



EXPERT TIPS:

How to Craft the **Perfect** **Business Credit** **Application**

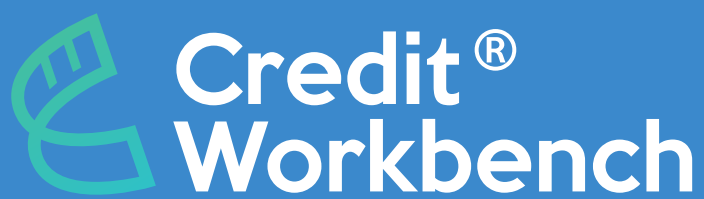




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Credit Applications Are Important



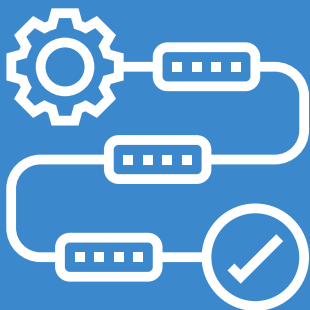


Cash is the lifeblood of your business. The customer-to-cash cycle is the engine that brings cash in the door, and the credit application is the foundation of that cycle. A well-crafted credit application is a powerful tool for gathering essential information about prospective customers and making informed decisions regarding credit limits, payment terms, the need for guarantees and security, and overall risk exposure. A thoughtful and thorough credit application sets the stage for a smooth credit evaluation, a comprehensive credit risk assessment, and a positive customer relationship.

A well-designed credit application offers numerous benefits to your business, enabling the credit department to collect comprehensive and accurate information from prospective customers and make thorough risk assessments and informed credit decisions.

As the first step in a best-practices credit workflow, a well-designed credit application streamlines the credit evaluation process, minimizes delays, and reduces potential errors and omissions. The credit application is also vital for establishing a clear and enforceable contractual agreement and fostering a cooperative business relationship with customers.

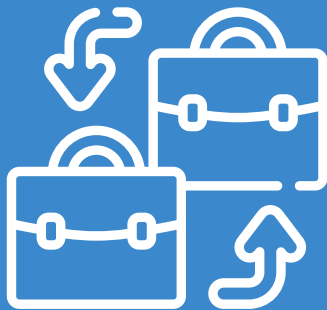
Common Challenges in the Credit Application Process



Challenges such as incomplete or inconsistent information, difficulty verifying references, and delays in manual processing have long plagued the credit application process. These issues frequently lead to extended approval cycles, increased administrative costs, and heightened risks. By addressing these challenges through effective credit application design, B2B trade vendors can enhance their credit management practices.



Critical Components of a B2B Credit Application



A "best practices" credit application gathers information relevant to the entire customer lifecycle, not just the initial credit evaluation. Your credit application should ask for the following critical data points (among others specific to your business):

CONTACT AND BUSINESS INFORMATION

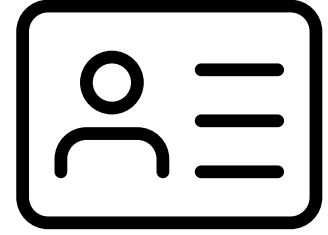
1 Customer Legal Name and Address:

Gather information about the customer's legal business name, type of business entity, state of incorporation or organization, physical headquarters address, additional locations or branches, and affiliates.



WHY: The customer's legal business entity name, entity type, and legal domicile state are essential data points throughout the customer relationship. At the outset of the customer relationship, you need this information to conduct due diligence on the business entity, assessing whether it exists, when it was incorporated or organized, and whether it is in good standing. In the unfortunate event that the customer defaults in the future, this information can save crucial time in the collection process, particularly in litigation.

2 Contact Information:



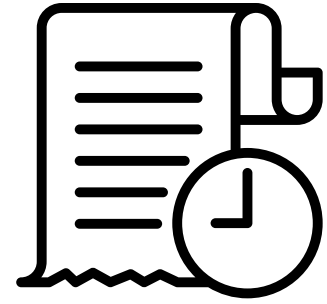
Ask for names, telephone numbers, and e-mail addresses for key contacts such as:

- 1 Accounts payable personnel to contact about payments and open invoices,
- 2 Procurement personnel to contact about any order issues, and,
- 3 Shipping and receiving personnel to contact about logistical issues and confirm deliveries.

WHY: The business credit application is about more than just assessing customers' creditworthiness. It is also a tool for gathering information that will be valuable throughout the entire customer lifecycle. Having a roster of primary contacts across various functions within the customer's business will save time in the future should a problem arise, not just with credit and collections.

3 Business History and Industry Experience:

Request background information about the applicant's business history, including the date of establishment and the industry sectors served. This section should also ask about the customer's history with bankruptcy and litigation.



WHY: Historical information directly relates to one of the five Cs of credit: Character. The history section of a “best practices” credit application typically asks about other businesses the principals have operated in the same industry and others, as well as any history of litigation and bankruptcy. A thorough credit evaluation will involve third-party searches for litigation, court judgments, and bankruptcies—a helpful reality check for the completeness and accuracy of the customer's voluntary disclosures.



FINANCIAL INFORMATION

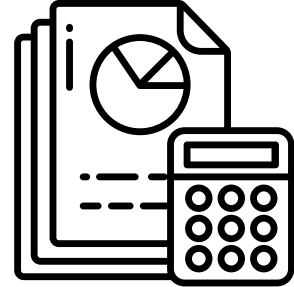
1 Financial Statements:

Some customers—and, in some industries, most customers—will decline to provide financial statements. However, it is frequently a good practice to request them.



2 Specific Financial Metrics:

Where customers will not provide financial statements, you should carefully consider the financial data points needed to conduct a meaningful credit evaluation and request those metrics directly in your credit application.



WHY: Financial statements are among the most basic data points in commercial credit underwriting. Fulsome financial statements enable ratio and trend analysis of the customer's financial position and performance, in addition to peer analysis based on outside data sources.

In an ideal world, every customer would willingly provide its most recent interim and audited annual three-pack: balance sheet, income statement, and statement of cash flows. Unfortunately, many customers will decline to provide hardcopy financial statements in a traditional credit application process. Some trade vendors impose a "no financial statements, no credit" policy, placing customers who do not provide financials on cash-on-delivery or cash-in-advance terms. However, the substantial leverage necessary to enforce such a policy is relatively rare in competitive industries.

Online credit applications encourage customers to upload documents they otherwise might be unwilling to print and submit on paper. In addition, requesting targeted data about liquidity, revenue, operating cash flow, free cash flow, and other vital metrics of concern can answer key underwriting questions and do away with the need to ask for financial statements.

As discussed below, bank account verification through third-party services or the customer's bank can provide even more valuable data than customer-produced financial statements.

TRADE REFERENCES

1 What to Ask For:

Request names and contact information, including individual contact persons and telephone numbers, for 3-5 vendors with which the customer has done business. A “best practices” credit application will require the customer to provide trade references that are suppliers similar, or at least familiar, to your business—not utilities, landlords, or other creditors with unique leverage to get paid. In addition, trade references should be from vendors with which the customer has done business for some time.



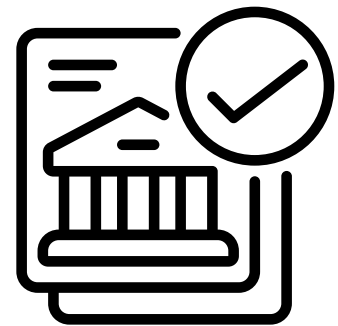
WHY: Trade references offer an inside look at other vendors' experiences with your prospective customer, providing valuable insights into the applicant's creditworthiness. A prospective customer's current vendors are a treasure trove of information, particularly regarding the customer's character. If the customer has failed to pay existing vendors on time, what odds will it pay you? In addition to contacting customer references, you should consult with credit groups (always mindful of antitrust boundaries) and obtain credit reports from outside data providers.

It also pays to do a few minutes of diligence on trade references and to think outside the credit application. A quick search of the phone number can provide a reality check. Likewise, a LinkedIn search of the individual provided as a point of contact. If the reference is a company you already do business with but is not your usual contact, consider contacting an existing trusted contact.



BANK REFERENCES

1 What to Ask For:



Your credit application should request contact information and account information for the customer's primary banking relationships, including both deposit accounts and loans.

WHY: Bank references provide information regarding the customer's liquidity and financial capacity. Banks that provide more detailed information, such as historical NSF activity, can also help with your assessment of the customer's character. Bank references have traditionally served as a guidepost for assessing a customer's most immediate source of liquidity—cash in the bank.

Bank references can also provide data about a customer's loan balances and payment performance. However, note that non-bank lenders now account for an ever-increasing portion of business lending. Credit application questions about loans and credit facilities should be carefully structured to identify debt that exists outside of the customer's primary banking relationships.

Those basic purposes remain the same today, but modern technology has made bank references even simpler. Third-party services now provide an electronic interface to confirm bank account status, balances, and other data extremely quickly and without waiting for a manual response from the customer's bank.



SHIPPING ADDRESSES

1 What to Ask For:

If you sell goods, your credit application should ask customers to complete or attach a list of valid ship-to addresses, which can be updated as needed from time to time.



WHY: “Ship-to” fraud scams, which have been around for decades, saw a massive resurgence during the pandemic-era shutdowns in 2020 and 2021. In a ship-to scam, a fraudster submits an order in the name of one of your existing, creditworthy customers but uses a new, illegitimate address. By the time you or your customer realize what happened, the perpetrator has fled with the ill-gotten merchandise. Beyond the financial cost, ship-to scams also have intangible ramifications, such as reputational damage for the customer on whose account the scammer successfully piggybacked. Maintaining a list of authorized shipping addresses and a robust procedure for confirming any changes or additions is the simplest way to thwart this variety of fraud.

Designing the Application Form



DESIGNING THE APPLICATION FORM

Layout and Structure

Credit applications that are visually appealing and easy to navigate minimize customer confusion and frustration and are more likely to yield complete customer information.

If your credit application is electronic, consider using a multi-step "wizard"-style form that breaks the application into manageable sections, guiding the applicant through the process step by step. Multi-step electronic forms help alleviate the potential for a longer form to overwhelm applicants. Applicants can focus on one area at a time, making the process more manageable than a long, single-page form. Progress indicators and a visual representation of the application steps can provide a sense of accomplishment and give applicants a clear view of how much is left to complete. This approach allows applicants to complete your credit application at their own pace, saving their progress and returning to it later. Credit Workbench is pre-configured with a best-practices multi-step credit application.



Organizing the Credit Application

Your credit application should request the business, financial, reference, and shipping address information discussed earlier in this white paper and any other information specific to your company, industry, and underwriting needs. Some businesses also use separate credit application forms tailored to specific types of customers, regions, and other categories.

Whether you use a paper credit application or an electronic form, your credit application should be organized into clearly delineated sections, with related data points grouped into logical, digestible sections.

When designing electronic credit applications, user experience is a top priority. An electronic credit application should offer an intuitive interface to guide applicants through the process. Interactive features like auto-fill, drop-down menus, drag-and-drop document upload, and form field validation will enhance accuracy and completeness in electronic credit applications.

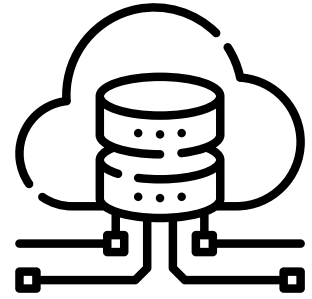


Electronic Credit Applications: Unique Concerns

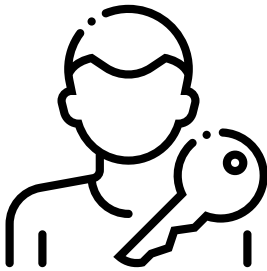


Data Encryption and Storage

Employ robust data encryption techniques and secure storage practices, including data encryption both in transit and at rest, to protect applicant information from unauthorized access or breaches.



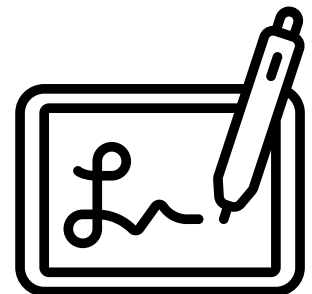
Access Control and User Permissions



Implement access controls such as strong passwords and two-factor authentication to protect against intrusions and data breaches. Use user roles and permissions to restrict data access based on roles and responsibilities, preventing unauthorized disclosure, deletion, or misuse.

Electronic Signatures

To improve efficiency, consider integrating electronic signature capabilities into the application process. Electronic signatures offer numerous benefits, such as eliminating the need for physical paperwork and reducing processing time.



Your electronic signature should comply with the Electronic Signatures in Global and National Commerce (E-SIGN) Act to ensure your credit application creates an enforceable contract. E-SIGN compliance includes, among other things, using an electronic signature solution that captures data securely and creates a verifiable audit trail to demonstrate the signer's intent and the integrity of the electronic record.

The Credit Workbench® trade credit management platform offers each of these features, including a simple, E-SIGN compliant electronic signature solution.



Periodic Updates



Your credit application should not be a static document. Regularly review and update the credit application to adapt to changing business needs, regulatory requirements, and evolving credit evaluation practices.

Conclusion

A well-designed credit application is the bedrock of the customer credit relationship, from the credit evaluation and underwriting process through the entire customer lifecycle. By implementing the guidelines and best practices outlined in this white paper, businesses can enhance their credit application processes, improve risk assessment, and streamline their overall operations. Digital credit workflow solutions like Credit Workbench® offer a significant advantage in today's fast-paced business landscape.

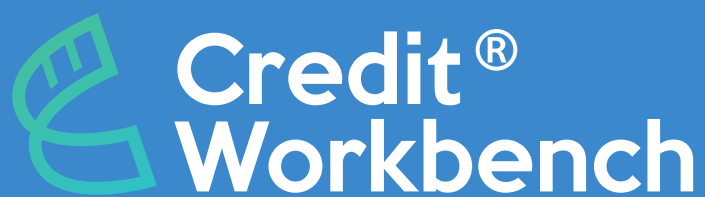
ABOUT

Credit Workbench®

Credit Workbench® is an integrated B2B trade credit management platform that provides a secure repository for your customer credit files, from the credit application through the entire customer lifecycle. The Electronic Credit Application module enables subscribers to quickly and easily send credit applications and other requests to prospective and existing customers alike and manage the credit evaluation process in a secure online environment. Find out more at creditworkbench.com and shorten your customer-to-cash cycle..

- Preconfigured single- and multi-step credit applications.
- Email-driven signing requests with robust audit trail.
- Secure document collection and storage.
- Checklist-driven application workflow process.







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