

Obtaining financial records from hesitant customers

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Nothing epitomizes the work of a credit manager quite like the initial credit investigation performed on a potential customer. Gleaning details of a customer's payment habits and professional relationships as you assess how large of a credit limit they should be granted, or if they should be granted any credit at all, emphasizes credit managers central goal of protecting the company from risk.

Why it matters: Obtaining financial records from a new customer is a crucial step in your initial credit investigation. A peek into an otherwise promising customer's financial records might reveal a whole host of problems, making them a less than worthy candidate for a larger credit line. The importance of financial records cannot be overstated, but what can you do when a potential customer is apprehensive about sharing them?

Why might customers be hesitant to share this information? There is no simple answer for this question as it varies significantly from customer to customer. Your task as a credit manager is deciphering whether they have valid concerns or if they are simply worried a look at their financials would mean being denied credit.

"Customers get apprehensive about sharing it for a number of different reasons," said Kevin Stinner, [CCE](#), [CCRA](#), credit manager at J.R. Simplot Company (Loveland, CO). "You have some customers that are private individuals concerned about their information and net worth getting out into the community. And then large corporations or privately held corporations don't want the worth of their company out in the marketplace because they lose the financial advantage of those things being secret."

If a customer refuses to share financial records, what can be done?

Offer to sign a non-disclosure agreement. A lot of customers might be worried about sharing this information because they feel they need to protect their company's private information, especially small businesses.

"It's very difficult for somebody who keeps their company very close to their heart to want to give up financial information," said Brendon Misik, [CCE](#), [CICP](#), senior manager, Ag credit at Nutrien (Hoffman Estates, IL). "The biggest pushback that we receive is 'I'm not going to give you my private information.' Well, we understand that, and we will sign a non-disclosure agreement with you. Even though you're a private company and we're a publicly traded company, that non-disclosure agreement means a lot."

Extend credit without seeing financial records. The decision on whether or not to extend credit without seeing any financial records, like all things in the credit field, is contingent on a number of factors.

"It really depends on the amount of credit needed," said Ed Bell, [CBA](#), [ICCE](#). "For smaller amounts, we may choose to forgo the requirement to see financial records. For larger amounts we would offer to sign an NDA or other legal agreement. If this still did not result in obtaining the financial records, we may ask for a full or partial payment upfront until a successful relationship has been established."

Assessing customers financials without having access to their financial records. For Stinner, it is easiest to ask customers to send over the ratio of their current assets compared to their current liabilities, or maybe the ratio between the cost of their total assets compared to the amount of money they are

generating in sales. While this data is less specific and detailed than financial records, it can still reveal a lot about a customer and help you assess their credit worthiness.

“If they're showing \$90,000,000 in assets, but they're only generating, \$1,000,000 in sales, they are not being very efficient in their utilization of their assets and they're a riskier customer than somebody that's generating \$180 million in sales,” Stinner said. “Getting the real numbers is important, but these ratios get to the heart of what a company's financials actually are.”

The bottom line: No credit decision is made in a vacuum, the decision to extend credit without seeing financial records should not be made without considering all extenuating factors. Knowing the general protocol within your credit department, both when it comes to how to obtain these documents from hesitant customers or access credit worthiness without them, is crucial for all credit professionals.