



TERM / TECHNIQUE	DEFINITION	APPLICATIONS	ADVANTAGES	DISADVANTAGES
Open Account Terms	Seller makes shipment and awaits payment direct from buyer based on prescribed repayment terms established by seller.	<ol style="list-style-type: none"> 1. Buyer has acceptable credit rating. 2. Buyer is established customer who is well known to seller. 3. Orders are relatively small and profit margin is sufficient to support the risk of increased losses. 	<ol style="list-style-type: none"> 1. Provides seller a competitive position. 2. Limits documentation necessary to make the sale. 3. Bookkeeping is relatively simple. 4. With prior approval receivable may be insured or factored, however, risk still exists with regard to disputes and deductions 	<ol style="list-style-type: none"> 1. Risk that buyer may not be willing or have the means to make payment. 2. In the event the buyer files bankruptcy, seller takes a low priority in recovery as claim is regarded as unsecured. 3. No guarantee that buyer will make payments timely thus jeopardizing seller's liquidity.
Cash in Advance / Cash with Order / Cash before Delivery / Cash on Delivery	Cash terms call for payment before the transaction or at the time of the transaction and do not ordinarily offer any discount or anticipation rights.	<ol style="list-style-type: none"> 1. Buyer has unacceptable credit rating. 	<ol style="list-style-type: none"> 1. Seller assumes little or no risk. 2. Has a positive impact on seller's liquidity. 3. Hedges against drain on profitability due to thin margins. 	<ol style="list-style-type: none"> 1. Most severe terms from the buyer's standpoint. 2. Seller may be jeopardizing competitive advantage.
Irrevocable Standby Letter of Credit	Promise by a financial institution to pay the buyer obligation in the event of customer default.	<ol style="list-style-type: none"> 1. Buyer has unacceptable credit rating. 2. Substitution of bank credit for that of the customers. 3. Seller invoices normally and does not draw on the L/C unless the buyer fails to pay timely. 	<ol style="list-style-type: none"> 1. Can be modified only with the consent of the seller. 2. Assures payment in the event of a customer default regardless of whether the goods conform to the underlying sale contract. 3. A creditor does not have to obtain relief from the automatic stay in the event of bankruptcy. 4. In the event of a preference action, courts generally do not view the draw down as a preference. 	<ol style="list-style-type: none"> 1. Seller may be jeopardizing competitive advantage. 2. In some cases costs associated with L/C may have to be borne by seller. 3. Documents must be carefully prepared to conform with bank requirements to tender the L/C.

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Letter of Credit (also known as Documentary Letter of Credit)	Promise by a financial institution to pay the customer obligation upon satisfaction of selling and delivery terms after the submission of conforming documents and sellers demand for payment or presentation of a draft.	<ol style="list-style-type: none"> 1. Buyer has unacceptable credit rating. 2. Substitution of bank credit for that of the customers. 3. Some L/C's may be worded so that drafts may be drawn if certain contractual arrangements are not satisfied. 	<ol style="list-style-type: none"> 1. Assures payment to seller provided seller complies with the terms of the L/C. 2. A creditor does not have to obtain relief from the automatic stay in the event of bankruptcy. 3. In the event of a preference action, courts generally do not view the draw down as a preference. 	<ol style="list-style-type: none"> 1. Seller may be jeopardizing competitive advantage. 2. Documents must be carefully prepared to conform to bank requirements in order to tender the L/C. 3. If L/C is revocable it is subject to modification without the consent of the creditor.
Credit Insurance	Trade credit insurance protects the policyholder from commercial accounts receivable losses following a customer's bankruptcy or payment default, or events in overseas markets such as political turmoil or import and trade restrictions.	<ol style="list-style-type: none"> 1. To insure one of your firm's most valuable assets. 2. Up to 80% of a company's business comes from 20% of its customers. The impact of even one of a company's best customers going into financial turmoil can present major financial problems for a firm. 	<ol style="list-style-type: none"> 1. Protects you against financial business risks. 2. Policies can be designed to cover domestic receivables, export receivables, or both. 3. Helps to improve your financing, as bank feels more comfortable with current / future buyers being carefully looked at by a third party's unbiased credit opinion. Banks can be named as a loss payee or joint insured, providing the bank with security for lending. 4. Credit insurance enhances your credit management, as again, a third party's unbiased second opinion is reviewing your customer. 5. More economical than L/C's 6. Helps to increase your sales. Can assist a company with entry into new markets with unknown buyers, as credit insurers have access to information on millions of companies globally. <p>Credit insurance premiums are tax deductible.</p>	<ol style="list-style-type: none"> 1. Sometimes perceived by a company's credit department as the credit insurer is trying to replace their credit department - and to the contrary, the credit insurer is there to enhance their credit department. 2. The insured's buyer is often offended or put off if they know that their supplier has credit insurance - it sometimes becomes a trust issue. Many times when underwriters are reviewing a buyer and need to obtain financials, the insured's often do not want their name used when U/W's are trying to obtain financials - and thus, if not enough information is obtained by the U/W, the buyer is often not approved. 3. Business Credit insurance or Trade Credit insurance is often confused with Consumer Credit insurance or Credit Life insurance, which is usually, just a matter of not knowing the difference.



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Certificate of Deposit (at transaction outset)	A CD is issued by the customer's bank in the name of the creditor, or the creditor may hold a customer's deposit to reduce the risk of nonpayment of the credit sale.	<ol style="list-style-type: none"> 1. Buyer has unacceptable credit rating. 2. Customer orders exceed prescribed credit limit. 	<ol style="list-style-type: none"> 1. Cash is in place for the seller to draw down on to remedy buyer's outstanding obligation in the event of a default. 	<ol style="list-style-type: none"> 1. Seller may be jeopardizing competitive advantage due to ill will created by tying up customer funds. 2. In the event of a bankruptcy the creditor would likely need to obtain relief from the automatic stay to draw down funds.
Factoring	In factoring, the accounts receivable are purchased by the factor that assumes the credit risk normally without recourse to the seller. The seller's customers are notified to make payment directly to the factor or, are not told about the arrangement, and continue to pay to the seller.	<ol style="list-style-type: none"> 1. Seller lacks sufficient capital or bank lines to carry open lines of credit. 2. Seller does not have the infrastructure in place to manage credit and receivable in-house. 3. Allows the seller to concentrate financial resources to product development, production and sales rather than customer financing. 	<ol style="list-style-type: none"> 1. Limits credit and collection expense (including credit losses) to a definite percentage of credit sales 2. Assures a steady stream of cash enhancing the organizations liquidity 3. Smooths the business cycle of highly seasonal businesses 4. Facilitates sales to international customers due to the lack of expertise in house 	<ol style="list-style-type: none"> 1. Cost associated with fees to the factor.
Guarantee of Payment	The obligation is guaranteed by a third party (individual or other business entity)	<ol style="list-style-type: none"> 1. When the financial position of the debtor is not strong enough to warrant open account credit terms. 2. Customer orders exceed prescribed credit limit. 	<ol style="list-style-type: none"> 1. Facilitates the shipment of goods based on the credit standing of a third party. 2. Guarantee may be used by seller to force the customer to pay by threatening to pursue guarantor. 	<ol style="list-style-type: none"> 1. Guarantor may not have sufficient assets to back all guaranteed claims. 2. Seller may be forced to initiate legal action to enforce payment guarantee.





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Securitization	Accounts receivable are sold on a recurring basis into an SPE without recourse for the term of the transaction (1-5 years or more). Transparent to debtors.	<ol style="list-style-type: none"> Typically used to improve working capital by monetizing a large asset class. Generally a lower cost of funding compared to other ABL's. 	<ol style="list-style-type: none"> Provides cover to all debtors included in the program. Can be credit enhanced with credit insurance or monoline wraps to provide up to 100% cover. Non-recourse for dilutive items as well. 	<ol style="list-style-type: none"> Set up time can take weeks. Portfolio reporting for the investor is required.
Purchase Money Security Interest	Goods are shipped to the buyer and title passes, however the seller perfects a lien against the goods and frequently the proceeds of the sale thereof. The creditor must execute a security agreement describing the goods to be encumbered, and the lien must be perfected via a timely filing of the UCC documentation and notification of the PMSI to preexisting lien holders of inventory.	<ol style="list-style-type: none"> When the financial position of the debtor is not strong enough to warrant open account credit terms. Customer orders exceed prescribed credit limit. 	<ol style="list-style-type: none"> The supplier receives a first priority security interest and lien in and to the goods financed by the credit regardless of whether other creditors have filed financing statements prior to the purchase money creditor. In the event of a bankruptcy the creditor is given a priority in the inventory over unsecured creditors. 	<ol style="list-style-type: none"> Documents must be carefully prepared and care must be exercised in filing UCC financing statements and advising other creditors in order to assure a perfected security interest. To foreclose on collateral in the event of a bankruptcy the creditor has to seek Relief from an automatic stay. Record keeping and the tracking of inventory is extremely cumbersome.
Consignment	Goods are shipped to the buyer, but the seller retains title to the goods until the buyer sells goods to end-user. Usually seller retains title to proceeds from sale of goods until buyer makes payment. To protect its interest the seller generally files a security interest making the consignment arrangement a matter of public record.	<ol style="list-style-type: none"> When the financial position of the debtor is not strong enough to warrant open account credit terms. Customer orders exceed prescribed credit limit. When there is a potential that the debtor may become insolvent or file bankruptcy. Popular where merchandise is very highly priced (i.e. jewelry) 	<ol style="list-style-type: none"> Consignment sales may stimulate volume since they enable a customer to place goods on their premises when the customer may not have sufficient cash flow to pay on open account terms. Shipper does not have to comply with the provisions of the Uniform Commercial Code. In a bankruptcy situation the supplier is generally able to obtain relief from an automatic stay allowing it to recover its product. 	<ol style="list-style-type: none"> Increases the financing burden of the supplier, potentially impacting cash flows and liquidity, since payment can not be expected until goods are sold. Record keeping and the tracking of inventory is extremely cumbersome.

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Puts	A non-cancelable contract that protects vendors from the consequences of a defined credit event (usually a Chapter 11 or Chapter 7). A Put is an agreement between two parties whereby the credit risk of a particular debtor is shifted from the vendor to a secondary party, typically a financial institution. Put Contracts are essentially "invoice guarantee programs" which are based on an expiration date set forth in the contract and not tied to a specific invoice.	<ol style="list-style-type: none"> 1. Debtor (i.e. Customer) is a high-risk account. 2. Customer faces risk of filing for bankruptcy. 3. Customer is operating in Chapter 11 but vendors are concerned about outcome of the case. 4. Traditional insurance / factoring is not available. 5. Looking for credit risk protection on only one customer rather than an entire portfolio. 	<ol style="list-style-type: none"> 1. Contract is Non-Cancelable 2. Buyer can cover exposure for just one or two names rather than an entire portfolio 3. Allows for increased sales to high-risk accounts. 4. Protects high concentration accounts. 5. Allows for sales to continue to a bankrupt customer. 	<ol style="list-style-type: none"> 1. More expensive than traditional insurance and factoring. 2. Premiums are paid up-front. 3. Does not protect against late payments.



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