

Establishing a Credit Policy

A credit policy is designed to help establish consistency across departmental functions. It provides the latitude to plan departmental operations within the scope of the company policy, to create effective procedures and techniques to implement that policy and to establish adequate controls. The policy can also assure that there is uniformity in the company's dealings and interactions with its customers, and provide a means of recognizing the importance of the credit function to the company.

When a company is developing a new credit policy or is reviewing an existing one, a number of factors should be considered. Some of these are internal in nature while others are external, and can vary in relative importance. All of them together, however, establish the context within which a credit policy must operate.

Below is a checklist for a well-defined credit policy:

1. Formal organization of department
2. Job description, titles and review process
3. Credit department budget guidelines
4. Credit documentation required for credit file
5. Methods of gathering credit information
6. Time limits for credit decisions
7. Established credit lines and procedure for establishing new lines
8. Procedure for communicating the decision to the customer
9. Procedure for communicating the decision to management
10. Procedure for communicating the decision to the sales department
11. Procedure for communicating the decision to operations
12. Guidelines for dealing with and assisting marginal accounts
13. A collection policy that reduces borrowing costs
14. A collection policy that deals with slow-paying accounts
15. A collection policy that minimizes bad debts
16. A policy for unearned discounts/unauthorized deductions
17. A policy for the handling of disputes
18. A policy for the handling of returned and damaged merchandise
19. Establishment of terms of sale
20. Policies for using secured transaction for protection
21. A policy for the use of a guarantee
22. Guidelines for reporting to upper management

Source: NACM's *Principles of Business Credit*