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A Good Place to Start: Digging into the Nuts and Bolts of the National Trade Credit Report

Since being launched at last year's Credit Congress, the NACM National Trade Credit Report (NTCR) has quickly worked its way into many companies' credit departments, in a number of different ways.

"We use the report for our credit approval process and our risk analysis of our customers as well as when we are updating a credit file," said Lisa Childress, corporate credit manager with SBS Bison Building Materials, LLC. "whether we're updating because of a slowing trend in that customer or they want a credit line increase. Every circumstance is different."

Others have used the NTCR's extremely timely data as an alarm system. "What I like most about these reports is that they encapsulate an enormous amount of current information," said Rosalind Turner, director of credit with Royal Baths Manufacturing, Co. "If they're paying everybody else except me and they're slow with me, that's going to change real quick. Or, if they're not paying my competitors along with everybody else, that's a hair-on-fire situation."

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As popular and versatile as the NTCR has proven itself to be, the nuts and bolts of the actual report might still be unknown to many credit professionals. Each aspect was included for a reason, and enhances the overall value of the report. In a way, the NTCR was designed with the same amount of care and attention to detail that a credit professional uses on a daily basis to protect their company's receivables.

Years in the Making

One thing that makes the national trade credit report "national" is the fact that each report is based on payment experience submitted by more than 10,000 businesses nationwide. Another factor is the report is available at most NACM affiliates across the country. Although the NTCR is really still in its infancy, the idea of data sharing across regional and state borders has been floated around for some time now.

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NATIONAL TRADE CREDIT REPORT

"We've had affiliates using our software since 1992," said Bill Meeker of NACM-Tampa. Meeker has been one of the instrumental architects of the NTCR. "Each affiliate wanted to have their own data because each office operates independently," he noted. "As we set them up, it was working fine and then the Internet came along and there were questions. 'Can we share data with each other but still keep our own identity with our own databases?' And we said 'sure we can.'"

This is how data from multiple affiliates and multiple industries came together. "As the affiliates kept coming on and we kept sharing, Don Conklin (*see* profile on page 32) stood up and said 'we have a system that's working. Why don't we bring this together with a national report?'"

The NTCR committee sets the guidelines for the report and the cosmetics of it all, but it ends up, at least on its face, looking much like a typical NACM credit report. "It does have some enhancements," said Meeker. Specifically, the report calculates tradelines using days beyond terms, which is different than it is with other, prior iterations of the report, and enhances the trending aspect, using graphs and other figures to give users a clear picture of the customer's payment habits over time. "The information in the miscellaneous section at the bottom has also been enhanced," said Meeker. "It includes alerts, credit information, Uniform Commercial Code (UCC) filings, corporate information and collection information."

All of this information is valuable, especially given its source. "The database is fed by over 1,000 trade groups throughout the country, which is all coming from the NACM affiliates," said Meeker. "We're picking up national information from across the country, and from various suppliers."

This is all based on trade data, or tradelines, which is a neat way of referring to "accounts receivable information" and "days beyond terms." The NTCR encapsulates a great deal of the data that credit managers look for, and the tradelines are often the first place that users look when they first pull one. "The first thing I go to is trade information," said Turner. "Other reports that I have available to me don't have as much relevant information," she noted. "I don't care if he has a hunting license. I want to know how he's paying, how he's paying my competitors and I want to know how they're trending." Childress agreed, saying "To me a tradeline is true and factual aging data. That's what you look for as a credit person."

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CIC Score

Credit professionals aren't the only ones using the tradelines, as the designers of the NTCR themselves also rely on this information, in part, to derive the report's CIC network score. This is a simple number designed to help creditors predict late payments, and while no single number can answer all of a seller's questions, the score can help guide users in the right direction on how to approach a particular customer.

Behind the score and the model's development was NACM scoring expert and principal owner of VG Advisors, LLC, Vernon Gerety. "A colleague of mine referred me to Bill [Meeker] and he was interested in using all the trade data they had to come up with a predictive score. Back in the second half of 2006, I developed a score for him on the original national database," he added. "That database has since grown, but that was the first version of the score, and just recently we've modified and enhanced it," said Gerety, noting that additions and improvements to the scoring model have been made throughout the NTCR's development, most recently in 2010 and 2011.

While the tradelines included on the NTCR provide a firm footing for creditors to understand their buyer's payment history, the CIC score takes aging information and uses it to present a glimpse of the future. "Typically, a score is predictive for six to 24 months depending on the type of score," said Gerety. "This [the NTCR CIC score] is making a prediction of severe delinquency over the next six months. That's based on aging; what percentage of their balance is over 90 days past due, and when the balances start aging out. They may not be currently high risk, but they're going to be."

As with most scores, at least ones that aren't golf scores, the lower the number, the worse it is. "It's a behavioral score," said Gerety, noting that it was so named because it looks at past behavior. "It looks at how they paid their bills in the past, and looks over the lifetime payment patterns, but specifically looks over the last 12 months." A number of other factors figure into the score as well. "We look at payment patterns, trends, variability in percentages as well as dollars, and then we look at how long they've had credit," said Gerety. "The more experience you have with a commercial customer, what you might call credit tenure, the more stable you are as a risk and we incorporate that into the score as well."

Demographic and regional information is also factored into the score, although it's not as critical as the past aging and payment data. "Basically, the past does predict the future," said Gerety. "Not quite perfectly, but quite accurately."

Distinguishing the CIC score from other similar figures is the fact that it takes a three-tier approach that incorporates data from across industries to present the most accurate prediction of the customer's future. "If you're sending in trades to NACM, your own trade data is going to be a very heavy weight," said Gerety. "How you're getting paid is the first tier. The second is that if it's a new customer, we're looking at how your industry is being paid. And then the third tier is how they pay everybody overall."

Other scores place equal weight on trade data, regardless of where it came from, but the CIC score is "a much more pinpoint predictor because it's much more heavily influenced by your own payment experience," said Gerety. "There are models out there where every trade is weighted the same, or they're only weighted by dollar amount. This score will give more weight to the relevant trade, but it also looks at other trades to look for some of the early warning signs, that slippage in payment behavior. It's the best of both worlds."

Gerety went on to describe the NTCR's CIC score as a credit professional's "first line of defense," but this could also be used to describe the NTCR as a whole. No single document on a customer will answer every question a seller has, and users of the NTCR often make it a piece of their total risk assessment process. "It's a wonderful report, but credit executives need to learn how to evaluate this essential information that is provided to you and pull it all together," said Turner. Nonetheless, for credit professionals and their companies, there's no better place to begin than with the NTCR. "When you compare it to other reports, it is leaps and bounds above them," said Childress. ●

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