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July 2002

“Improving cash flow and earnings through strategic credit management.”

Three Good Tips for Managing Credit Risk in a Year of Increasing Bankruptcies

by David C. Paulson, Sr. Credit Manager

Bankruptcy filings have increased 20% in 2002. Seventy-one public companies filed for protection from their debtors and creditors in the first quarter. And the list of debtors filing bankruptcy includes more familiar names than ever before; Florsheim, Kaiser, K-Mart, and Polaroid.

Should these bankruptcies surprise us? These brand names have been around for ages. During the late nineties, many of these companies adopted high-risk financial structures to compete with the allure of the high tech industry. Leverage was used to grow through acquisitions and expansion. Revolving credit facilities replaced working capital as a safety net. Goodwill and intangible assets accounted for a majority of the company's net worth. **During the four-year period beginning in 1998, non-financial corporate debt increased \$1.6 trillion; a 47% increase.**

Most of that debt was structured to mature in five to seven years, with only limited debt repayment the first three to four years. According to Moody's, the amount of corporate bonds expected to mature in 2002 is about \$123 billion, nearly a 34 percent increase from last year's \$92 billion. In 2003, the amount is expected to rise by about 24% to \$152 billion. **For a growing pool of marginal companies with above average debt burden, the payment options are shrinking, their cost of borrowing will increase, and the probability of default is increasing.**

The Credit Department, Inc. can help you manage your credit needs through professional credit management outsourcing and consulting. For more information, contact us at 800.451.0164, email info@TCD.com or visit our web site at www.TCD.com.

Based upon the premise that **risk should be managed rather than eliminated**, here are three steps you can initiate today to ensure bankruptcies do not adversely affect your business goals:

- **Identify "High" risk accounts.** A risk rating system is typically used to quantify and stratify this information to ensure resources are focused on the accounts with the highest relative risk
- **Establish controls to manage "high" risk accounts.** Have a written policy (developed cooperatively by all areas directly affected) that: identifies measurable factors related to specific risk control points, establishes relative tolerance levels, and specific servicing guidelines based upon the relative risk.
- **Establish an acceptable risk tolerance** for new customers of which you are not financially informed.

For more information on how you can identify and reduce your risk e-mail us at info@tcd.com or phone us at 800-451-0164.

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