

How To Protect Your Company In These Severe Economic Times

Steel Founders' Society of America

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Credit Risk Management System Goals

- ◆ Protecting company assets
- ◆ Maximizing cash flow
- ◆ Maximizing sales
- ◆ Minimizing the risk of selling on credit

Credit Risk Manual

- ◆ In order to achieve the credit risk management goals, every company needs to have a Credit Risk Manual. This is the first step.

- ◆ A Credit Risk Manual contains the following basic parts:
 - Establishing Credit Risk Management Goals
 - Designating The Credit Risk Manager and Their Responsibilities
 - Evaluating Credit Limits for New and Present Customers
 - Creating Past Due and Delinquent Account Resolution Processes

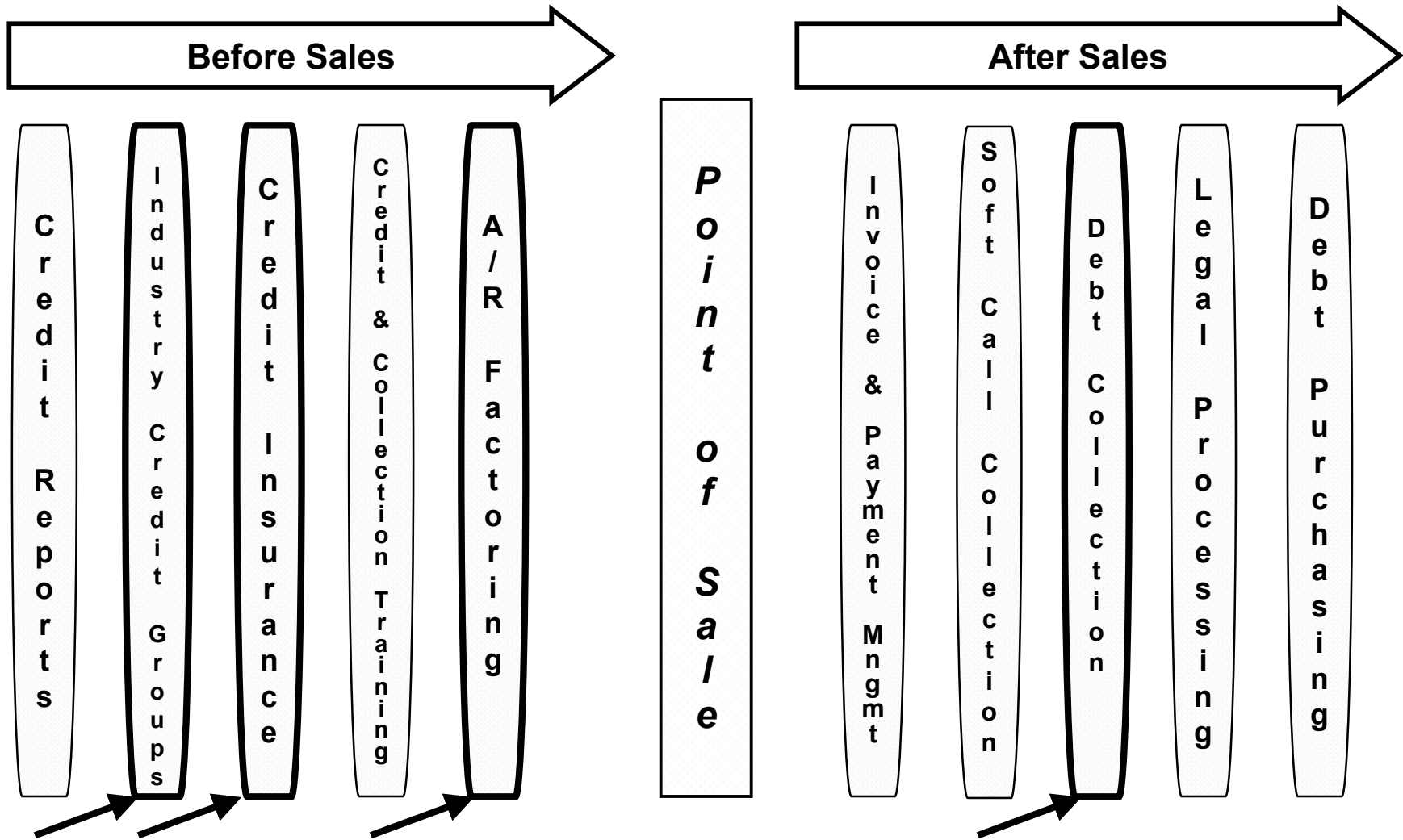
Why Do You Need A Credit Risk Manual?

- ◆ It's a road map to protecting your Accounts Receivables, the 2nd largest and even the largest asset you have.

What Is An Accounts Receivable?

- ◆ It's the representation of all of the resources that you have purchased and used to create, manufacture, ship, and sell your product -- all on a promise that you will be paid in the future!

Total Credit Risk Management System



Challenges to Credit Information

- ◆ How extensive should a credit investigation be?
- ◆ Can and will the customer pay - is the major question we want to know from the credit information.
- ◆ What are the principal sources of credit information that can help us understand the risk that a customer may not pay or go bankruptcy?

Principal Sources for Credit Information

- ◆ Credit Reports
- ◆ Information Supplied by Customer
- ◆ Bank References
- ◆ Trade References
- ◆ Industry Credit Groups

Industry Credit Group

An Industry Credit Group is a forum comprised of the credit management representatives of companies within the same industry for the purposes of:

- ◆ Managing risk by sharing credit and payment information about customers they have in common.
- ◆ Alerting the group members regarding significant changes in payment habits or customer status.
- ◆ Providing educational opportunities for members to strengthen their credit risk procedures.
- ◆ **There are 1,500 Industry Credit Groups in the US!**

Industry Credit Group Benefits

- ◆ **Transparency:** Industry Credit Group members openly share credit & payment information.
- ◆ **Accuracy:** Information is provided **by** members **for** members. Members can contact each other directly to confirm the verifiability of customer data.
- ◆ **Relevancy:** Payment data shows how customers pay other trade suppliers - not how non-trade creditors (such as landlords, utility companies) are paid.

Industry Credit Group Benefits

- ◆ **Up-to-Date:** Most Industry Credit Group members submit fresh data on a periodic basis. Flash Notices on payment defaults, bounced checks, collection updates etc. are made available to members on a real time basis.
- ◆ **Inexpensive:** Information received from the Industry Credit Group data base is very reasonable.

Interchange Database

- ◆ Depending upon the Group, Members can submit only past due data or entire accounts receivable aging data on a monthly or quarterly basis.
- ◆ Data from each member is combined and organized for easy access.
- ◆ Interchange Database provides all members real time access to payment data.

Features of Industry Group Information Report

- ◆ Current details of customer payment experience by each member.
- ◆ Summarized customer payment experience for all members.
- ◆ Details of all defaults, collections, suits and other credit information.

Role of the Credit Group Service Provider

- ◆ Monitors all group communications and data submissions for compliance with antitrust laws.
- ◆ Manages the Credit Interchange system development and enhancement.
- ◆ Plans and facilitates meetings and administration.
- ◆ Coordinates education events for members.

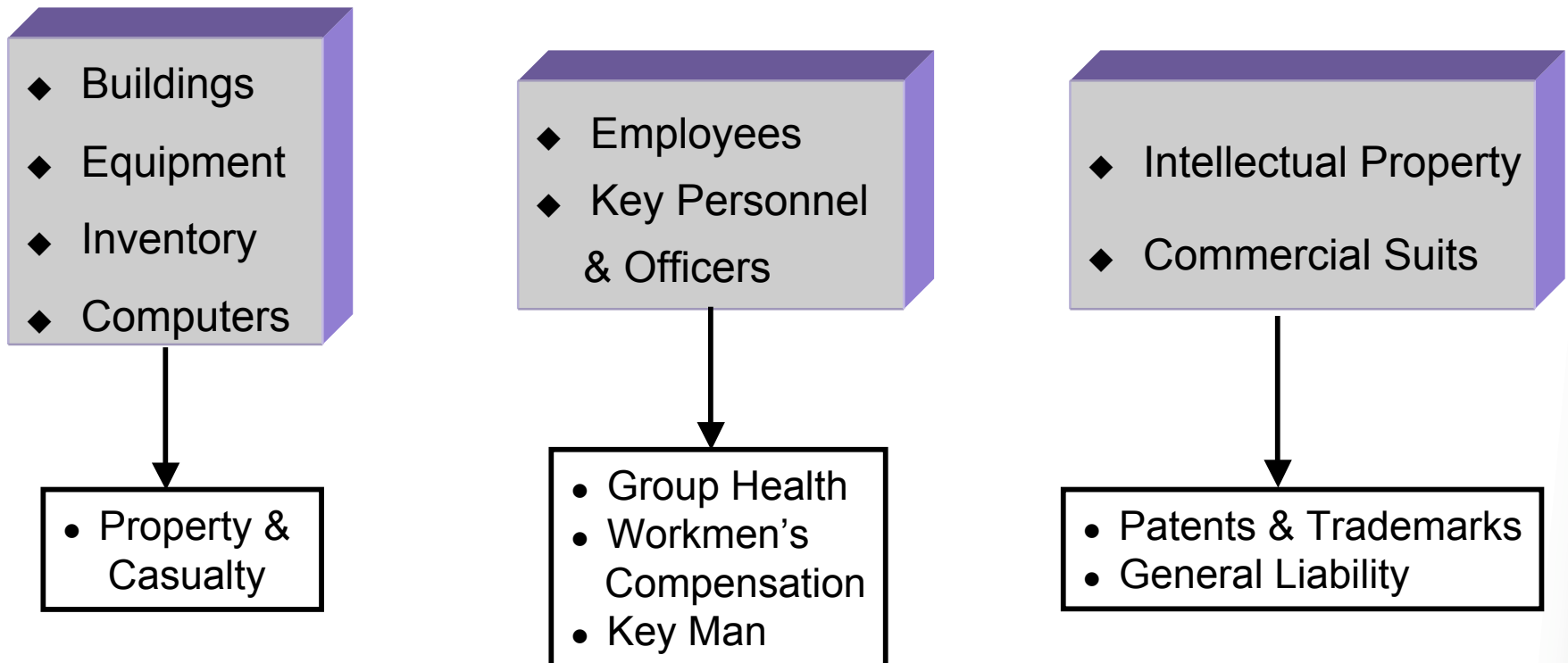
Industry Credit Groups (Egs.)

Managed by the National Association of Credit Management (Chicago Branch)

- National Agricultural Credit Group
- National Book Industry Credit Group
- National Manufacturers and Distributors
- National Flexible Packaging Credit Group
- National Metal Building & Components Credit Group
- National Metal Producers Credit Group
- National Paper Packaging Credit Group
- National Coated Paper & Film Manufacturing Credit Group
- National Professional Apparel Manufacturers Credit Group
- National Steel Mill Credit Group
- National Suppliers to Window Manufacturers Credit Group
- National Tool & Accessories Credit Group
- National Truck, Trailer & Waste Equipment Credit Group
- National Underground Utilities Supply Credit Group
- National Water Products Manufacturers Group
- National Abatement & Safety Products Group
- National Oil Field & Service Supply Group
- National Rail Transportation Group
- National Waterway Carriers / Suppliers Group

Credit Insurance

What Do Companies Always Insure?



What's Usually Not Insured?

- ◆ As I said earlier, Accounts Receivables are often the 2nd largest, if not the number one largest, asset of a company. However, they are often not insured.
- ◆ But like any important asset, Accounts Receivables can and should also be insured.

Nobody Thought They Would Go Bankrupt

Companies over \$100 million in sales that went bankrupt during the period 5.20.2009 - 6.20.2009

Advanced Nitriding Solutions LLC
AGN Group Inc.
Alu-Cut International LLC
Amalgamated Armadillo Holdings Inc.
Artemis Holding LLC
Autoserve LLC
BankUnited Financial Corp.
Best Building & Supply Lumber Corp.
Borrego Bros. Trucking Co. LLC
Capri Homes Corp.
Champion Manufacturing Industries Inc
Chardon Rubber Co.
Charro Energy Inc.
Charter Communications Inc.

Chrysler LLC

Circuit City

Constar International Inc.
CrewCreative Advertising LLC
Critical Access Health Services Corp.
DayJet Corp. Dayton Superior
DBSD North America Inc.

Delphi Corp.

Derry's Harvest Estates LLC
Easter Seals Tennessee Inc.

Eddie Bauer Holdings Inc.

Energy Partners
Engineered Framing Systems Inc.
Envirosmart Inc.

ESA Acquisition Properties LLC
Filene's Basement Inc.
Financial Services Acceptance Corp.
Fort Wayne Foundry Corp.

General Motors Corp.

Hartmarx Corp.,
Hendricks Cos. Inc.
High Country Archery Inc.
High Falls Grading Inc.

Illinois Framing Inc

Imperial Capital Resource Group Inc.
International Communications Materials Inc.
ION Media Networks/ Solagen Technologies Inc.
Jefferson Trucking Co
Journal Register Co.
Kabuto Arizona Properties LLC
Kay Furniture Co. Inc.
KM Construction Inc
Localbizusa Inc.
Lyons Equipment Co. Inc.
Mahalo Energy (USA) Inc.
Maverick Gas Marketing Ltd.
Med-Trans of Tennessee Inc.
Megacolor Corp.
Mid River Minerals Inc
Midway Games Inc.
MPG Ocoee Ltd.
MSB Energy Inc.

Noble International Ltd.
Opex Energy LLC
Outdoor RV and Marine LLC
Pacific Ethanol Inc.
Pilgrim's Pride Corp
Private Label Foods of Rochester Inc.

Quebecor World

R&L Nevada Holdings
Randa Luggage Inc.
Round-Em Up LLC
S & K Famous Brands Inc.

Saab Automobile AB

SelectBuild Construction Inc.
SendTec Inc.
Sharp Plumbing Inc.
Silveroak Holdings Ltd.
Smitty's Building Supply Inc.
Spiegel Acceptance Corp.
St. Anthony Fish Farm Inc.
Stanley Meadows Inc.
Stock Building Supply Inc.
Stomp Pork Farm (USA) Inc.
Trans Read Warehouse Inc.
Trilogy Development Co. LLC
TV Dairy LLC
TXCO Resources Inc.

Visteon

VoIP Inc.

What is Credit Insurance?

- ◆ Accounts Receivable Security - protects you're A/R against the impact of a devastating loss.
- ◆ Cash Flow Protection - protects against unforeseen non-payments which could bring a company's operation to a complete stop.
- ◆ Risk Management - Limits your exposure to bad-debt losses that even the best credit management practices cannot foresee.

Insurable Events

- ◆ Payment Default of the Customer
- ◆ Bankruptcy of the Customer

Who is the Insured's Customer

- ◆ Any customer that is a commercial entity of the insured and who purchases goods or services through a sales contract, standing purchase agreement, or invoice can be covered.
- ◆ In general, customers that are required to pay the insured's invoices within 180 days can be included in the contract.

Premium Calculation

Estimated Annual Sales

Customer 1	\$200,000
Customer 2	\$100,000
Customer 3	\$150,000
↓	
Customer 25	\$250,000
<hr/>	
Total Est. Sales	\$10,000,000



Eg. Premium rate of 0.15% (.0015)

$$\begin{array}{l} \text{Estimated Premium} \\ \$10,000,000 \times 0.15\% \end{array} = \$15,000$$

The premium rate is generally between 0.15 - 0.2% of the estimated annual sales.

Factors Influencing Premium Rates

- ◆ Industry
- ◆ Pool of Customers
- ◆ Customer Creditworthiness
- ◆ Customer Location
- ◆ Deductible
- ◆ Previous Loss History

How Much Is Paid On Claims?

- ◆ Generally speaking, about 80 - 85% is paid out on a claim.
- ◆ It all depends upon the amount of the deductible and co-insurance.

Benefits of Credit Insurance

- ◆ Protects against excessive or catastrophic losses.
- ◆ Provides a safety net to new markets.
- ◆ Allows the pursuit of new customers more freely.
- ◆ Provides higher lines of credit to existing customers.
- ◆ Covers against losses from time of order until time of shipment.
- ◆ Greatly enhances your borrowing power from financial institutions.

Factoring

What Is Factoring?

- ◆ Factoring is the process of having your Accounts Receivables purchased at or near the invoice date.
- ◆ Factoring is also a cash-advance against open receivables prior to the due date - providing your company with greatly improved cash flow.

Two Types of Factoring

- ◆ **Recourse Factoring** - Should your customer fail to pay or go bankrupt prior to paying the factoring company, you'll have to return the cash advance.
- ◆ **Non-Recourse Factoring** - Should your customer fail to pay or go bankrupt prior to paying the factoring company, you are not responsible to return the cash advance.

Benefits Of Non-Recourse Factoring

- ◆ **Protection from Payment Defaults or Bankruptcies**

The factoring company (the factor) in cooperation with the credit insurance company largely eliminates the impact of bad debts for your company.

- ◆ **Increased Cash Flow**

The factoring company advances cash to your company within 1-2 days after the billing date so you have a tremendously increased level of operating capital.

- ◆ **Reduced Operating Expenses**

Factoring reduces the need for your own credit or collection costs since they take over these functions for your company.

What Does Factoring Cost?

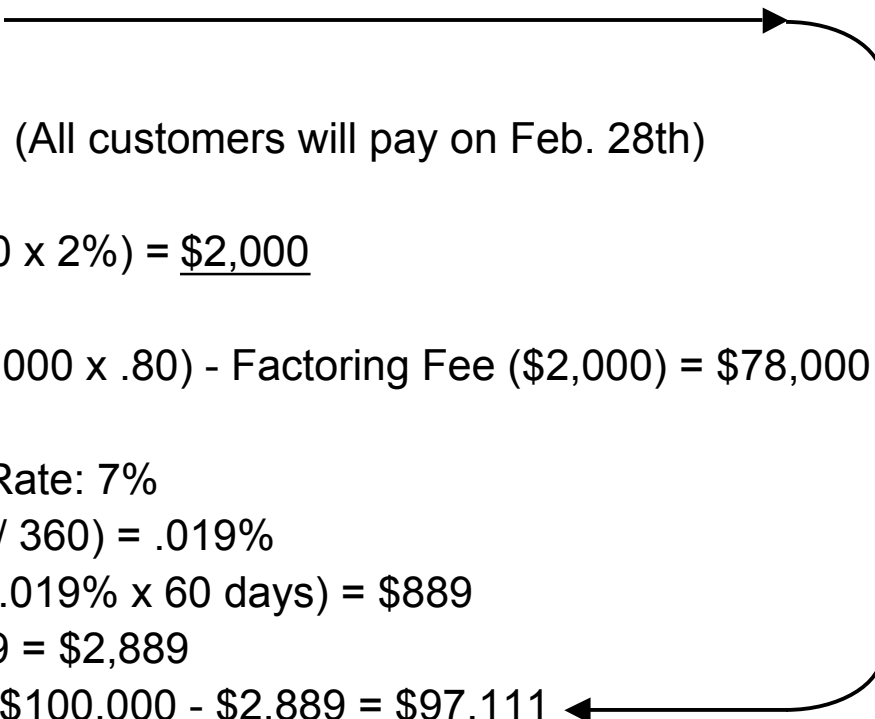
There are Basically Two Costs to Factoring:

- ◆ **The Factoring Fee** is a percentage (rate) of the receivables that are being factored. Usually the factoring fee rate is between 1.5% - 2.0% of the amount being factored. The rate is based on the:
 - amount being factored
 - average size of the invoice
 - terms of sale
 - number and types of customers

- ◆ **The Annual Interest Fee** is calculated on the amount advanced times the average daily interest rate until repaid. It is usually tied to the prime rate and in this market it averages between an annual rate of 6% - 8%.

Factoring Costs

Example

1. Number of customers: 25
 2. All customers were billed on January 1st
 3. Total Billings: \$100,000
 4. Net Terms: 60 days
 5. Due Date: February 28th (All customers will pay on Feb. 28th)
 6. Factoring Fee Rate: 2%
 7. Factoring Fee: $(\$100,000 \times 2\%) = \underline{\$2,000}$
 8. Advance Rate: 80%
 9. Advance Amount: $(\$100,000 \times .80) - \text{Factoring Fee } (\$2,000) = \$78,000$
 10. Prime Rate: 5%
 11. Annual Interest Charge Rate: 7%
 12. Daily Interest Rate: $(7\% / 360) = .019\%$
 13. Interest Fee: $(\$78,000 \times .019\% \times 60 \text{ days}) = \889
 14. Total Fee: $\$2,000 + \$889 = \$2,889$
 15. Total Amount Received: $\$100,000 - \$2,889 = \$97,111$
- 
- A curved arrow originates from the right side of item 3 and points to the right side of item 15, indicating a flow or relationship between the total billings and the total amount received.

Industries Using Factoring Services

- ◆ Business Services
- ◆ Consulting Services
- ◆ Crane Operators
- ◆ Distributors
- ◆ Electronics
- ◆ Energy Development
- ◆ Engineering
- ◆ Fabricated Metals
- ◆ Furniture
- ◆ Janitorial Services
- ◆ Manufacturing
- ◆ Plastic Products
- ◆ Printing
- ◆ Recruiting & Staffing
- ◆ Telecommunications
- ◆ Transportation

Many Blue-Chip Companies Use Factoring!

Debt Collection

A Couple of Debt Collection Scenarios

- ◆ When your customer has become two weeks past due, do you think it's a good idea in the beginning of the conversation to confirm if the invoice has been received?
- ◆ You are calling your customer for the first time about an outstanding invoice which is 30 days past due and for the first time you hear about a quality problem. How would you respond to this?

Five Points To Confirm In The Collection Call

- ◆ Confirm that your invoice has been received (case by case)
- ◆ Confirm who is in charge of accepting your invoice
- ◆ Confirm who is in charge of paying your invoice
- ◆ Confirm when the invoice is going to be paid
- ◆ Confirm that the invoice is going to be paid in full

Do Not Do The Following

- 1) Don't ever become violent or use foul or vulgar language.
- 2) If you go for a meeting to the customers location, never go with more than two individuals from the company.
- 3) Do not continue to call the same location several times in a short period, continuously send telegrams, or make onsite visits.
- 4) Do not leak any personal data of the debtor to unauthorized parties.
- 5) Avoid any kind of activity that can be deemed as harassment.
- 6) Do not send letters with very large fonts or say anything threatening.
- 7) Do not force the debtor to borrow from any other party.
- 8) Do not call a debtor already in bankruptcy.
- 9) Do not request any other party who does not have responsibility for the debt to pay.

When Should You Outsource An Account?

- ◆ When the customer continues with a rude or aggressive attitude.
- ◆ When the customer shows a disengenuous attitude and appears to be trying to maneuver out of the obligation.
- ◆ When promises continue to be broken and no payments have been made.
- ◆ When communication has broken down and you continue to be ignored.
- ◆ When all reasonable efforts to collect have been made through customer calls, statements, and visits.
- ◆ When your time and costs need to be focused on other accounts.

You have nothing to lose...

***and everything to gain by calling me to discuss
your credit risk management needs.***

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Thank you.