiry responses is discouraged.**

*Comments: Because the exchange of credit information is based on reciprocity, charging a company for a response to a credit inquiry is discouraged. While it is acknowledged that there is an expense involved for providing credit information, this same expense will be incurred by another company when an inquiry is directed to them. As a business courtesy, it is appropriate to include a postage-paid return envelope when initiating an inquiry via mail.*

*It should be remembered that the release of credit information not only benefits the receiving party, but also the subject of the inquiry and the respondent who should receive the inquirer's past experience and inquiry purpose for its file.*

## **GUIDELINE VIII - DISCLAIMERS**

**In responding to credit inquiries, it is recommended that a disclaimer or notification statement be developed and utilized.**

*Comments: A disclaimer or notification statement on credit inquiry response stationery may clarify the importance of confidentiality and non-disclosure of the information received. Statements can also be made relative to the respondent's willingness to update the information only upon receipt of another inquiry. Any disclaimer used should be approved by legal counsel.*

## **GENERAL FIGURE RANGES**

To ensure accuracy and consistency when exchanging credit information, General Figure Ranges should be used. It may be necessary, at times, to clarify these terms so that the inquirer and respondent are "speaking the same language." There are four ranges:

Low	1 - 1.9
Moderate	2 - 3.9
Medium	4 - 6.9
High	7 - 9.9

The ranges can be applied to any figure category.

Sample figure categories follow:

Nominal = under \$100

3 figures = from \$100 to \$999

4 figures = from \$1,000 to \$9,999

5 figures = from \$10,000 to \$99,999

6 figures = from \$100,000 to \$999,999

In order to choose the correct General Figure Range, look at the first digit of the dollar amount and find the range that contains that digit. To determine the correct figure category, count the number of digits in the dollar amount (ignore digits to the right of the decimal point). Report the amount, using both the range description and figure category. For example, "average balances are in the medium 4 figure range."

Examples:

**If the dollar amount is:**

**The General Figure Range is:**

\$350,000

Moderate 6 figures

\$100,000

Low 6 figures

\$475

Medium 3 figures

\$87,000

High 5 figures

\$239,452.27

Moderate 6 figures

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