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# **Guidelines for Credit Applications**

Developing or revising your  
company's credit application

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# The Credit Application

## Purpose

The purposes of the credit application include obtaining:

- information for credit review and approval purposes,
- information for ordering and delivery of products/services,
- an acknowledgment of the Seller's (creditor's) terms and conditions of sale, and
- information for the collection effort.

The primary purpose of the credit application is to gather information the seller, who may become a creditor, needs or desires to know about the buyer, who may become a customer. The information received on the application should be regarded as unverified fact. Part of the credit professional's task is to confirm facts presented on the application in the credit investigation process. Often, the best credit information you receive is provided directly from the customer.

The credit application provides information used to assess the creditworthiness of the applicant. At the same time, it should be used to inform customers of terms, expectations, and conditions of sale, and to provide information for the collection effort. Properly written, the application creates a contract between the seller and the buyer.

Keep your application simple and direct. Keep in mind the best time to gain information and assent to your terms and conditions of sale is when the buyer is completing the application. If it is too complex and full of small print and legalese, the customer may hesitate and not complete the process.

Consistently use your application for every customer and all potential customers and for periodic review of existing accounts. Whenever you become aware of any substantive change in the structure or organization of the customer, a new application should be required and subject to your usual credit review procedures.

## Design

The credit application must be properly designed for your company and industry, with at least five parts:

1. The heading or banner—your company's logo, name, address, telephone and fax numbers, email, and, if appropriate, a theme, e.g., "Quality Through the Ages" or "Five Generations of Service." The application should clearly state the purpose of the form, e.g., "Application for Credit" or "Credit Application" or "Credit Agreement." The application form and especially the banner are important reflections of your company. Always use an original—the use of a third-generation copy reflects the importance your company attaches to its image and the credit process.
2. Detailed information about the customer—what you need to know to accomplish the sales and credit tasks. This may include the following demographic and legal information
  - Customer name and street address
  - Billing address if different
  - Assumed business name(s), tradestyle(s), division, branch, or subsidiary
  - The form of business organization – proprietorship, partnership (general or limited), corporation, or LLC
  - Name, social security number, and home address of proprietor(s) or partner(s)
  - Name(s) and business title(s) of corporate officers or managers
  - Date business established or time in business
  - Federal identification number
  - Names and titles of persons authorized to order
  - State professional licensing information
  - Accounts payable contact information
3. References – Those with whom the applicant has established credit relationships.
  - Trade suppliers – contact names, telephone and fax numbers, and email addresses
  - Financial resources – Bank(s), lenders, credit card companies; branch(es), contact names, account numbers, and authorization for release of information

Keep in mind the applicant will always attempt to provide the best available references, and they are not necessarily representative of payment history.

You may want to add another section addressing financial statement information, depending on the policy of your company regarding the use of such statements. If this is part of your credit review process, you will want to know fiscal year-end, the availability of statements, and the name and contact information for the internal party or the accounting firm.

4. The terms and conditions section—Given that the prospect information and evaluation of creditworthiness meets your company requirements, you will accept orders subject to the terms and conditions stated on the application. You should consider

at least the following:

- Representations are complete and accurate.
- Certification statement in which buyer certifies that the extension of credit is for commercial purposes and not for personal, household or family use.
- Applicant understands the information provided will be relied upon in evaluating and extending credit.
- Other creditors are authorized to release information.
- Buyer will pay according to terms, which are clearly stated, including any discounts, and will include such service charges as listed.
- Buyer will pay costs of collection, including collection agency fees and attorney fees and any necessary court costs.
- Buyer agrees to jurisdiction and venue in the state and county of creditor's choice. Buyer agrees to creditor's choice of which state's laws apply.
- Buyer agrees to keep required professional licensing current including required insurance and bond, etc.
- You may want to include a mediation or arbitration clause.

5. The signature block, which includes acknowledgement by the applicant, the date, and any other information required for verification. The importance of this acknowledgement cannot be understated: Properly signed by the buyer, the document will be a resource should it be necessary to litigate unpaid invoices or claims.

### **Personal/Corporate Guaranty**

- Personal Guarantor must, in many states, actively participate in the business operations in, at least, a minimal way, or be an owner, officer or shareholder.
- May be printed on reverse side of application or as a separate document. Requires a separate signature for each person on the personal/corporate guaranty and the application.
- Personal/corporate financial statements demonstrating creditworthiness of guarantor must be provided.
- The guarantor must authorize the creditor to perform a thorough credit investigation, including the review of the personal guarantor's personal credit report.
- The guarantor must provide social security number(s) and home address(es) for each personal guarantor(s).
- A corporate guarantor must provide a corporate resolution in support of the guaranty.
- Guarantor's signature should be witnessed or notarized.

### **Other Considerations**

The Equal Credit Opportunity Act (ECOA)—Applies to consumer and business transactions and prohibits creditors from discriminating on the basis of race, color, religion, national origin, sex, marital status, or that income is derived from any public assistance program. Sellers also are required to provide notice of action taken on a credit application within 30 days of receipt and must provide a notice of the applicant's right to a statement of reasons why the application was not accepted.

The Fair Credit Reporting Act (FCRA)—Limits and conditions the use of consumer credit reports. Good practice in the use of such a report to qualify a guarantor will include the written permission of the guarantor for access to such a report.

**Your attorney should approve the final draft of the credit application and any related documents, such as an information sheet or a guaranty, or any changes to the existing documents.**

**Note:** The credit application and other forms included in this guide are intended for reference only and are not meant for duplication. The articles are intended for reference and are not meant to provide legal advice. Companies should refer to this guide and consult with an attorney to develop or modify a credit application and supporting materials to best meet the needs of the company and its customers.

**Everything You Always Wanted to Know About Credit Applications . . . but were afraid to ask!**

*By Charles M. Tatelbaum, Cummings & Lockwood, presented at National Credit Congress, September 2001*

[This is a portion of Tatelbaum's handout. It provides a series of clauses for use in the terms and conditions section of the Application as appropriate to the particular company and industry. RBW]

1. Acceptance of terms:

*The undersigned ("Applicant") hereby makes this Credit Application ("Application") for credit to AMANDA B. RECKINDWITH, INC. ("Seller"), and in making this Application the Applicant agrees to be bound by all of the terms and conditions contained in this Application, any documents referenced by this Application or any supplements to this Application.*

2. Acceptance of terms of sale and definition of delinquency:

*With respect to any sales of goods or services by Seller to the Applicant on credit, the Applicant agrees that all amounts payable on or before the net due date as shown on each of the Seller's invoices will be paid by the said due date, and, if not paid on or before said due date, are then to be deemed to be delinquent (a "Delinquency").*

3. Sellers rights regarding credit:

*As a result of this Application or otherwise, should a credit availability be granted by Seller to the Applicant, all decisions with respect to the extension or continuation of credit shall be in the sole discretion of the Seller, and the Applicant shall be bound by all of the terms set forth in this Application and payment terms on any invoice. The Seller may terminate or modify any credit availability at any time within its sole discretion.*

4. Application for commercial or B2B credit:

*In the event that this Application is made by individuals, or a partnership or at any time the obligations referenced by this Application are guaranteed by individuals, the Applicant and any guarantors acknowledge and agree that any credit to be extended by the Seller to the Applicant will be business or trade debt, and any goods or services provided by the Seller to the Applicant on credit shall not be for personal, family, or household use.*

5. Information is true and complete:

*The persons signing this application certify that all of the information contained in this Application and any attachment or amendment is true, correct, and complete to the best of their information, knowledge, and belief.*

6. Use of credit reports:

*The Applicant acknowledges and agrees that the Seller may utilize outside credit reporting services to obtain information in order for the Seller to evaluate the initial credit decisions with respect to the Applicant and all ongoing credit decisions thereafter.*

7. Consumer credit reports:

*In the event that the Applicant(s) is/are individual(s) or is a partnership, the signing of this Agreement shall constitute authorization under the Fair Credit Reporting Act for the Seller to utilize consumer credit reporting agencies to provide reports on said individual(s) or partners in order to permit the Seller to appropriately evaluate the extension of any business credit to the Applicant. Additionally, should any individual(s) guarantee the debt of the Applicant, said individual(s) shall be provided with a copy of this Application, and upon the signing of said guarantee, shall consent to the Seller's use of consumer credit reporting agency reports to assist in the evaluation of the credit of said guarantor(s) for the extension of business credit to the Applicant.*

8. Provision of financial information and updates:

*As a condition of the continued extension of credit by the Seller, the Applicant agrees at the Seller's request to provide to the Seller updated financial information, and if requested, to timely provide an annual financial statement to Seller. The Applicant further agrees to provide the Seller with an updated credit application on request as a condition for the continued extension of credit.*

9. Secured creditors:

*The following is a list of all creditors of the Applicant who hold liens or security interests in assets of the Applicant (please list name of creditor, brief description of secured assets, and amount of debt):*

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10. Acceptance of terms of sale:

*The Applicant agrees to pay for all charges in connection with the purchase of goods and/or services from the Seller according to the terms of Seller, which may be listed on invoices or otherwise.*

*OR*

11. Requirement of acceptance of terms of sale:

*No terms or conditions of purchase orders that are different from the terms of the Seller will become part of any sales agreement, purchase order, or other document unless specifically approved in writing by the Seller.*

12. Solvency:

The Applicant agrees that the continued solvency of the Applicant is a precondition to any extension of credit made by the Seller to the Applicant. On request, the Applicant agrees to provide the Seller a statement representing that the Applicant is and remains solvent.

13. Returns:

No credits will be issued without the Seller's prior written approval, and all returns may be subject to a restocking charge.

14. Payment application:

All payments may be applied as against open charges in the sole discretion of the Seller; except against those open charges for which there is a good faith dispute.

15. Declination:

If the Applicant's Application for business credit is denied or there is a denial of a request for an increase in business credit, the Applicant has the right to a written statement of the specific reasons for the denial. To obtain the statement, please contact the Seller [insert name, address, and telephone number of the person or office from which the statement of reasons can be obtained] within 60 days from the date the Applicant is notified of the Seller's decision. The Seller will send the Applicant a written statement of reasons for the denial within 30 days of receiving the Applicant's request for the statement.

Notice: The Federal Equal Credit Opportunity Act prohibits creditors from discriminating against credit applicants on the basis of race, religion, color, national origin, sex, marital status, age (provided that the applicant has the capacity to enter into a binding contract); because all or part of the applicant's income derives from any public assistance program, or because the applicant has in good faith exercised any right under the Consumer Credit Protection Act. The Federal Agency that administers compliance with this law concerning this credit is the Federal Trade Commission, Division of Credit Practices, 6 Pennsylvania Avenue NW, Washington, DC 20580.

16. Right of offset:

In the event that from time to time the Seller may owe credits, refunds, reserves, or other monies to the Applicant, such indebtedness shall be deemed to be created from this Agreement, and the Seller shall have the right of recoupment of such credits or refunds within its sole discretion.

17. Finance charges:

It is understood that the Seller may impose and collect finance charges on any Delinquency of one and one-half percent (1½%) per month or 18% annually. Additionally, the Applicant agrees to be liable for all internal and external collection costs, including collection agency fees and attorney fees in connection with any Delinquency placed for collection by the Seller.

18. Venue:

The laws of the State of [your choice] shall be applicable to all actions arising under this and any other agreement between the Applicant and the Seller. All accounts shall be due and payable in [your city and state]. In the event of litigation, venue and jurisdiction shall be in [your city and state].

19. Trial:

THE PARTIES HERETO KNOWINGLY AND INTENTIONALLY WAIVE THE RIGHT TO A JURY TRIAL ON ANY ISSUE OR DISPUTE THAT MAY ARISE BETWEEN THEM.

20. Addenda:

[Add here any other terms or conditions that are unique or particular to a business or industry. Also, here is the place to add documents, catalogues, specifications, etc. that are to be incorporated by reference.]

Recommended Signature Block

NAME OF ENTITY

DATED: \_\_\_\_\_

\_\_\_\_\_  
("Undersigned")

\_\_\_\_\_  
Witness

By: \_\_\_\_\_  
Owner/Partner/President

\_\_\_\_\_  
Print name of above

\_\_\_\_\_  
Print name of above

NAME OF CREDITOR

DATED: \_\_\_\_\_

\_\_\_\_\_  
("Undersigned")

\_\_\_\_\_  
Witness

By: \_\_\_\_\_  
Owner/Partner/President

\_\_\_\_\_  
Print name of above

\_\_\_\_\_  
Print name of above

**SAMPLE**

ABC Widget Co.

**Credit Application****1. Business Data**

Legal name of company (hereafter "Company") \_\_\_\_\_

D/B/A(s) or Tradestyle(s) \_\_\_\_\_

Mailing address \_\_\_\_\_ City \_\_\_\_\_

County \_\_\_\_\_ State \_\_\_\_\_ Zip \_\_\_\_\_

Street address \_\_\_\_\_ City \_\_\_\_\_

County \_\_\_\_\_ State \_\_\_\_\_ Zip \_\_\_\_\_

Business phone \_\_\_\_\_ Fax \_\_\_\_\_ Website \_\_\_\_\_

Company is a  Corporation\*  LLC\*  Partnership  Proprietorship Other: \_\_\_\_\_

\*State and date of incorporation / formation \_\_\_\_\_ FEI Number \_\_\_\_\_

Owner(s)/officers/managers:

Name \_\_\_\_\_ Title \_\_\_\_\_

Home address \_\_\_\_\_ SS# \_\_\_\_\_

Type of business \_\_\_\_\_ Years in business \_\_\_\_\_

Related previous business ventures \_\_\_\_\_

Accounts payable-contact name \_\_\_\_\_

Phone \_\_\_\_\_ Email \_\_\_\_\_ Fax \_\_\_\_\_

**2. Trade References**

Name \_\_\_\_\_ Name \_\_\_\_\_

Address \_\_\_\_\_ Address \_\_\_\_\_

City/State/Zip \_\_\_\_\_ City/State/Zip \_\_\_\_\_

Account Number \_\_\_\_\_ Account Number \_\_\_\_\_

Contact \_\_\_\_\_ Contact \_\_\_\_\_

Phone \_\_\_\_\_ Phone \_\_\_\_\_

Average or high monthly purchases: \$ \_\_\_\_\_ Average or high monthly purchases: \$ \_\_\_\_\_

**3. Bank References**

Name of Bank(s) \_\_\_\_\_

Address \_\_\_\_\_ City/State/Zip \_\_\_\_\_

Contact \_\_\_\_\_ DDAs – Y N \_\_\_\_\_ Loans – Y N \_\_\_\_\_

Phone \_\_\_\_\_ Fax \_\_\_\_\_ Email \_\_\_\_\_

Does a bank, insurance company, or other creditor hold a security interest in your accounts receivable and/or inventory for loans advanced?  
 Yes  No

If yes, please state names of security interest holder(s): \_\_\_\_\_

The Company hereby authorizes the above banks to release all information requested. It is understood that all information will be kept confidential.

**4. Financial Statements** – Please attach a copy of your Company's fiscal year-end financial statements.

## 5. Credit Application Provisions

The representations provided in this Application are complete and accurate. I understand the information provided will be relied upon in the evaluation and extension of credit terms. I authorize the release of information by creditors listed above as well as other suppliers. The terms and conditions of this Application shall, upon extension of credit by the Company, constitute an agreement of sale. The Applicant agrees to be bound to the terms and conditions stated in this Application. The payment for all sales of goods or services will be according to the terms stated on the Company's invoice. The failure to pay on the due date of each invoice shall deem the debt to be delinquent. In the event of a delinquency, the Company may impose a late charge of one and one-half percent per month on the delinquent balance until paid. In the event of a delinquency, the Company may recoup any discounts to be applied to the Applicant's debt. In the event of a delinquency, all collection expenses, including collection agency fees and costs, and attorney's fees in connection with the collection of the delinquent debt shall be due and payable by the Applicant. The interpretation of this agreement shall be subject to the laws of the State of Oregon, and any necessary legal action shall be brought in Multnomah County, Oregon.

{Sample Arbitration Clause}

The Company and the Applicant agree that any claim or dispute between or among them, their agents, employees, successors or assigns, related to this Application, the credit extended thereafter or otherwise (other than the exercise of rights under security interests created by purchases or otherwise), including disputes related to the applicability of this Agreement, regardless against whom made, shall be resolved by binding arbitration by and under either (a) the Code of Procedure of the National Arbitration Forum or (b) American Arbitration Association. This Agreement shall be subject to and interpreted under the Federal Arbitration Act.

## SAMPLE

Signature \_\_\_\_\_ Date \_\_\_\_\_

Printed name of signer \_\_\_\_\_ Title \_\_\_\_\_

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# SAMPLE

## Addendum to [Company] Credit Application

The undersigned hereby consent(s) to [ Company ] use of a non-business consumer credit report for the undersigned in order to further evaluate the credit worthiness as principal(s), proprietor(s), and/or guarantor(s) in connection with the extension of business credit as contemplated by this Credit Application.

The undersigned hereby authorizes [ Company ] to utilize a consumer credit report for the undersigned from time to time in connection with the extension or continuation of the business credit accommodation contemplated by this Application.

The undersigned as (an) individual(s) hereby knowingly consent(s) to the use of such credit report consistent with the Federal Fair Credit Reporting Act in 15 U.S.C.@1681 et. seq.

Signature \_\_\_\_\_ Date \_\_\_\_\_

Social Security No. \_\_\_\_\_

Signature \_\_\_\_\_ Date \_\_\_\_\_

Social Security No. \_\_\_\_\_

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**SAMPLE****Individual Personal Guaranty**

Date \_\_\_\_\_ 20 \_\_\_\_\_

I, *(name)* \_\_\_\_\_

residing at (address) \_\_\_\_\_

for and in consideration of your extending credit at my request to \_\_\_\_\_

(hereinafter referred to as the "Company"), of which I am (title) \_\_\_\_\_

hereby personally guarantee to you the payment at \_\_\_\_\_

in the State of \_\_\_\_\_ any obligation of the Company, and I hereby agree to bind myself to pay you on demand any sum

which may become due to you by the Company whenever the Company shall fail to pay the same. It is understood that this guaranty

shall be a continuing and irrevocable guaranty and indemnity for such indebtedness of the Company. I do hereby waive notice of

default, nonpayment and notice thereof, and consent to any modification or renewal of the credit agreement hereby guaranteed.

**SAMPLE**

Signature \_\_\_\_\_ Social Security No. \_\_\_\_\_

Witness \_\_\_\_\_

Address \_\_\_\_\_

City \_\_\_\_\_ State \_\_\_\_\_ Zip \_\_\_\_\_

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**SAMPLE****Joint Personal Guaranty**

Date \_\_\_\_\_ 20 \_\_\_\_\_  
 We, *(name)* \_\_\_\_\_  
 and *(spouse)* \_\_\_\_\_,  
 residing at (address) \_\_\_\_\_  
 for and in consideration of your extending credit at our request to \_\_\_\_\_  
 (hereinafter referred to as the "Company"), of which \_\_\_\_\_  
 is *(title)* \_\_\_\_\_ hereby personally guarantee to you the payment at  
 \_\_\_\_\_ in the state of \_\_\_\_\_ .

Any obligation of the Company and we hereby agree to bind ourselves to pay you on demand any sum which may become due to you by the Company whenever the Company shall fail to pay the same. It is understood that this guaranty shall be a continuing and irrevocable guaranty and indemnity for such indebtedness of the Company. We do hereby waive notice of default, nonpayment and notice thereof, and consent to any modification or renewal of the credit agreement hereby guaranteed.

**SAMPLE**

Signature \_\_\_\_\_ Social Security No. \_\_\_\_\_  
 Signature \_\_\_\_\_ Social Security No. \_\_\_\_\_  
 Witness \_\_\_\_\_  
 Address \_\_\_\_\_  
 City \_\_\_\_\_ State \_\_\_\_\_ Zip \_\_\_\_\_

**Note:** *The Tatelbaum article, the sample credit application, and other forms included in this guide are intended for reference only and are not meant for duplication. The Tatelbaum article is intended for reference and is not meant to provide legal advice. Companies should consult with an attorney to develop or modify a credit application and supporting materials to best meet the needs of the company, its credit department, and its customers.*

## ECOA Guidelines: If You Are Going to Refuse Credit . . . .

The Equal Credit Opportunity Act (ECOA) became mandatory for business creditors on April 1, 1990. Formerly, Regulation B of ECOA had allowed business creditors certain exceptions, which are no longer valid. Provided below are guidelines to follow when an applicant is denied credit.

### Providing notice

Within 30 days, business creditors must provide notice to an applicant denied credit. The notice must contain:

- A statement of the action taken.
- The specific reason for the denial of credit.
- The name and address of the creditor.
- A copy of ECOA Notice 701(a)\*, with the name and address of the federal agency that administers compliance.

Within 60 days, the applicant can request, orally or in writing, the specific reason for denial. If the creditor gives the reason(s) orally, the creditor must disclose to the applicant of their rights to have the reason(s) confirmed in writing and how to proceed. The applicant has a right to receive written confirmation within 30 days of their written request.

### Providing reasons for action

We recommend that you draft a standard declination letter, which includes a declination statement; your name, address, phone, and fax numbers; the reason(s) for the declination (which may be checkboxes); and the ECOA Notice 701(a)\*.

If credit is denied due in whole or in part to information on a specific credit report, refer the applicant directly to the following address and phone number:

#### Consumer:

National Consumer Assistance Center (for Experian)  
PO Box 2002  
Allen, TX 75013-0036  
T 1.888.397.3742

Equifax  
PO Box 740256  
Atlanta, GA 30374  
T 1.800.685.1111

TransUnion  
PO Box 2000  
Chester, PA 19022  
T 1.800.888.4213

#### Business:

Experian Business Information Services, Commercial Relations  
PO Box 5001  
Costa Mesa, CA 92628  
T 1.888.211.0728  
F 714.830.2903

Specific reasons for the denial of credit may include:

- need for additional references.
- delinquent credit obligations.
- unfavorable trade references.
- inability to verify references.

**Do not** cite the creditor's internal company standards and policies or the applicant's failure to achieve a qualifying score on the creditor's scoring system as specific reasons for the adverse action. These are not considered sufficient reasons.

**Do not** refer the applicant to NACM Oregon. NACM is only a distributor of credit reports and is unaware of the declination or the specific reason behind a creditor's adverse action.

### Records retention

For trade creditors, ECOA requires that an applicant's records be kept for 60 days after notifying the applicant of the action taken. If the applicant requests in writing the reasons for the adverse credit decision during that 60-day period, the trade creditor must retain the applicant's records for at least 12 months.

*The Federal Equal Credit Opportunity Act prohibits creditors from discriminating against credit applications on the basis of race, color, religion, national origin, sex, marital status, age (provided the applicant has the capacity to contract); because all or part of the applicant's income derives from any public assistance program; or because the applicant has in good faith exercised any right under the Consumer Credit Protection Act. The federal agency that administers compliance with this law concerning this creditor is the Federal Trade Commission, Equal Credit Opportunity, Washington, D.C., 20580.*