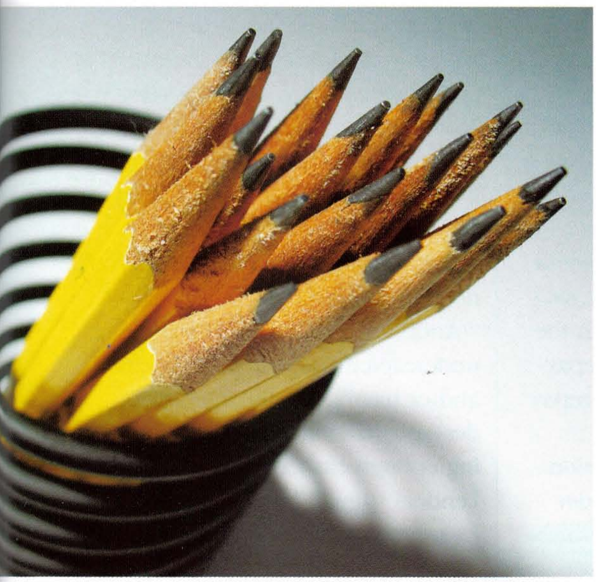
HOW DO YOU ESTABLISH
A GOOD CREDIT SCORE? BY JOAN POWERS

CREDIT MATTERS

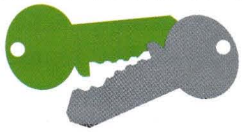


Starting a business is not for the faint-hearted. When the phone rings at the Small Business Development Center, it's most likely a Central New York start-up company looking for funding. Many entrepreneurs-to-be are surprised to learn they need to tap their own wallets, have collateral to back the loan, good credit, experience in the industry and a good business plan.

At the Center, we cannot emphasize enough how important credit is and how much it affects the lenders' decisions. It takes time to build a good credit rating. If you have good credit, use it wisely and protect it.

Wherever you seek funding from– a bank, a micro-loan program, a credit union or relatives– you can expect they will review your creditworthiness. A complete and thoroughly documented business plan will help the lender understand you and the business. ›

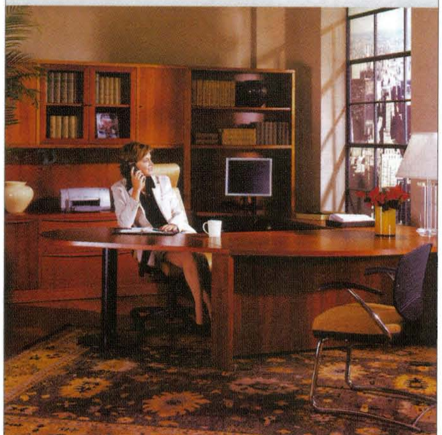
HELP AVAILABLE



If you are looking to start a business or have a business that needs some assistance, the Small Business Development Center at Onondaga Community College can help. Professional business advisers are on staff to offer free and confidential one-to-one help in preparing a business plan or a marketing plan, making financial projections or finding funding sources, government procurement and research assistance.

1. **CORRECT** ANY MISTAKES ON YOUR CREDIT REPORT. THIS MUST BE DONE IN WRITING.
2. **PAY** YOUR BILLS ON TIME.
3. **REDUCE** THE AMOUNT OF YOUR DEBT.
4. **DON'T** OPEN NEW ACCOUNTS.
5. **PAY** OFF HIGHER INTEREST RATE CREDIT CARDS FIRST.

Ways to check credit report:
www.annualcreditreport.com
Phone: (877) 322-8228
TDD: (877) 730-4104
Mail: P.O. Box 105281
Atlanta, GA 30348-5281



The basic components of credit analysis, the "Five C's of Credit," will help you to understand what the lender will look for.

Capacity: The lender will want to know how you will repay the loan. The lender will consider payment history on existing credit relationships, personal or commercial as it is considered an indicator of future payment performance.

Collateral: By collateral, I mean additional forms of security you can provide the lender. Giving a lender collateral means you pledge an asset you own, such as your business equipment, home, vehicle, or a savings account, to the lender with the agreement that it will be the repayment source in case you can't repay the loan.

Character: The general impression you make on the potential lender or investor. The lender will form an opinion as to whether or not you are trustworthy to repay the loan or generate a return from your business.

Capital: The money you personally have invested in the business is an indication of how much you have at risk should the business fail. Prospective lenders and investors will expect you to undertake a personal risk to establish the business before asking them to commit to any funding.

Conditions: Focus on the intended use of the loan. What will the money be used for? Working capital, equipment or inventory?

Credit Scores

The banks will take a look at the "five Cs," but they also pay a lot of attention to your credit scores.

The importance of a good credit history has grown over the past decade with the increased use of credit scoring by lenders. Credit scoring is a computerized loan-evaluation method that lenders use to statistically predict how risky it is to lend money to someone. Information about the borrower is entered into a computer program that weighs the information using statistical principles to determine the level of risk.

Credit scores help the lender answer the question: If I give this person a loan or credit card, how likely is it that I will get paid back on time?

The scores are based solely on information in consumer credit reports maintained at the credit- reporting agencies. Therefore, it is important to know what is in your credit report. Many times information is incorrect and can negatively impact your credit score. Everyone is now entitled to one free credit report per year.

If you want your credit score, you'll need to pay a fee.

Another credit issue is starting out undercapitalized, using credit cards, and/or having too much debt. Undercapitalization means not having enough cash available if needed. Lenders suggest having three to six months of working capital on hand at all times to prepare for bumps in the road. Perhaps sales are slow for a couple of months or there is an unexpected expense.

When evaluating credit histories, lenders look not only at whether debts have been repaid on time, but also at the amount of credit extended, the relationship between total credit available and current credit balances, and the number of recent applications for credit. Credit balances approaching the credit limit may indicate that a borrower's ability to take on more debt is limited, even if there are few or no late payments in the credit history.

A business cannot grow without good credit. It is always costly to grow a business or "take it to the next level." Without proper funding, it can be nearly impossible. It may be as simple as securing terms with your supplier until you are paid by a customer. It could be a loan to purchase a larger building. Whatever the case, credit is important.

Joan Powers is a senior business adviser at the Small Business Development Center at Onondaga Community College.