

The ins and outs of working without a credit application

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For most credit managers, a credit application is a crucial step in the credit approval process. A document that neatly outlines all the pertinent information that a credit manager needs to know about their customer, from their full name to the number of years they've been in business. No step epitomizes the oft-repeated mantra of credit management, "Know Your Customer," quite like the credit application.

Why it matters: Despite its importance, credit managers at times forgo a credit application, leaving them vulnerable down the line. While operating without a credit application is not ideal, credit managers may have to consider alternatives when a customer doesn't agree to sign one, potentially leaving less experienced credit managers on unfamiliar terrain.

While operating without a credit application is not ideal, the fast-moving nature of certain industries requires credit managers to act fast, at times forgoing this step initially.

"The lumber market is very volatile, and it moves and fluctuates with pricing throughout the business day," Brett Hanft, [CBA](#), credit manager at American International Forest Products (Beaverton, OR). "We try very hard to move orders forward as quickly as we can. To that end, if we can pull credit report information that is favorable, we are likely to approve one initial order on open terms pending the receipt of a credit application."

For Hanft, strong credit reports, W-9s and bank authorizations grant him enough information to extend credit for that first initial order, but in order to continue purchasing a customer will be asked to complete a formal credit application. For many credit managers, skipping out on the credit application at the onset of a relationship might seem risky, but it is at times necessary to keep pace in a fast-moving business environment.

Regardless, it is important to know the limitations of not having a credit application, should complications arise down the road. "If you can't get a credit application at the end of the day, you have limited opportunities for recourse because you don't have a document with the customer saying, 'I am asking for this product in advance, on open account terms, and I am going to pay for it at a later date,'" Hanft said. "If you are choosing to sell without one, my recommendation would be to get every other piece of credit information you have access to, bank references, trade references, a balance sheet or financial statement."

Without a formal credit application, it can be much harder to predict a customer's payment habits. "If you don't have a credit application signed, you won't have a contract, so there is no agreement over terms and conditions," Matt Jameson Esq., Jameson and Dunagan, P.C. (Dallas, TX). "Your credit application is going to have terms conditions which are uniquely tailored to your business and if you are the one extending credit, then you're going to want to have business conducted on your terms."

A credit application also clearly lays out exactly who you are doing business with, meaning the simple document could be what is standing between you and truly knowing your customer. "One of the most important things you can ask on a credit application is for your customer to identify their complete corporate name and if they're operating under any other corporations or entities," Jameson said. "You are identifying who you're doing business with from a name standpoint. Without a credit application, you might not have any information on the official owners of the entity that you're doing business with."

Learning that a potential customer will not fill out a traditional application may be intimidating at first, but it is important to remember that this is not uncommon and there are alternative routes to getting the information you need. “If we're dealing with the federal government or state agencies, they don't fill out credit applications,” said Heidi Lindgren-Boyce, [CCE](#), senior credit manager at Star Rentals (Kent, WA). “We end up going off a contract or a purchase order, rather than our standard credit application.”

It's important that even without a credit application steps are taken to ensure there is a written record of any agreements, sales or terms to protect you down the line. It's important to have standard procedures in place to protect your company from risk when an alternative path is taken.

The Bottom Line: When operating without a formal credit application it is important to understand the degree of risk and do everything within your control to protect your company from losses. Whether you forgo that initial application in hopes that one will be signed down the line, or you are using alternative contracts to secure a transaction, taking the time to ensure that you know your legal customer is crucial.