

Credit, What is it, How do I fix problems, and How do I establish good credit?



Credit – What is it?



Credit – What is it?

- Merriam Webster Definition: “an amount or sum placed at a person’s disposal by a bank, the provision of money, goods or services with the expectation of future repayment.”
- Practical Definition: Buy now, pay later
- Examples: Credit cards, business loans, buying services/supplies on terms, leases
- Types: Short-term, long-term, revolving, fixed, variable, collateralized, uncollateralized, signature

Credit – What is it?



- Credit is the lifeblood of your business.
- As you extend credit to customers/clients, you will likely need someone to extend credit to you.
- Credit extends beyond your business to you personally as the business owner.
- You and your business both need to be “creditworthy.”

Credit – What is it?

- Creditworthy indicates someone would be willing to loan you money – they find you worthy to be offered the ability to pay later for something you take/use/buy now.
- As the business owner, you will frequently be asked to “personally guarantee” loans or other extensions of credit.
- Lenders want to know they have a back-up plan to recover their investment should you not have the cash needed to repay the debt.

Credit – What is it?

- There will be costs associated with obtaining credit.
- Credit cards – charge merchants fees, and users may pay interest and fees.
- Loans – lenders will normally charge fees, you may incur legal fees, and there will be interest charged on the loan.



Credit – What is it?

- Traditional sources – bank, credit union
- Non-traditional sources – mortgage companies, title loan companies, money brokers, venture capital markets, friends
- As the lenders' perceived risk of non-repayment increases, the cost of the lending increases also.



Credit – What is it?

- Credit Ratings:
 - Credit bureaus keep track of activity that determines your ability to repay.
 - When seeking credit, the lender will likely ask a credit bureau for a report on your history.
 - A credit score is assigned based on your past payment history, outstanding debt, credit history length, new credit applications, credit mix (long/short term, revolving, fixed, etc.)

Credit – What is it?

- Credit Score
 - Credit scores normally range from 300 – 850.
 - The higher the number, the better the score.
 - Closing accounts can hurt your score.
 - Having your credit checked too often can hurt your score.
 - Late payments, excessive debt load, bankruptcy, and foreclosure will all hurt your credit score.



Credit – What is it?

- Credit – someone allowing you to possess something now, and then pay for it later.
- Proper use of credit can help you to quickly grow your business.
- Improper use of credit will choke your business and either prohibit growth realization or completely kill it.

How Do I Fix Problems?



How Do I Fix Problems?

- Stop doing whatever it was that got you into the credit problems!
 - You will never borrow your way to prosperity.
 - Start saving money in any manner possible.
 - Seek counseling if you are unable to make the necessary changes.
 - Convert to a cash-only purchase policy until the credit problems have been fixed.

How Do I Fix Problems?

- Goal is to raise your FICO Score
- F – Fair
- I – Isaac
&
- Co – Company
- Named after the company that created the credit rating system used.

How Do I Fix Problems?

- You should verify that the information used to calculate your score is correct.
- A free copy of your credit report can be obtained at www.annualcreditreport.com.
- Check for open credit accounts that are closed.
- Verify that no one else is using your credit identity.

The image shows the "Annual Credit Report Request Form" from Equifax, Experian, and TransUnion. The form is titled "Annual Credit Report Request Form" and includes the logos for Equifax, Experian, and TransUnion. It contains instructions for how to fill out the form, including a warning that the information provided is required to process the request and that a decision on any information may delay the request. The form is divided into several sections: "Social Security Number", "Date of Birth", "Current Mailing Address", and "Previous Mailing Address (complete only if at current mailing address for less than two years)". There are also checkboxes for "Shade Circle Like This" and "Not Like This", and a section for "I want a credit report from" with radio buttons for Equifax, Experian, and TransUnion. A barcode and the number "31238" are visible at the bottom right of the form. The form is numbered "31238" and includes a copyright notice for "Copyright 2004, Central Source LLC".

How Do I Fix Problems?

- Keys to raising a low credit score
 - Pay your bills on time. If you have past late payments, make sure you start paying on time.
 - Work on paying down debt. The amount of debt you have plays a big role in your credit score.
 - Avoid closing old accounts quickly. Having an account opened will help to lengthen your credit history.

How Do I Fix Problems?

- Other keys that help:
 - Focus on paying down credit cards first. They have higher interest rates, and lenders prefer to see no more than 30% of the available credit card balance borrowed.
 - Keep new credit card use to a minimum.
 - Ask a lender to remove a late payment. If you have only one late payment, a lender may be willing to remove it from your record.

How Do I Fix Problems?



- Other keys that help (cont'd):
 - Talk to your lenders and those to whom you owe money.
 - See if they will arrange a payment plan that won't affect your credit score.
 - Let them know you are working to get them repaid as quickly as possible.
 - Stick to any payment plans to which you agree. Set payment amounts within your budget.

How Do I Fix Problems?

- Things NOT to do:
 - Do not ask credit companies to lower your limit.
 - Do not begin applying for new credit cards.
 - Do not ignore the problem.
 - If you find errors on your credit report, do not ignore them.
 - Do not panic, it may take a while to work everything out.

How Do I Fix Problems?

- Things NOT to do (cont'd):
 - Do not continue paying your bills late.
 - Do not be tempted by companies that will help you “repair” your credit. They are probably a scam.
 - Do not neglect your tax obligations – Federal, State, Local, Payroll, Business, etc.

So, How Do I Build Good Credit?



So, How Do I Build Good Credit?

- Make sure you have a checking and savings account.
- Start with a secured credit card from your local bank.
- Build good relationships with your local bank.
- Keep your business assets and liabilities separate from your personal assets and liabilities.

So, How Do I Build Good Credit?



- Pay your bills on time.
- Carefully monitor your credit report.
- Dispute any incorrect items on your report.
- Avoid incurring large amounts of debt.
- Create a budget and business plan.
 - Make projections reasonable
 - Monitor actual results compared to projections
 - Understand why there are differences

So, How Do I Build Good Credit?

- Seek help from credit counselors before the problem becomes unmanageable.
- Do not offer to co-sign / guarantee / or collateralize debt for anyone. Their credit problems may quickly become yours.
- Use the services of a good accountant or financial advisor to help you understand the financial condition of your company.

So, How Do I Build Good Credit?



- Avoid any unnecessary spending.
- Create a reserve fund –
 - Try to save three months of expenses in cash.
 - Save cash personally as well as in the business.
 - Utilize an interest bearing account for your reserve.
 - Only use when business slows and cash is needed. Do not view as a means to buy unneeded items.

So, How Do I Build Good Credit?

- Build quality collateral.
 - Lenders will want some form of collateral for a loan.
 - Forms of collateral include certificates of deposit, real estate, inventory, equipment, and marketable securities.
 - The item you are buying may be useable as collateral, but you'll likely need a down payment.

So, How Do I Build Good Credit?

- Carry a manageable amount of debt
- Did I mention to pay your bills on time?
- Have a mix of fixed and revolving debt –
 - Credit cards are a form of revolving debt. Try to keep your balance to no more than 30% of the available balance.
 - Mortgages, auto loans, and equipment loans are all forms of fixed debt.



Conclusion



Conclusion



- Just because you have bad credit, the world has not ended.
- It is possible to start over and rebuild your credit rating.
- The rebuilding process will likely take much longer than you would like.

Conclusion

- Develop your plan to financial freedom.
- Stick to your plan!
- Don't get sidetracked by tempting offers not in your plan (new sports car, expensive vacation, boat, etc.)
- Get help from trusted sources when you need it.
- Don't get discouraged.

Conclusion

- With time, patience and self-discipline, you can once again have the financial freedom provided by having good credit.



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