

2. Comparison Between A Good An A Bad Credit Policy

We will now look at examples of a good and a bad credit policy. This will help you to analyse the effectiveness of a credit policy.

<i>Good</i>	<i>Bad</i>
1. A detailed credit application.	1. No credit application or badly drafted credit application.
2. Detailed trading terms and conditions	2. No terms and conditions or badly drafted terms and conditions.
3. Insistence on securing Original properly signed credit application, terms and conditions and securities.	3. Acceptance of copies of credit application, terms and conditions and securities.
4. Thorough analysis of Information reflected in credit application	4. Credit application not analysed in detail, but merely filed
5. A system to store original documentation for easy location at a later stage	5. Original documentation stored at various areas in the office.
6. Well defined levels of authority	6. No clearly defined levels of authority
7. Firm guidelines when credit limit is to be increased or decreased	7. No or little guidelines regarding increase or decrease of credit
8. Firm guidelines when supply should be suspended or stopped	8. No or few guidelines to determine when supply should be suspended or stopped
9. Maximum credit period of 30 days from date of invoice allowed	9. Credit period in excess of 30 days from date of statement allowed
10. Maximum period of 24 hours allowed for approving or declining credit	10. Period in excess of 24 hours allowed for approving or declining credit.
11. Firm guidelines on when exactly securities should be obtained	11. No or vague guidelines as to when securities should be obtained
12. Book debts are insured by a credit insurer	12. Book debts are not insured
13. Well trained and motivated staff	13. Badly trained and motivated staff
14. System to ensure communication between administrative, marketing and credit departments	14. Little or no communication between administrative, marketing and credit departments
15. Firm guidelines when not to grant credit under the following circumstances <ul style="list-style-type: none"> ◆ Dishonoured cheques ◆ Negative trade references ◆ bad credit profile ◆ in terms of information obtained from credit bureau's and banks 	15. No or vague guidelines regarding the approval of credit