With today's difficult economy and tight credit it is becoming more and more difficult and expensive to obtain financing for the sale of your products. At the same time, your customers could benefit from being able to make time payments now more than ever. This is leading more and more businesses to consider in-house financing for some or all of their credit sales. With the right software and a disciplined approach to extending and managing credit, this can be very helpful for your customers and very profitable for your business, and can be done with relatively little risk

Many businesses new to the finance business wonder about buying contracts. At first take it slow. You don't have to put all of your sales into your finance company to start. You can buy a portion of them and work your way up. So how do you decide what applications to accept? What do you do if you want to extend credit to someone with so-so credit? Down payments and limited credit amounts are a good start. Use all the tools available to you such as credit applications, credit bureau reports, credit scores, and a cash flow debt analysis.

The three main parts of credit granting are; Stability, Ability to Pay, and Willingness to pay.

Stability: If your prospect is bouncing around from address to address, or job to job, it becomes very difficult to keep up with them. You should set your own policy for this section

Ability to Pay: A cash flow analysis tells you if they have enough money to take on another account. You simply add all the income and all the known obligations, and look at the percentage of "extra money" they have available. Add your payment obligation to that and you will know if there is enough money to take on your payment.

Willingness to Pay: If the person pays their existing obligations the credit bureau report will tell you. If there are delinquent accounts, you must find out why those accounts are not current.

When you analyze these three factors on the credit application you can determine the grade of contract that you have. A quality is very easy to purchase. That's usually the top 20% of the contracts that you look at. The bottom 20% or D quality is also easy to see, and usually rejected. The middle 60% or B and C quality are the contracts where the most money is made but need the best monitoring and better communications.

Using these tools gives you the ability to make good credit decisions. Last but not least is the phrase that "You collect your account when you make it". You must have a Credit Policy in place. If you don't have one, you should design one and use it every time credit is issued. Part of the credit policy is to ask the borrower if they can make the payment each month. Don't forget to inform them of the importance of making their payments on time each consecutive month. Instruct them that if they cannot make their payment to call you to explain why. Remember that if you don't set the payment policy, the customer will and you won't like their policy.

You will be happy with the performance of your contracts if you follow these few guidelines.

Doing your own financing is very profitable. Don't lose up to 50% of your profit by not financing your own customers.

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