



# Credit & Small Businesses

## Small Business Development Center

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# DISCUSSION

- Credit Score
- What makes up your Credit Score
- Credit Score Factors
- How to improve your Credit Score
- 5 C's of Credit
- How can you obtain funding

# What is a credit score



A credit score is a number that evaluates a consumer's creditworthiness and is based on credit history



Credit Scores influence the credit that's available and the terms (interest rates, etc.) that lenders may offer.



When you apply for credit lenders what to know what risk they are taking to loan money.



A credit score helps lenders evaluate a credit report by summarizing the credit risk at that point in time.



- The most widely used credit scores are FICO scores created by Fair Isaac Corp. FICO scores are calculated based solely on information in consumer credit reports.
- The higher the FICO score the lower the risk.
- There are many additional factors that lenders use to determine your actual interest rate.

- 35% is based on payment history and shows whether you've paid your credit accounts consistently and on time.
- 30% shows the amount you currently owe vs. the credit you have available.
- 15% is length of credit history. The longer your credit account has been open, the better.
- 10% is how often you open and apply for new credit accounts.
- 10% is the diversity of your accounts; credit, loans, mortgages, etc.





# How to improve your credit score

Check your credit report for mistakes. You're entitled to 1 free credit report from each credit bureau annually.

Experian, Equifax and Transunion are the 3 credit reportable bureaus.

Pay your bills on time.

Reduce the amount of debt you owe.

# CAN I TAKE OUT A LOAN FOR MY BUSINESS?

The Lender will look at the 5 C's of Credit:

- Collateral: Assets that act as security for the loan; home, 401K, etc.
- Conditions: Market and economic conditions.
- Capacity: Ability to repay the loan, what qualifies you to run the business.
- Capital: Cash that you're willing to invest into your business.
- Character: What is your reputations and how do you pay debts.



# Where Can I Find Funding.....

The first place to seek a loan typically is from a commercial bank or a credit union. If your business is just starting, it has no credit history. This means that the bank will check your personal credit history. There are three key factors a lender will examine.

**Stability**: Have you been able to hold down a job? Have you lived in the same residence for a considerable amount of time

**Income**: Have you lived within your income? Do you manage your money well?

**Debt payment**: Have you paid off past debts? Do you pay your credit card charges on time? Have you kept up with loan payments?

# PRIVATE/ANGEL INVESTORS

Angels are another source of start-up funds. These are not divine beings, though you may think them heaven sent. These are individuals willing to invest their own money in an entrepreneur's business. In return, they may expect a substantial return on their money within five years plus up to 25 percent ownership of the business.

They may also expect to be involved in the management of the company. You need to consider if you are willing to give up partial control of your business. If you do accept funding from an angel investor, be sure you are compatible working together.

# CROWDFUNDING

- **Crowdfunding** is the collective effort of individuals who network and pool their money, usually via the Internet, to support efforts initiated by other people or organizations. (From Wikipedia)

Popular Sites include:

- [www.kickstarter.com](http://www.kickstarter.com)
- [www.Indiegogo.com](http://www.Indiegogo.com)
- [www.gofundme.com](http://www.gofundme.com)
- [www.rockethub.com](http://www.rockethub.com)

# BOOTSTRAPPING

You may have heard reference to people pulling themselves up by their bootstraps. Bootstraps are the loops of material at the top of boots used to help pull the boots on. Bootstrapping may help you get your business started

In business, bootstrapping means using your own resources to finance, promote, and develop your business. You can cover your start up without the help of others. Following are some ideas of how to do so. Consider which ones you will implement for your own business.

# Bootstrapping possibilities

- 1) Operate your business from home:** This eliminates the cost of rent and utilities for a separate business location. It saves commuting expenses. You are also able to deduct a portion of your home expenses on your income tax.
- 2) Drop ship products:** Save the cost of stocking inventory by having the manufacturer ship products directly to the customers.
- 3) Use customers' money:** Have customers pay up front. Require advance deposits or retainers. Sell memberships, subscriptions, or gift certificates.
- 4) Licensing:** Save the cost of manufacturing and marketing your invention. License your idea to a company capable of producing and selling it and receive royalties in return.

# Bootstrapping possibilities

- 5) **Lease equipment:** It can be more affordable to lease equipment than to finance purchasing.
- 6) **Barter:** Trade your services or product for those of another company that you need for your business.
- 7) **Trade credit:** Arrange with your suppliers to extend you credit for 30, 60, or 90 days without charging interest. This allows you time to sell the products and pay for them with the customers' money.
- 8) **Free publicity:** Look for the news angles in your business to obtain free media coverage rather than pay for advertising

# INVESTORS

Few if any investors are willing to hand out money to people who cannot manage their own. Bringing your own financial resources to the table shows your level of commitment as well as your ability to manage money.

**Investors** are looking to make money not lose it; you need to prove that you are a good investment.

Have you considered possible outside sources for start-up money. These include family and friends as well, considering the pros and cons of each.

# GRANTS

Government grants are funded by your tax dollars and, therefore, require very stringent compliance and reporting measures to ensure the money is well spent. As you can imagine, grants are not given away indiscriminately. (SBA.gov)

Don't expect to use grant funding for operational costs

- [www.cfda.gov](http://www.cfda.gov)
- [www.grants.gov](http://www.grants.gov)
- [www.sba.gov/content/facts-about-government-grants](http://www.sba.gov/content/facts-about-government-grants)

*Time for Q&A*

