

Legal Alert

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QUESTION: SO, WHAT ARE CREDIT PROCEDURES AND WHY DOES MY BUSINESS NEED THEM ANYWAY?

ANSWER: CREDIT PROCEDURES ARE THE REGULATIONS WHICH IMPLEMENT THE CREDIT POLICIES. WITHOUT CREDIT PROCEDURES, YOUR PEOPLE WILL NOT KNOW HOW TO MAKE YOUR WONDERFULLY THOUGHT OUT CREDIT POLICIES WORK.

Previously we discussed how to implement credit policies. The next step is to implement credit procedures, which are the detailed statements which make the policies function. Credit procedures represent the daily operating instructions for the credit department to follow. In other words, the answer to “How do I do it?” is “See your procedure manual.”

Credit procedures must be understandable to everyone in the business. Credit procedures must be understandable to the clerk-level employee. By nature, they must be detailed and describe the steps necessary to accomplish a given task. Credit procedures must be able to survive turnover in your business. Good credit procedures must be able to be passed along to your new employees so that new employees can pick up the procedures manual and perform the tasks by reading and following the procedures or directions. The procedures must include all of the directions and the steps necessary to accomplish the assigned tasks.

Credit procedures must define the task as well as its outcome. The procedures should answer the question of “What is the result of the finished task?” One way of testing the effectiveness of your procedures is to ask the following hypothetical: “If every manager in your company were out of town and a new employee had a question concerning how to perform a task, would he or she be able to review the procedures manual and follow it to accomplish the task, generally without further questions?”

Credit procedures should be reviewed every 90 days to be certain they are adequate to the ever-changing methods used when tasks are performed. Unlike policies which should not change often, procedures may need “fine-tuning” on a regular basis to keep up with the ever-changing marketplace.

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Who should assist in updating credit procedures? First, the employees who perform the tasks are among the key people involved in updating procedures. They should be encouraged to provide feedback concerning improvements. Ask the “front line” employees what “corners” they have learned to cut in order to accomplish tasks more quickly, more completely, or with greater ease. Second, involve managers in the updating of procedures. Be certain that both employees and managers sign-off on changed procedures to indicate that they both actually comprehend the change and will support the implementation of changed credit procedures.

I suggest that you think about and list examples of credit procedures which you use daily. After preparing such a list, contrast these procedures with some of your credit policies. See the difference?

When was the last time your company updated its credit procedures? Please let me know if we can be of any assistance in updating the legal aspects of your credit procedures. I would welcome any thoughts or comments anyone might have on this topic.