

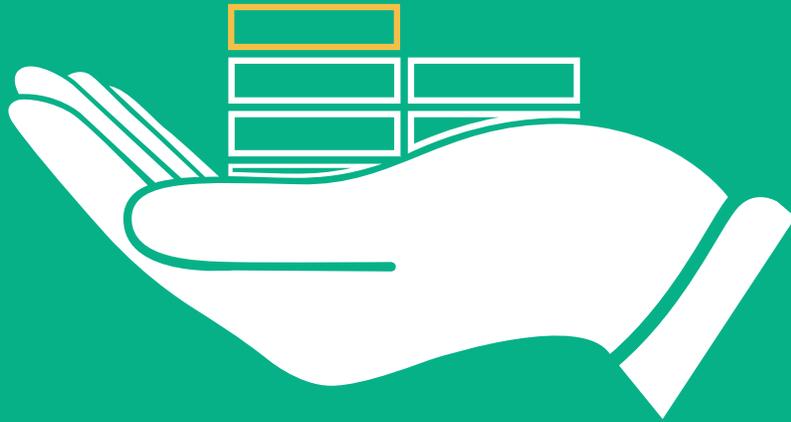
# ***Making Credit Policies*** that Reduce Risk and Encourage Growth

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Many dealers have in-house credit programs, but not all have formal credit policies to support them, which can leave you open to unnecessary risk. Here are five steps you can take with your credit program to turn a potential weakness into a competitive advantage that protects and bolsters your bottom line.



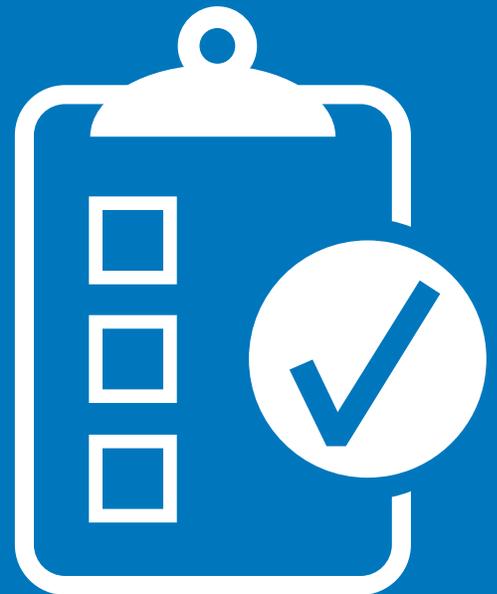
# Set Explicit Credit Limits

Setting credit limits is an essential part of mitigating lending risk. If you haven't set clear credit limits, then you really don't have any. This fluid approach to credit can leave you vulnerable to taking on unnecessary risk. The following questions can help you determine just what your credit limits should be:

- **What credit line makes you nervous?**
- **How much are you willing to lose?**
- **What's the maximum loss your business can handle?**

With a clear understanding of your thresholds and the maximum credit exposure your company can withstand, you've got a good framework for setting your limits.

# Develop Clear Qualification Criteria



Develop clear criteria for how you evaluate a customer's credit worthiness. Some basic elements you should consider include:

## ***Credit Minimums***

What is the minimum requirement for you to approve credit for a new customer? Best-practices include:

- **3+ years in business**
- **No outstanding delinquencies of 90+ days**
- **FICO score >685**

Contractors who don't meet your credit minimums should be designated as cash or credit card customers until they're able to meet your requirements.

## ***References***

Ask for, and check, bank and trade references as part of every credit application regardless of the size of the company or the requested limit.

## ***Financials***

For new customers requesting large credit lines, ask for the company's financials, a copy of their bank statement or a letter of credit from their bank.

## ***Contracts***

When a customer asks for a bigger line to cover a job, ask for a copy of the payment bond or homeowner contract to get a better idea of how much credit is needed and what the contractor's payment schedule may be.

## ***Deposits***

Consider asking for a deposit if you have to special order materials or the order amount exceeds the customer's credit limit.

# Know When to Get Personal Guarantees



Personal guarantees are a fairly common element on dealer credit applications. You should consider them when:

- **A personal guarantee may be your only recourse, such as with a sole proprietor where there is no formal business to be held liable for credit defaults.**
- **A company doesn't have a very solid credit history, as an added layer of risk protection.**
- **You make exceptions to your credit qualification criteria, give credit to a new customer, or increase credit for an existing customer.**

Keep in mind that a personal guarantee isn't collateral and only really matters if it's a good guarantee that you're able to collect on if you need to.

# Late Penalties Reduce Lateness

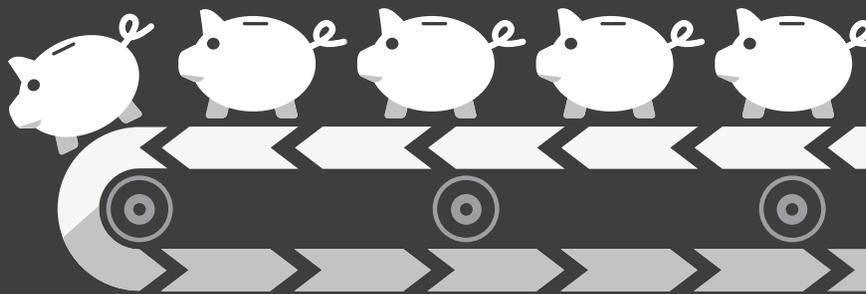


No one likes fees. They are, however, a helpful tool to encourage prompt payment or to compensate you for the costs of incurring lateness. There are a couple of truths about fees you should know:

- **People know they should pay them.**
- **People will pay them if you expect them to be paid.**

Most contractors will pay fees without discussion. A few will require you to ask for payment. For those who “don’t pay fees,” you have to decide whether you waive them. If you hold firm, explain how you expect to be paid in the same way that they expect your deliveries to be on time. Not getting paid on time communicates disrespect for how that impacts your business. Offer to waive fees in the future if they call ahead of time to tell you they’ll be late. Otherwise, ask they pay the fee as a sign of respect for how that impacts your business.

# Don't "Set It and Forget It"



Having a strong credit policy is of little value if you don't properly execute it. Make sure your sales and credit teams know what your credit policy is and are enforcing the same rules. Have a clear process for if, or when, you will make exceptions and who can make them.

Revisit your credit policy every couple of years. Changes in the economy and your business may mean you now have more or less cash and can change your risk tolerance. You also want to reassess your customers periodically and adjust as needed items like credit limits and personal guarantees based on how a company meets your credit criteria today.

A strong credit policy is a cornerstone of every successful building material supplier's business. Implementing these best practices can help reduce your credit risk and make your credit program a growth engine for your business.



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