



# CREDIT POLICY

PAGE 1 of 4

## 1.0 INTRODUCTION

- 1.1 The purpose of this standard procedure is to establish and define the policy related to the extension of credit for customers of Artes Imports & Exports, Inc.
- 1.2 The extension of credit needs to be defined within narrow terms, so that all the staff dealing with customers, is saying exactly the same things, and that nothing is being offered that is not part of the agreed policy.

## 2.0 AUTHORITY

- 2.1 The ultimate authority for establishing the criteria for an extension of credit belongs to the owners of Artes Imports & Exports, Inc.

## 3.0 CONCEPT

- 3.1 The concept of an extension of credit is a sales and marketing tool that should be used with great care. Management and sales staff's viewpoint must be that credit is a privilege, not a right. As well, the client should not assume that credit is going to be extended.

## 4.0 TYPES OF CREDIT

- 4.1 Credit can be extended in various forms:
  - 4.1.1 The Company offers accounts receivable terms of 2% 10, net 30. Credit is extended to the clients who have an established reputation and good overall payment record.
  - 4.2.1 Some contractors and customers state they will not pay your invoice until they are paid by their customer. This may be a fact in their industry but it does not have to be openly accepted by you. A two-sentence statement may be added to your bids/estimates stating: "This contract is between ARTES IMPORTS & EXPORTS, INC. and Company. Payment on all invoices shall be made within the agreed upon 30 days and is the responsibility of Company."



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## 5.0 GUIDELINES

- 5.1 A strict credit policy can make the difference between survival and failure in this age of business. Issuing too much credit has been the downfall of many profitable businesses.
- 5.2 One way to help insure that receivables will be a recoverable asset is to establish a criterion which meets your standards to insure payment.
- 5.3 Never allow credit beyond the point that if an account(s) fails to pay, it will affect your ability to pay your bills.
- 5.4 The firm needs to know the clients who stay within terms, just as much as those who are abusing it.

## 6.0 METHOD OF ESTABLISHING CREDIT

- 6.1 The first step in qualifying an account for credit is the completion of a credit application (sample attached) to include all pertinent client information, which is forwarded to the V.P. of Finance for a summary review. The argument can be made that revenue should not be confused or affected by credit verification and account collections because they are separate issues; however, when they are not intertwined, unprofitable ventures often ensue. Credit applications shall be completed by all new and existing customers who request credit in excess of an amount of \$5,000, or more.
- 6.2 After this summary review, the remainder of the information needs to be verified.
- 6.3 Conduct a preliminary credit check, by contacting the references given or using other available sources to establish the applicant's credit history.
- 6.4 Important sources of business and consumer credit information are:
  - Credit Bureau Reports
  - Banks
  - Other vendors



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6.5 Be sure to include in your file the following:

Registered Name  
Federal ID Number and Tax Exempt Number (if applicable)  
Authorized Signing Authority

6.6 Upon verification of all information, set up a customer file.

## 7.0 EVALUATION

7.1 The evaluation of the credit standing of a potential customer must be guided by the four "C's of credit: character, capital, capacity and conditions as follows.

7.1.1 Character: The sum of the personal traits and reputation of the prospective client.

7.1.2 Capital: The ability to pay is reflected largely in the working capital and cash flow position of the prospective customer.

7.1.3 Capacity: This refers to the customer's ability to operate his business soundly and profitability. A well-managed business should be able to meet its obligation on time and in full.

7.1.4 Conditions: What terms does the customer insist on adding to the working agreement? Can we live with them?

7.2 Credit applications should be based on the soundness of the client.

7.2.1 Conditions: This refers to general business and economic conditions that may affect the prospective customer's ability to pay. It is also based on legal aspects of transactions that should be viewed with extreme caution. For example: "Is a client with little operating capital and little or no owned asset inventory (of questionable liquidated value) used as collateral, a worthy credit risk?"

7.2.2 Does the client take complete and accurate credit information from their potential client? If not and their contract reads that our payment is contingent upon theirs', we are putting ourselves at undo risk and should rethink whether or not we want to bid the particular job, with this specific general.

## 8.0 PRECAUTIONS



# CREDIT POLICY

PAGE 4 of 4

- 8.1 An annual reevaluation of all credit extensions should be done to insure reliability of the information in the file.
- 8.2 Monitoring of all extensions of credit should be on-going to help insure clients are not exceeding pre-established limits or firm limits.

## 9.0 CONCLUSION

- 9.1 Credit at best is a double-edged sword that can do harm to the business that extends it and harm to that business if it is not extended. It is a program that needs constant management and has marginal returns. In view of the firm's recent bad debt history, even limited results can be meaningful.
- 9.2 This procedure is meant to be used in conjunction with Standard Procedure



**Artes Imports & Exports, Inc.**  
**216 S Alma School Road**

Suite #4  
Mesa, Arizona 85210  
Phone: 480-733-6858  
Fax: 480-704-4299

[www.ArtesImports.com](http://www.ArtesImports.com)

**APPLICATION FOR CREDIT & TERMS OF PAYMENT**

**Applicant Name:** \_\_\_\_\_

**Business Name:** \_\_\_\_\_

**Address:** \_\_\_\_\_

**Address:** \_\_\_\_\_ **BusinessPhone:** \_\_\_\_\_ **Fax** \_\_\_\_\_

**Form of Ownership:** Individual\_\_\_ Partnership\_\_\_ Corporation\_\_\_

**Identification/Tax Number:** \_\_\_\_\_

**Sales Tax Permit Number:** \_\_\_\_\_ (attach a copy) **State:** \_\_\_\_\_

**Full Name of Owners/Authorized Officers :( A)** \_\_\_\_\_

**(B)** \_\_\_\_\_ **(C)** \_\_\_\_\_

**Home Address of Signer:** \_\_\_\_\_

\_\_\_\_\_ **Home Phone:** \_\_\_\_\_

**Estimated Monthly/Annual Billing \$** \_\_\_\_\_

**Attach Financial Statement for most recent year and quarter.**

**COMMERCIAL CHARGE ACCOUNT REFERENCES**

<b>VENDOR</b>	<b>ADDRESS</b>	<b>PHONE #</b>

**COMMERCIAL BANK ACCOUNTS**

<b>BANK</b>	<b>BRANCH</b>	<b>CONTACT</b>	<b>PHONE</b>	<b>ACCT. #</b>



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**APPLICATION FOR CREDIT, TERMS OF PAYMENT & PERSONAL GUARANTEE**

TERMS OF PAYMENT: Applicant's signature attests to financial responsibility, ability and willingness to pay Artes Imports & Exports, Inc.:

- A) All charges are due and payable, net 30 days, upon presentation of invoice;
- B) A finance charge of 10%, per annum, will be added to all accounts not paid thirty days after invoice date.
- C) Accounts unpaid over 90 days will be subject to COD status for further services. All past due invoices must be paid in full for credit to be considered again which will only be upon submission of a new credit application.
- D) If an account is placed for collection, applicant agrees to pay all costs of collection, including reasonable attorney's fees and a service charge of \$35 on all returned checks.

The above information is given for the purpose of obtaining an open credit account with **Artes Import & Export, Inc.** and is warranted to be true. We hereby authorize an investigation of our credit history and authorize credit references to release any information necessary to assist in establishing a credit with **Artes Import & Export, Inc.**

**Firm Name:** \_\_\_\_\_

**By:** \_\_\_\_\_

**Date:** \_\_\_\_\_ **Corporate Seal**

**Personal guaranty of payment of an individual or corporate account:**

I hereby bind myself to pay ARTES IMPORTS & EXPORTS, INC. on demand, any sum that may become due to ARTES IMPORTS & EXPORTS, INC. by the above company when that company fails to pay as agreed in this document.

It shall be understood that this guarantee is a continuing and irrevocable guarantee and indemnity for such indebtedness of the above company.

I do hereby waive notice of default, non-payment and notice thereof and consent to any modification of renewal of the credit agreement hereby granted.

**As an Individual:** \_\_\_\_\_

**Date:** \_\_\_\_\_