FEBRUARY 2019

# BCMA E~CREDIT NEWS

## BCMA - It is All About You!

February 2019

This month's topics…





## 1. Cheat Sheet: 13 Questions If You Are Approached For Extended Terms

***Thanks to Credit Today's "Tip of the Week!"***

**At some point, every credit professional is approached by a distressed debtor for extended terms (this scenario is in contrast to the routine requests for longer terms from many of today's *healthy* customers.) In the event that occurs to you, here are 13 questions you should have answers to before agreeing to any proposal for extended payments:**

1. Why didn't the customer ask its bank for short-term capital rather than asking its trade creditors to act as bankers by carrying delinquent receivables?
2. If you (as the customer) asked your bank for short-term capital, what was the bank's response?
3. If the bank turned down the request, what reason or reasons did the bank, give for its decision?
4. From whom will the customer purchase goods during the extended payment period?
5. How does the customer plan to pay for new merchandise the company needs to stay viable?
6. Is the customer proposing exactly the same extended payment plan to every creditor?
7. What other payment plans have been offered?
8. What caused the customer to have such severe cash flow problems that an extended payment plan became necessary?
9. What steps is the customer taking to ensure it never runs into this problem again?
10. Which creditors have agreed to the extended dating proposal? Is there any reason I cannot call the companies to verify the facts?
11. Has the customer considered a bankruptcy filing as an alternative? If so, is a bankruptcy filing still under consideration?
12. Ask the customer to describe its current relationship with its bank and other secured creditors.
13. What agreements - if any - have been reached with secured creditors with respect to outstanding debts, both long and short-term?

## BCMA MEMBERS

- NACS Credit Services, Inc.
- Pennsylvania Association of Credit Management
- Wisconsin Credit Association

**GOT AN IDEA?**
Would you like to contribute to the BCMA Newsletter? The most important part is your idea. We can handle the polishing. Just write to us at BCMAEditor@ CreditToday.net with your idea!

# 1. Cheat Sheet: 13 Questions If You Are Approached For Extended Terms

Now, will you get answers to all of these questions? Probably not. But that in and of itself will be revealing.

In addition, you may treat different customers differently depending upon the size, market share, profit margin, your own management's risk tolerance, and more.

- Finally, before agreeing to any payment proposal, you should always speak with other creditors to confirm that:
- The customer has told them the same story
- The customer has proposed the same payment plan to them
- The other creditor is not aware of any facts that would tend to cause the credit manager to question the customer's sincerity.
- Creditors are not aware of anyone else getting a better deal than the deal being offered to you.

Remember, there is a difference between collusion and "trust but verify." Ensure you walk that line properly.

*Thanks to Credit Today's "Tip of the Week!"*

# 2. Guidelines for Holding a Meeting - The Things to Include in a Meeting When You Want Input By Rick Mauer

***The things to include in a meeting when you want input. . .***
Many of the tools for getting people involved have a few elements in common. Here is a tip sheet of things to consider when you plan a meeting that focuses on change. (These are pretty good ideas to use in other meetings as well.)

- Invite representatives from all groups that have a stake in the outcome of this change. When possible, invite everyone. If that is not possible, make sure all groups and interests are represented.
- Consider using a planning group made up of many diverse interests to help you plan the meeting. Assign seats so that each table of eight to ten people is a microcosm of the entire organization, including various departments, interests, and levels of the organization.
- Allow time for conversation. Do not try to speed things up.
- Emphasize conversation, not presentation. Except for an introductory presentation that sets the stage (and even that might not be necessary), do not make speeches.
- Before getting reactions to a presentation, make sure people are clear about what has just been presented. Solicit clarifying questions before you get people’s reactions. If you miss this step, people will be responding from their assumptions about what they think they heard, rather than responding to the actual idea.
- **Invite resistance.** Real-Time Strategic Change uses a simple technique. After a proposal is made, each table is asked to respond to three questions: What makes you glad (about this proposal)? What makes you mad? What would you add (or change)?
- Tell people how you will use this information. And then keep your promises. If you say you will get back to them within three days, do not miss that deadline.

## 2. Guidelines for Holding a Meeting - The Things to Include in a Meeting When You Want Input (continued) By Rick Mauer

- **Stay awake.** Meeting agendas are merely roadmaps. Actual driving conditions will vary. If it seems clear that people are resistant to something, take time to explore what is in their hearts and on their minds. I have seen good meetings disintegrate simply because the leaders felt compelled to get through the agenda in spite of what was occurring in front of them.
- **Be honest.** If some items are not negotiable, tell people, and tell them why. Do not pretend that everything is open for discussion if that is not the case. You may take some heat for this, but it will be far better than implicitly lying to folks.
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*Through his consulting company, Rick Maurer works with organizations that want to accelerate implementation of major changes. This article is adapted from his new book,* Building Capacity for Change Sourcebook. *You can reach him at Maurer & Associates: 703-525-7074, or visit* [https://www.rickmaurer.com/](https://www.rickmaurer.com/) *for more resources on leading change.*

Thanks to Credit Today's [Outside the Box](Outside the Box).

## 3. Forum: Question on Handling a Risky Customer

**I have a customer; where we currently have them on a small credit limit, open terms. The customer claims that the small credit limit will not be sufficient for them as we move into the fall. My problem is that this customer is rumored to be going bankrupt and is asking that I speak to their VP today about a larger credit line. Since we have already given them a small open line, and I am assuming that they will bulk at cash in advance over that dollar amount, does anyone have any other options to possibly avoid "preference". I was thinking standby, but my thoughts are that they will object to that. Thank you,**
Corporate Credit Manager, Global Toy Company

Let them bulk. Stick to the limit and collect over the dollar amount you have established.
Assistant Credit Manager
Manufacturer

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Hi: I suggest that you take the position that to increase their Credit Limit/Line, your firm will require additional security. The additional security could be a Refundable Cash Deposit amount that is suitable to your firm, an LOC, personal guarantee from a principle of the firm, Deed of Trust on real estate, or holding the Title on a large piece of their equipment, assuming they have such an animal. You could just throw out the requirement to them, for the need for additional security, and see what they offer. Of course, they need to offer something that has equal or greater value, for the additional amounts they are requesting. Good Luck
Assistant Division Manager/Credit, Sign Company

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If you have reason to believe they are going to be BK, look at your last 90 days of sales and assure that will be a preference. If you sell after the BK, then you have "New Value" which could reduce the preference later. Stick to your guns, in the bad economy these days things will be much more difficult moving forward. Better safe than sorry.
Accounts Receivable Manager
Consumer Products Manufacturer

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If the bankruptcy rumor comes to fruition soon (poor choice of words as bankruptcies certainly do not bear fruit!), you are likely right in the midst of the preference period and need to be careful when changing the way you do business with the debtor (i.e. changing terms or reducing exposure by lowering credit line). Cash-in-advance terms, or Net Immediate terms for that matter, are your safest bet in regards to preference exposure, however, with Net Immediate terms you need to be in a position to enforce by having repeated orders to leverage against payment of outstanding invoice(s). If various credit sources reflect negative payment performance or a noticeable trend in that direction, then sit tight. Other options such as LOC or other forms of security will not work if in fact the customer is in serious trouble. A personal guarantee is usually not worth the paper it is written on and requires complete personal financial disclosure for consideration.

My first task when hearing any "rumor" is to make every attempt to verify its validity and then go from there.
Director of Credit
Industrial Financial Corporation

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If the customer is headed for bankruptcy, why would you would want to provide any credit line to them? If the credit limit that you have established is too small then you will be just speeding their path to the nearest attorney; if you provide them with what they want and the company is too weak then all you are doing is increasing your bad debt. I would suggest, as you said, a standby L/C or no credit line at all. If the financials of the company tell, you that it is a no win situation then you are just titling at windmills in setting up any credit limit at all. As to the preference issue, in order to claim a preference it must be payment on an antecedent debt and/or the company must either be technically or balance sheet insolvent during the prior 90 days. If these issues do not exist then the preference does not exist regardless of what the trustee attempts contend.

One other thing that I am sure that Sales would not like but if you will be speaking to the VP of Finance, you might want to ask him if he is considering filing bankruptcy. You did not sate if this was a public company but if it is and he will not answer the question then you certainly have your answer. The CFO of any public must be truthful or he can be held legally liable under Sarbanes Oxley.
Credit Exec
Global Farm Supplies

*Thanks to Credit Today's Senior Credit Executive Forum.*