



COMMERCIAL LAW

Clients' line of credit – basic rules and principles

Clients' line of credit unquestionably takes on a major importance in the marketing of the corporation's products and services. In fact, a corporation that grants line of credit to its clients noticeably increases the accessibility to its products and services and thus its sales.

However, granting line of credit to clients serves no useful purpose if the corporation is unable to collect its due.

Considering the seriousness of such transactions, the corporation must efficiently manage that process. There lies the importance for business managers to master all different commercial, economical and legal aspects of a line of credit transaction. The following comments should allow the reader to review the preliminary, basic principles which must govern the opening of clients' line of credit.

Before entering into the process of opening clients' line of credit, a corporation should elaborate a clear **line of credit policy**. It could also be in the best interest of a corporation to regularly analyse and review its risk with regard to the different categories of clients.

Whether it is of small-, medium-, or large-scale, a corporation must embrace a clear and concise **line of credit policy** which perfectly reflects its internal management. Line of credit policies will generally differ in accordance with the corporation's scale, the type of its clientele and its legal structure.

In order to reduce its bad debts' importance within its accounts receivable, a corporation should follow the below-mentioned steps before granting credit to one of its clients:

1. The **request for opening a line of credit**;
2. The **investigation**;
3. Establishing a **line of credit**.

Any granting of credit should be preceded by the signature of a **Request for opening a line of credit** form in order for the corporation to obtain relevant information on the person or the business that wish to be granted a credit. The signature of this Request for opening a line of credit form is essential for the corporation's further investigation. To this end, such form should bear a mention to the effect that the signatory authorizes the corporation to obtain and exchange any information regarding his credit. In fact, the Civil Code of Quebec and the *Act respecting the protection of personal information in the private sector* provide that information related to individuals' credit is confidential and could only be collected in conformity with the provisions of these regulations.

One could also foresee in the Request for opening a line of credit form that contractors or one of their main officers will personally stand security for the business' obligations towards the creditor. In addition to collecting relevant information pertaining to credit, the Request for opening a line of credit form could also bear the following clause:

"The above-mentioned information is hereby given in order for the undersigned to obtain a line of credit. The undersigned hereby certifies that this information is true and accurate. The undersigned undertakes to settle his account within a maximum period of thirty (30) days or as expressly convened. A monthly interest of //////////////// % (////////////////// % per year) will be charged on any amount due.

The undersigned acknowledges that the present request for opening a line of credit is made under the name of the company and/or the above-mentioned business name and under the undersigned personal name. The undersigned agrees to jointly stand security for the company or business' obligations and debts. The undersigned renounces to any benefit of discussion.

The undersigned authorizes any financial authority or any xxxxx to provide to // any information pertaining to the undersigned and/or the company and/or the business' credit that such authority may have in order for // to verify the accuracy of the information given hereof. The undersigned authorizes // to exchange with third parties any credit information obtained in conformity with the provisions hereof stated in order to verify the undersigned and/or the company and/or the business' solvability and in the scope of any fraud investigations which may be held.

Any dispute or disagreement which may arise pertaining to the present agreement shall be interpreted in conformity with the laws in force in the Province of Quebec. The Parties hereby elected domicile in the judicial district of // and therefore agree that any legal proceeding shall be instituted before courts of justice sitting in and for such judicial district.

Conclusion

Given all relevant information obtained within the process of opening a line of credit and personal security granted by business' officers, it should become easier for a company to recover its due. In addition, a client willing to obtain a line of credit is often more inclined to give a personal security. Thus, in requesting such personal security at the opening of the line of credit, a creditor has more chances to obtain it than later on, when the relationship between a creditor and a client is well established.

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