

# CHAPTER 5

## CREDIT AND COLLECTION LETTERS

### Outline

1. Characteristics and Organization of Credit Letters
2. Characteristics and Organization of Collection Letters
3. Grammar Review: Future Tenses

### Main Ideas

1. Credit letters are letters requesting credit from banks or suppliers. Instead of paying cash for merchandise, the buyer whose request for credit is granted receives a grace period as stated in the terms of payment.

2. Collection letters are letters that request customers to pay the amount owed after a grace period is exceeded. The creditor usually prefers to collect the amount owed and maintains goodwill. Courtesy is also applied to the writing of collection letters. There are at least four degrees of collection letters: gentle and friendly reminder, friendly but firm letter, a letter that appeals to reputation and pride, and the ultimatum that threatens legal action.

3. Future tenses are useful elements of grammar that enhance an effective business writing style.

## **Objectives**

### **Students are able to:**

- 1. Write credit letters correctly and completely.**
- 2. Write collection letters correctly and effectively.**
- 3. Use future tenses correctly in writing business correspondence.**

Nowadays, it is more common to use credit cards to pay for merchandise or services than to use cash. It is more convenient to carry cards when you travel in or outside the country. The same **is true** in business transactions where buyers prefer to ask for credit **from** suppliers. The credit period varies depending on the credit history of each individual or company. The credit period, or grace period, may be from 25 days up to 3 months. In other words, the buyer doesn't have to pay the amount owed for a certain length of time. This grace period allows the buyer or debtor to have cash flow to invest in business transactions. In addition, being able to pay by credit cards creates more purchasing power for customers which results in greater and more frequent sales for suppliers as well.

### **1. Characteristics and Organization of Credit Letters.**

Credit letters are similar to other types of business letters that need a direct approach. Open a credit letter with your intention to be a charge customer. Usually,

every department store offers a credit policy. Simply fill out an application form and mail it to the store. Your chance of being granted credit depends on your credit history. Each business to which you have applied for credit will thoroughly examine your credibility, particularly for late payments, through bank accounts or reference. In case you do not have a good credit history. i.e. you are late in payment, etc. you need a co-signer, a person who will sign on your application form to share responsibility for your debt. In the US., you will automatically receive a charge account or a credit card if you have a good credit history after residing there for at least one year. It is important to maintain a good credit history especially when you want to stay in business. Honesty counts.

**The following is an application letter for a charge account at department stores:**

1853 Greenville Village  
Rustic Valley  
Dallas, TX 76472

18 June 19..

Credit Manager  
Bloomingdale Inc.  
1872 Dallas Parkway  
Dallas, TX 73241

Dear Sir/Madam:

I have been your cash customer for more than one year and found your store pleasant in which to shop; with good services and convenience. I would like to apply for being your charge customer to make shopping here more convenient for me. You

may check my credit standing at the Provincial Bank, 35 Dallas Drive, Dallas, TX 72461. Should you like to have more references, I am ready to supply you their names and addresses.

I hope to hear from you soon.

Sincerely yours,  
*Donald Kitchens*  
Donald Kitchens

**An example of a letter requesting credit from suppliers is as follows:**

**Franklin Electric corporation  
100 Franklin Street  
Chicago, Illinois 60142**

11 May 19..

Payson Supplies  
78 East Main Street  
New York, NY 11230

Dear Sir/Madam:

Enclosed is our order for 1.5 Tecumseh microwave ovens model 78 KE.

We would be glad if you would grant us open-account facilities with quarterly settlements. Our store has been open for live months, and you may check our credit rating with Mr. Peter Charming, Branch Manager of the Prudential Bank of Chicago, 1135 State Street, Chicago, Illinois 60064.

You may also check our credit standing with the following companies: The Electric Appliances, 2120 Oak Terrace, Lake Bluff, Illinois 60044; National Appliance Store, 1135 State Street, Chicago, Illinois 60688. Please let us know of your decision regarding our credit as well as an approximate delivery date of our first order.

Sincerely yours,  
*Bruce Franklin*  
Bruce Franklin  
Manager

After receiving your credit application, department stores or suppliers may contact the reference to verify your credit standing. A reply envelope is a courtesy.

**Examples of such letters are as follows:**

**A.**

**Payson Supplies  
78 Bast Main Street  
New York, NY 11230**

15 May 19..

Mr. Peter Channing  
Branch Manager  
The Prudential Bank of Chicago  
1135 State Street  
Chicago, Illinois 60064

Dear Mr. Channing:

Franklin Electric Corporation, 100 Franklin Street, Chicago, has placed an order with us for \$ 500 worth of merchandise and listed you as a credit reference.

We would appreciate your sending us information regarding Franklin's credit rating. We would especially like to know how long the owner, Bruce Franklin, has had an account with you and whether or not any of his debts are past due. We will, of course, keep any information we receive in the strictest confidence.

We have enclosed a reply envelope for your convenience.

Sincerely yours,

PAYSON SUPPLIES

*John Buchanan*

John Buchanan

Credit Department

Enc.

**B.**

**Bloomington Inc.**  
**1872 Dallas Parkway**  
**Dallas, TX 73241**

22 June 19. .

The Manager  
The Provincial Bank  
35 Dallas Drive  
Dallas, TX 72461

Dear Manager:

Mr. Donald Kitchens, 1853 Greenville Village, Rustic Valley, Dallas has requested credit privileges from us and has given your bank as a reference.

We would very much appreciate your answering the following questions about Mr. Kitchens:

1. How long has the applicant had an account with you? .....
2. Does the applicant have any debts past due? .....



3. Do you consider the applicant:

An excellent credit risk

..... An average credit risk

..... A poor credit risk

We will certainly keep any information you give us in the strictest confidence. We've also enclosed a return, stamped envelope for your convenience.

Sincerely yours,

BLOOMINGDALE INC.

*George Jones*

George Jones

Credit Manager

Enc.

If the applicant's credit rating is favorable, the business owner will write a letter granting the request for being a charge customer as follows:

A.

**Bloomingdale Inc.**  
**1872 Dallas Parkway**  
**Dallas, TX 73241**

27 June 19. .

Mr. Donald Kitchens  
1853 Greenville Village  
Rustic Valley  
Dallas, TX 76472

Dear Mr. Kitchens:

We are very pleased to open a charge account at Bloomingdale's for you. I believe this will be the beginning of a long and mutually pleasant association. As a charge customer, you will enjoy many privileges at Bloomingdale's. You will receive advance notices of special sales before the general public. Every time you purchase from us, you earn points, that will accumulate and can be redeemed for many rewards at the end of the year.

On the **first** of each month, you will receive an itemized statement of your purchases made through the 25<sup>th</sup> day of the preceding months; purchases made **after** the 25<sup>th</sup> appear on the following month's bill. Payments are due by the **10th**, and a charge of

1 1/2 percent will be made on the balance remaining at that time. We hope you enjoy our service and all of us at Bloomingdale's are waiting to make your shopping here a very pleasant experience.

Sincerely yours,

*George Jones*

George Jones

Credit Manager

**B.**

**Payson Supplies**  
**78 East Main street**  
**New York, NY 11230**

21 May 19..

Mr. Bruce Franklin  
Franklin Electric Corporation  
100 Franklin Street  
Chicago, Illinois 60142

Dear Mr. Franklin:

Thank you for your order of 15 Tecumseh microwave ovens. They will be ready for shipment on Friday, 23 May.

It is our pleasure to welcome you as a **Payson Supplies** credit customer, for your request for credit has been approved.

On the first of each month, we will send you a statement of the previous month's purchases. Your payment is due in full on the tenth. You will also receive, with each statement, a supply of order forms and return envelopes.

Enclosed is our latest catalog, price-list, and special conditions regarding dealer options such as advertising campaigns and rebate programs.

We believe you will certainly enjoy our service and look forward to serving you for many years to come.

Sincerely yours,

PAYSON SUPPLIES

*John Buchanan*

John Buchanan

Credit Department

Enc.

At times applicants' requests for credit must be denied because of their poor credit standing. Writing a refusal letter is **difficult** because the writer needs to keep the tone positive and maintain goodwill. Usually, **this** type of letter takes an indirect approach: thank you for the application, followed by the "you-oriented" attitude, give reasons for refusing credit and close with goodwill and encouragement to reapply in the future. The following are examples of letters refusing credit:

A.

**Bloomingdale Inc.**  
**1872 Dallas Parkway**  
**Dallas, TX 73241**

27 June 19..

Mr. Donald Kitchens  
1853 Greenville Village  
Rustic Valley  
Dallas, TX 76472

Dear Mr. Kitchens:

Thank you for your recent application for being a Bloomingdale's charge customer. As in the case of all those who apply for credit, we have made an impartial credit investigation for your credit obligations.

Since you have a number of loan commitments, may we suggest that you continue to allow Bloomingdale's to serve you on a cash basis until such time as you are able to reduce your present obligations.

We will welcome the opportunity of reconsidering your application when circumstances are more favorable toward your handling an additional credit account.

Sincerely yours,  
*George Jones*  
George Jones  
Credit Manager

A.

**Payson Supplies**  
**78 East Main Street**  
**New York, NY 11230**

27 May 19. .

Mr. Bruce Franklin  
Franklin Electric Corporation  
100 Franklin Street  
Chicago, Illinois 60142

Dear Mr. Franklin:

Thank you for your order of 15 Tecumseh microwave ovens. They will be ready for shipment on Friday, 23 May.

We appreciate your recent application for being our credit customer. However, we believe it would not be in your best interest to grant you credit at this time.

An impartial credit investigation indicates that your company's present financial obligations are substantial. We are afraid that adding to those obligations could jeopardize your sound credit standing.

However, Mr. Franklin, you are always welcome to order from us on a COD basis. We will try our best to serve you in all ways possible. In the future if your obligations are reduced, please resubmit your application for terms of credit. We will be pleased to reconsider.

Sincerely yours,

PAYSON SUPPLIES

*John Buchanan*

John Buchanan

Credit Department

**Activity 1 A**

You are Mrs. Rena McGuire 387 Tiger Building, Victoria Lane, Houston, TX 78654. Write a credit letter to the manaeer of Napoleon R. Grouo, Commercial Building, Richard Avenue, Houston, TX 78784.

**Activity 1 B**

Write a letter granting credit to the letter in activity 1A.