

THE IMPORTANCE OF AN UPDATED CREDIT APPLICATION

As the economy continues to slowly recover from the recent recession, a number of businesses continue to have financial difficulty and fail. One of the best weapons which a creditor can have in its possession prior to the demise of a business relationship is an updated and current credit application.

As Massachusetts has many prejudgment remedies available to a creditor such as bank account attachments, real estate attachments and personal property attachments, a credit application that provides information as to the whereabouts of these assets is of critical importance in being able to secure a defaulted obligation in an expedited fashion.

Credit applications should contain, at a minimum, request for the following information:

1. Legal name of business.
2. Correct identification of business, i.e., corporation, partnership, limited liability company, sole proprietorship.
3. If the business is an entity, it should include a listing of the officers, partners, or members. If the business is a proprietorship, it should list the name of the owners.
4. The credit application should identify checking and savings accounts maintained by the customer, including the name of the institution and the account number.
5. The credit application should request information concerning the ownership of the real estate where the customer operates. If the real estate is owned by an affiliated entity, and your business obtains personal guarantee in connection with the granting of credit, you may wish a guarantee from the real estate holding company.
6. A credit application which is to be signed by the customer should contain provisions concerning late fees, finance charges, costs of collection and reasonable attorneys' fees. Please remember, that in most states, you are not entitled to collect costs of collection and reasonable attorneys' fees, unless a customer has agreed to pay them in a contract. Simply putting this information on an invoice may not be sufficient. It is better to have it on the signed credit application.
7. Many credit applications contain personal guarantees. If this is the case, you will need to be sure that the person executing the credit application is the "owner" of the business.
8. Trade references.

The foregoing is exemplary and not intended to be exhaustive. In more significant relationships, companies have been known to include security agreements (devices which would allow you to obtain a lien on inventory and/or other business assets), to secure the obligation due your company.

Credit applications can be tailored to meet various businesses needs. With this information at hand, you will understand the nature of the business which you are doing business with, and you will be better prepared to reduce your exposure in the event of a default.