**LETTERS OF CREDIT, REPLIES TO REQUESTS FOR CREDIT**

**Forms of credit:**

- **Bills of exchange, or bank drafts***,* by which the supplier gives credit to the customer for the period specified, e.g. thirty, sixty, or ninety days.

- **Open account facilities**, by which the customer is allowed to pay for goods against monthly or quarterly statements.

**Requirements for granting credit**

**Credit facilities** will only be granted by a supplier if the customer can satisfy one or more of these three requirements:

**1. Reputation** - Credit may be given to firms which have an established reputation, i.e. are well known nationally or internationally.

**2. Long-term trading association** - If a customer has been trading with a supplier over a period of time and has built up a good relationship by, for example, settling accounts promptly, they may be able to persuade the supplier to grant credit facilities on this basis alone.

**3. References** - Normally, when asking for credit, a customer will supply references, i.e. the names of concerns or companies which will satisfy the supplier that the customer is reputable and creditworthy.

**LETTERS OF CREDIT**

**I. Introductory Phrases**

When asking for credit facilities, it is best to go straight to the point and specify what form of credit you are looking for.

 *- I am writing to ask if it would be possible for us to have credit facilities in the form of payment by 6o-day bill of exchange.*

 *- Thank you for your catalogue and letter. As there was no indication of your credit terms, could you let me know if you would allow us to settle on monthly statements?*

 *- We appreciate your prompt answer to our enquiry. As I pointed out in my letter, our suppliers usually allow us open account facilities with quarterly settlements, and I hope this method of payment will be acceptable to you.*

**II. Convincing the supplier**

As mentioned above, your supplier will only grant credit if they are convinced that you will not default, so mention your previous dealings with them.

*- As we have been dealing with you for more than a year, we feel that you know us well enough to grant our request.*

 *- We believe we have established our reliability with you over the past six months and would now like to settle accounts on a quarterly basis.*

 *- During the past few months we have always settled promptly, and therefore we feel we can ask for better credit facilities from you.*

Mention your reputation, and offer references.

 *- We are a well-established company and can offer references, if necessary.*

*- We can certainly pay on the due dates, but if you would like confirmation concerning our credit worthiness, please contact any of the following who will act as our referees… .*

 *- We deal with most of our suppliers on a quarterly settlement basis and you may contact any of those listed below for a reference.*

**III.** **Closing phrases**

*- We hope for a favorable decision and look forward to your reply.*

*- We hope you will follow up the references we have submitted. We look forward to your confirmation that payment by 3o-day bill of exchange is acceptable.*

*- As soon as we receive your confirmation that you will allow the open account facilities we have asked for, we will send our next order.*

**REPLIES TO REQUESTS FOR CREDIT**

**I. Agreeing to credit**

If the supplier does not think it necessary to take up references, they may grant credit immediately.

 *- As we have been trading for over a year, references will not be necessary. You may clear your accounts by 30-day bill of exchange.*

*- We are pleased to inform you that the credit facilities you asked for are acceptable, and as we know the reputation of your company there will be no need for us to contact any referees. We look forward to receiving your next order.*

If references are considered necessary however, the supplier will acknowledge the request and then reply in full when references have been received.

*- We have now received the necessary references and are pleased to inform you that your next order payment can be made on a quarterly basis against statements.*

*- The referees you gave us have replied and we are able to tell you that as from next month you may settle your account on a document*

*against acceptance basis by 60 D/S/B/E.*

**II. Refusing credit facilities**

When refusing credit facilities, the writer must explain why the request has been turned down. There may be various reasons for this. It might be uneconomical to offer credit facilities; you may not trust the customer, or it might simply be company policy not to give credit. Whatever the reason, the reply must be worded carefully so as not to offend the customer.

*- Thank you for your letter of 9 November in which you asked to be put on open account terms. Unfortunately, we never allow credit facilities to customers until they have traded with us for over a year. We are very sorry that we cannot be more helpful at present.*

*- We regret that we are unable to offer open account terms to customers as our products are competitively priced, and it is uneconomical to allow credit facilities.*

*- We are sorry that we cannot offer credit facilities of any kind at present owing to inflation. However, if the situation improves we may be able to reconsider your request.*

*- We have considered your request for quarterly settlements, but feel that with our competitive pricing policy, it would be uneconomical to allow credit on your present purchases.*

**III.** **Waiting for references**

In some cases companies will not be able to grant credit without making further investigations. In particular, you may want to take up the references your customer has offered. In these cases, your reply will be little more than an acknowledgement of the request.

*- Thank you for your letter in which you asked for credit facilities. At present we are writing to the referees you mentioned and will let you know as soon as we hear from them.*

*- In reply to your email of 8 June, we will consider your request to pay by 30-day bill of exchange and will contact you by letter as soon as we have reached a decision.*

*- With reference to your letter of 15 March, in which you asked for open account facilities, I will contact you as soon as the usual enquiries have been made.*

*- As we have only just received your letter asking for credit facilities, would you allow us a little time to consider the matter? I will be in touch with you again within the next couple of weeks.*

**Points to remember**

1. Credit is only given if the supplier knows that the customer has a sound reputation, knows the customer well, and / or has a reference from a bank or business associate of the customer.

2. When asking for credit, say why you want it and convince your supplier that you will pay on due dates. State how long you have been dealing with the company and offer supporting references.

3. When refusing credit, you should give reasons and convince your customer that the refusal does not discriminate against them in particular. Using generalizations can help, e.g. *We usually / as a rule / normally do not offer credit facilities.*

4. When taking up a reference, tell the company who you are and who you are enquiring about. Tell them the type of credit involved, e.g. bill of exchange, monthly settlements, and let them know how much the credit is for.

5. When writing an unfavourable reply, if you do not want to comment on a company's reputation, simply write that you do not give information about any of your customers. Alternatively, be brief, stating only the facts as they concern you. Do not give opinions or mention the name of the company.

6. When writing a favourable reference, state that you have allowed the company credit facilities but do not mention the customer’s name if possible. Tell the enquirer the information is given in confidence and without responsibility.