

Getting the Straight Talk

References are an important tool in determining creditworthiness and should be included on any credit application. It is important to note, however, that the references listed on a credit application are probably not the most important references with whom to speak.

A debtor will likely list the people who will report positive information. You need to speak with neutral references that are willing to tell you the good and the bad about the customer.

Follow up on references provided on application forms as well as from other sources. Credit networking groups and salespeople can help achieve this goal. Sales staff often has opportunities to chat with customers about common acquaintances. Call some of the people mentioned and discuss the customer.

Salespeople and credit staff also are in positions to informally network with other creditors and could become aware of financial problems with certain customers. They have acquaintances who sell related products to the same customers. Even competitors should be willing to discuss customers' credit history. They have a common interest in keeping the bad apples out of the barrel. Real friends will discuss things "off the record" with you, if you assure them that it will not be passed on. Networking for this purpose is extremely important.

NACM networking groups typically hold monthly meetings for credit managers in different industry groups, where members provide each other with early information on tardy payments and defaults. Your competitors and your customers have a common interest in promoting your good credit management. No one benefits from bad debt. Your customers end up paying the cost of bad debt, and it increases their competition from weak businesses. All creditors have a common interest in avoiding bad businesses.

Discussions with competitors always raise antitrust concerns. Formal networking through groups such as NACM is beneficial for this reason. Generally, it is proper to discuss past empirical facts about a customer. Never discuss what you are going to do in the future, however. It is proper to say, "That customer is now 90 days past due" or "I have already cut that customer off." It is not proper to say, "I intend to cut that customer off if they do not pay me this week" or "I intend to hold all of my customers to 30-day terms."

Source: *Construction Law Survival Manual*, 2015.