The Importance of Conducting Credit Investigations on Existing Accounts

Credit investigations on a customer don't end once an application is approved and an account is established. Every company's credit policy should include procedures for updating customer credit applications periodically, keeping in mind that certain specific events should trigger an immediate reevaluation.

When to Investigate an Account

It is recommended that credit applications be updated whenever there is a change in the credit grantor's policies or credit terms or at certain timeframes such as annually or every three or five years. In the process of verifying information, the credit professional should take the opportunity to review the contents of the file and archive or destroy outdated or irrelevant materials. This will prevent duplication and oversight and make it easier to find items when they are needed.

The credit professional should 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
- A change in ownership or legal business structure of an account

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

All too often a good account is not commended for the manner in which it has conducted its affairs. Credit correspondence should not be limited to collection letters, but should also include all facets that will build a solid customer relationship.

Business finances can change greatly from one period to the next so financial statements covering the year, or even a shorter periods, are very important. A request 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

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 pleasant 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. When an adverse action is made "the creditor must notify the applicant either orally or in writing within a reasonable time of the adverse action taken."

There are three kinds of actions affecting existing accounts that qualify as adverse:

- Refusal to increase credit on an existing account
- Reduction of credit availability on an existing account
- Termination of credit on an existing account

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.

Through frequent calls on customers, salespeople may receive early news of changes in sales trends, collections or movement of inventory. When changes are promptly reported, the credit department can be alerted to investigate further.

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 or Yahoo, an alert credit department can immediately access articles or news items about a customer/company.

Source: NACM's *Principles of Business Credit*