

Credit applications can help keep the cash coming

The economy is tight, businesses are struggling, and we're seeing an increase in businesses seeking help getting paid for the products and services they've rendered.

Getting paid begins with obtaining and reviewing a detailed-credit application. However, credit applications often do not request key information to make a proper evaluation of whether credit should be granted or in what amount.

A credit application is the main source of information concerning an applicant's credit worthiness. In order for a credit application to be useful, sufficient and appropriate information must be requested for review and confirmation.

In addition to the applicant's basic contact information, the application should include identification of the applicant's business entity (corporation, LLC, partnership or other entity) as well as the date of incorporation or

**DAVID
FENLON**
GUEST
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organization.

The application should also identify all owners, partners, officers and members of the entity requesting credit, including whether any of these parties have ever filed bankruptcy or have outstanding judgments or other liens against them. This information should also be requested of every subsidiary, parent or other related entity of the applicant.

The credit application should also require disclosure of information relating to the

applicant's banking history, including current account balances, information concerning loans (including balances and payment history), and should include an authorization for your company to verify the information directly with the applicant's bank. Evaluate the loan balances and determine whether the applicant is making its payments to the bank on time.

The application should also request identification of at least four trade or credit references (i.e., other businesses that provide credit to the applicant) to verify the applicant's payment history with those businesses.

Beyond information gathering, the credit application should state the terms that will apply if credit is granted. This includes interest rates to be applied in the event of late payment, the legal jurisdiction that will govern any disputes that may arise, provisions requiring the applicant to pay costs of collection and attorneys fees in

the event of a payment default, and authorization to obtain the applicant's credit report.

If the applicant is a business entity, the owners should be required to provide personal guarantees, in writing, personally promising payment of the full amount of credit granted to the business.

Finally, after credit is granted and goods or services are provided to a customer, invoices and statements should be delivered regularly. Inconsistent invoicing leads to inconsistent payments. Every invoice should state the outstanding balance, accumulated interest, previous payment history and other pertinent information relating to the customer's payment history.

David Fenlon is an attorney with Hager, Dewick & Zuengler S.C.