
Business Credit News

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“Principles For The Exchange Of Credit Information”

By: David Balovich

Many years ago the Robert Morris Associates (RMA) and the National Association of Credit Management (NACM) agreed to a set of Principles for the exchange of information between member banks and commercial credit grantors. Those Principles, established so that commercial credit grantors could easily obtain information from their banking counterparts, is no longer relevant due to the many laws, both state and federal, that have been subsequently passed regulating what information the banking community can exchange with non-banking institutions and how the information is to be processed. Furthermore, even at the time the Principles were practiced, the RMA encouraged its' members to consult with their law departments for specific advice about how to exchange the credit information. In turn, commercial credit grantors relied on their respective company policies as to what information, if any, they would release and how.

While both organizations encouraged the exchange of credit information and ways to improve the exchange process, neither organization monitored these exchanges, nor did they enforce the Principles in any way. Although these Principles are no longer practiced among the members of both organizations, they still have merit and should be considered as the foundation for any policy dealing with the exchange of credit information outside the organization.

The purpose of exchanging credit information is to promote sound decision making while reducing the risk of loss due to insolvency and fraud. Commercial credit information is distinct from consumer credit information, whose exchange is expressly regulated. However, both types of information exchange are subject to various laws that may differ by jurisdiction. In particular circumstances, these laws can relate to defamation; antitrust; credit reporting regulations; and limitations on the use of confidential records as well as customer related information and computerized data.

The two critical elements in the exchange of credit information are confidentiality and accuracy of inquiries and replies. Confidential information includes the identity of inquirers and sources that may not be disclosed, without their permission, beyond credit department personnel and those company officials who have the need to know. Confidentiality is based on the reliance placed upon the trust of another with whom information is being exchanged. A trust is placed in all parties involved that the information is being requested for a legitimate purpose and will not be used indiscriminately. An example of indiscriminate use of information obtained from a confidential source would be; to inform the firm inquired upon the nature of the information obtained and its' source without first being requested for this information by the firm in the manner prescribed by law.

Because the credit reference is one of the most pertinent sources of credit information, the facts presented should be accurate. When discussing information, favorable or unfavorable, the responding creditor should give a reply that is restricted to or based on fact. If a discrepancy is discovered within a reasonable time after an inquiry has been answered and is considered material in relation to the purpose of the inquiry, it is not only prudent but also ethical that the discrepancy be disclosed to the inquirer.

One important element of the inquiry is its purpose. The creditor firm receiving the inquiry has a right to know why the information is being requested. Knowing and understanding the purpose of an inquiry places the recipient in a better position to respond with the type and amount of information necessary to satisfy the inquiring firm. No creditor should feel they have an obligation to respond to a credit inquiry if no purpose is given for the inquiry by the inquiring party. The legitimate use of credit information is to assist the inquiring firm that is expected to extend credit. An inquiry should not be answered without first determining its legitimacy and establishing the identity of the inquirer. For example, information should not be disclosed on the initial telephone inquiry unless the inquirer is known and identified.

Creditors responding to a request for information should be wary if the information being requested is for either solicitation or existing and/or intended legal action. If the information requested is for exiting or intended legal action it would be prudent to check with legal counsel before providing any information.

A proper inquiry should contain the following:

- Subject: The subject of the inquiry should be identified as completely as possible; This would include correct legal name, address, names of principals, tax and/or corporate ID number.
- Purpose: The reason for the inquiry should be given in sufficient detail to allow the recipient to make the appropriate response.
- Experience: If the inquirer has had experience with the applicant, a summary of that experience should be provided. Doing so creates a true exchange of information and helps eliminate duplication of any information.
- Other: Any other factual factors, relevant to the inquiry, should be disclosed.

A proper response to an inquiry for information would include the following:

- The opening date of the relationship;
- Average credit balances, including past dues (1-30, 31-60 , etc);
- Number & frequency of returns and deductions;
- Average number of days to pay;
- Guarantees, letters of credit or security.

Responses should avoid terms or any other reference to pricing. An applicant who pays 30 days slow is 30 days past due regardless of terms. Exchanging information about terms may not, in itself, constitute an antitrust violation. However, if after such an exchange, anything approximating parallel action is discernible by similarity of terms, it could be claimed that the information exchanged was used illegally. Questions about the propriety of an inquiry or a response dealing with terms should always be reviewed with legal counsel when determining policy.

Rating an account as “satisfactory” or by some other term should also be avoided. What is satisfactory to one may be unsatisfactory to another. The proper response is to provide the facts and let the inquirer determine whether the factual information is satisfactory or not.

These practices neither create or define legal duties or form a basis for civil liability. However, irresponsible or incorrect information exchange practices can damage the reputation of both the company and its employees; may affect the willingness of other firms to participate in credit information exchanges with those firms and employees; and may have an adverse effect on their existing and future customers. Additionally, there are credit organizations such as Reimer’s and BCPA who censure or resign member companies whose employees falsely report or reveal confidential information.

I wish you well.

***** **MARCH 2019*******

Day	Date	Group	Location	Time
Tues	5	Austin Construction	Las Palapa Restaurant, 6640 E Hwy 290 Austin TX	11:30
Tues	12	Corpus Christi Credit	Johnny’s Italian American, Corpus Christi TX/Telconference	11:30
Tues	12	Rio Grande Valley	Teleconference Meeting	12:00
Tues	12	Victoria Credit	Teleconference Meeting	12:00
Tues	12	Laredo Credit	Teleconference Meeting	12:00
Thurs	14	SW Food Credit Group	Las Palapas, 4802 Walzem Rd, San Antonio TX	11:00
Tues	19	Austin Construction	Las Palapas Restaurant, 6640 E Hwy 290 Austin TX	11:30
Thurs	21	HVAC Credit Group	Texas Air Products, San Antonio TX	11:30
Thurs	21	Fuel & Lube/Heavy Eq.	Phone Conference Meeting 1-800-791-2345	2:30
Fri	22	SW Electrical Group	The Onion Creek Country Club, Austin TX	11:30
Tues	26	SA Construction	Las Palapa, 4802 Walzem Rd, San Antonio TX	11:30
