

## **Got Good Credit? You'll need it if you plan on starting a business!**

You know the saying.....cash is king! This isn't always the case especially if you want to start a new business with little to no previous credit history. Having to borrow to start a new business doesn't sound so good, but let's face it, most startups will require a loan or a substantial line-of-credit at least in the beginning and later if you should decide to expand.

You might want to take advantage of the U.S. Government's free credit report program to see what your score presently is, and to then monitor it periodically. Here's where you can find more information: <http://www.ftc.gov/bcp/edu/pubs/consumer/credit/cre34.shtm> You especially want to correct any mistakes that may be lurking in the report. This is important because you may suddenly need an infusion of capital to take advantage of an opportunity to expand or exploit a chance to increase your sales. In addition, more and more suppliers will insist that you have good credit before they will extend products or services to you. So, what is a good credit score you ask? Anything over 700 will probably serve, but 760 – 850 will give you the best options in regard to negotiating terms and interest rates with your bank or credit union.

Even though we're talking about good credit and its importance it's only logical that you borrow only if you needed to. If you've determined that your score is over 750 you must keep it there or improve upon it so you are prepared to apply for a loan or line of credit if you need it in the future.

When approaching your bank you will need more than just a good credit score and good intentions. They'll want to see a solid business plan with details on how you plan to use their loan. Your presentation should be well thought out and you should be dressed for success just as in a job interview. You have to convince the loan officer that you are a good risk for their institution. Many banks, especially local banks, have small business services such as free advice, billing and payroll services they can provide at low cost. They are more likely to look at the big picture and the potential of your business if you have a strong business plan combined with conviction and passion for your business concept.

Obtaining your first loan is generally the most difficult. If you are turned down don't quit and don't take it personally. Ask the loan officer why you were rejected, and try to correct it. Remember that banks are especially nervous about putting their money at risk at this time. This is why having your credit history already built up prior to starting a business is imperative.

Let's look at what you can do to improve your credit score. If you don't have a credit history it's not so hard, but will take some time. If you don't have a credit card they aren't too difficult to acquire, but you'll find that the amount you can charge in a billing period is low; probably in the \$1,000 to \$2,000 range. Start using the card especially if you need a piece of furniture or an appliance. Pay the minimum for several months and

then pay off the balance. This delights the card company because they love to charge you 18% to 24% APR on unpaid balances. Avoid late charges. If you need an automobile buy it on time and take advantage of no interest or low APR loans. Always pay on time. As I mentioned above check your credit report frequently and correct any errors, or if the information is correct ask one

the three credit rating companies to include comments with extenuating circumstances as to why the payments were late, i.e. you were ill or laid-off or the company forgot to bill you. They usually share this information among them. Over time you should be able to rectify your credit score with hard work and diligence.

Assuming you get your loan and things are going smoothly, what can you do to keep your credit rating high? Most importantly keep your business expenses and income totally separate from your personal expenses so that your business credit rating is separate from your personal score. It is true that start-up businesses often must use their personal credit rating initially, but separate them as soon as you can. Incorporation can help you accomplish this but that's another subject. Keep good records, separate accounting records for personal and business even if you are a sole proprietorship. All expenditures should be well documented in the event you need to justify various transactions. Pay attention to detail!

In my opinion the best rule of thumb is that whatever you borrow, there should be a well defined plan on how that debt is going to be paid off. You should never borrow so much that if your business should fail it would result in personal bankruptcy. In the event of failure there should be a backup plan that could be used to personally pay off your debt—that will also keep your credit score intact. With a well prepared business plan, hard work, a little luck and a good credit score your chances for success are very good.

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