
Sample Company's Credit Policy

Mission:

The Credit Department is responsible for maintaining a high quality of accounts receivable while selling to all customers that represent prudent credit risks. We will provide flexible mechanisms to protect our substantial receivable investment.

Goals:

Our goals are to limit bad debts to ___% of sales, Days Sales Outstanding to ___ days, and receivable ageings to no more than ___% beyond 60 days. We will visit customers whenever necessary and strive to resolve all deductions within 90 days.

Organizational Responsibilities:

The Credit Department reports to the office of Treasurer. Functions include the application of payments, establishing credit limits, and monitoring collection of receivables.

The Credit Manager establishes limits of up to \$_____ and may delegate a portion of this to other department members. Higher limits are approved by the Treasurer or above. If credit privileges are withdrawn from a customer, it is our policy to consult with marketing personnel in the decision process. If a consensus cannot be reached, the situation is referred to the President.

When accounts cannot be collected with normal means, the Credit Manager recommends the use of a Collection Agency or attorney. The Treasurer and Sales Manager approve such requests.

Credit Evaluation:

The Credit Department establishes limits for all active customers. Such limits are based on trade information and financial statements when necessary. (See Appendix 2 for a Procedure).

The department reviews larger limits on a periodic basis. All limits are subject to revision, based on changing levels of credit worthiness. Individual orders are referred to the credit department when an account is over its limit or 15 days past due, and an effort is made to resolve such problems. If satisfactory arrangements cannot be made, the order is withheld.

Collection:

We strive to have a consistent and courteous approach to collection. All customers are called when they are ___ days past due. If no payments are received after three calls, the sales representative is asked to contact the customer. If there is still no response, the account is considered for legal action.

In the case of bankruptcies, the Credit Department files proofs of claim. The department represents our company with creditor committees and coordinates activities with attorneys.

Terms of Sale:

Terms have been established as Net ____ days. All credit worthy customers are expected to pay within this period. Any exceptions must be based on competitive practices in accordance with established procedures. (See Appendix 3 for an example.)

Receivable Maintenance and Service:

The Credit Department initiates the handling of all deductions promptly to assure quality receivables. Customer inquiries always receive immediate attention.

We are dedicated to behaving in a moral and legal manner. The sharing of business information and other credit matters will be in compliance with NACM's Canons of Business Credit Ethics.

This policy will be reviewed on an annual basis.

Policy Approvals:

Credit Manager

Treasurer

Marketing Manager

President

Sample Company

Procedure #1	Credit Evaluation	Effective Date: x/x/xx	Revised: x/x/xx
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Purpose:

This procedure defines Sample Company's approach to evaluating new customers.

Details:

1. For any new customer, the appropriate sales representative will obtain a credit application. This will include a minimum of three trade references and telephone numbers, a bank, and the names of the principals. The sales representative will estimate the amount of credit which will be needed to service the customer within normal terms of sale. If the required limit is above \$xxxxxxx, a financial statement will also be obtained.
2. The credit representative will check the D&B rating and may automatically establish limits according to the following matrix:

5A1-5A2	\$xxxxxxx
4A1-4A2	xxxxxxx
3A1-3A2	xxxxxxx
2A1-2A2	xxxxxxx

For any other ratings, the credit department will initiate an investigation.

- 3.
4. For limits under \$xxxxxxx, three trade references will be called. The credit manager will consider if the customer has demonstrated an ability and willingness to pay at the required level, and a judgmental decision will be reached. If enough information is not available, additional sources such as NACM trade reports will be ordered.
5. For limits that are requested in excess of \$xxxxxxx, the credit department will always obtain a trade report from D&B, TRW, or NACM. In the absence of derogatory information such as judgments or liens, an appropriate limit will then be established.
6. For any higher limit in excess of \$xxxxxxx, a financial statement will be reviewed. Considerations will include liquidity and debt capacity. In general, we will require positive working capital, a debt:equity ratio of no more than 3:1, and our limit will not exceed 25% of the applicants net worth unless approved by senior management.
7. Before rejecting any customer whose potential volume exceeds \$xxxxxxx annually, the application will be forwarded to the controller for review.
8. If necessary, the credit department may rely on guarantees or Letters of Credit to complete sales.

9. If open terms cannot be justified, the customer will always be given the opportunity to purchase on a cash basis.
10. For all accounts with limits in excess of \$xxxxxx, a new trade report will be obtained annually.

Sample Company

Procedure #2	Competitive Arrangements Revised: x/x/xx	Effective Date: x/x/xx
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Purpose:

Normal terms offered by Sample Company are Net xx days. At times, we may find that a customer is offered a longer set of terms by competition. This procedure outlines steps that we will take when a customer requests that we be competitive in this area.

Details:

1. The sales representative will confirm that different terms of sale are truly being offered by a competitor. This will be accomplished by actually seeing an invoice or letter offering these arrangements. We will not initiate non-standard terms, but we will consider meeting competitive practices.
 2. The sales representative will complete a memorandum, addressed to the Sales Manager, which includes the following:
 - a. What arrangements are being offered by specific competitors?
 - b. What are our annual sales?
 - c. What is our anticipated gross profit?
 - d. How much additional receivables will be outstanding if we offer this competitive arrangement?
 - e. Based on a cost of capital of x%, what will be the cost of carrying these receivables?
 - f. For how long would we be expected to continue this arrangement?
 3. The Sales Manager will review the request and determine if marketing factors justify granting this request. If so, the memorandum will be initialed with a recommendation for approval and forwarded to the Credit Manager.
 4. The Credit Manager will review the situation from a standpoint of additional risk. If in agreement, the request will be approved and forwarded to the President for final approval. Otherwise, it will be returned to the Marketing Manager with comments that detail the credit difficulties.
 5. The President will make a final judgment. If the President approves the arrangement, the Sales Representative will be instructed to notify the customer.
 6. The Credit Department will take steps to adjust ageing and delinquency letters to reflect new arrangements. The department will monitor the account to be sure that the special arrangement is followed.
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Credit Policy Worksheet

Mission:

Goals:

Organizational Responsibilities:

Credit Evaluation:

Collection:

Terms of Sale:

Receivable Maintenance and Service:

Approvals:
