

Are You Lender Ready?

Presented by the SBA Seattle District Office



U.S. Small Business
Administration

Understanding Your Credit

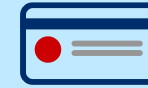
[Understanding Your Credit



BUSINESS CREDIT HISTORY

Your business's record of handling debts and financial obligations reported to business credit reporting agencies.

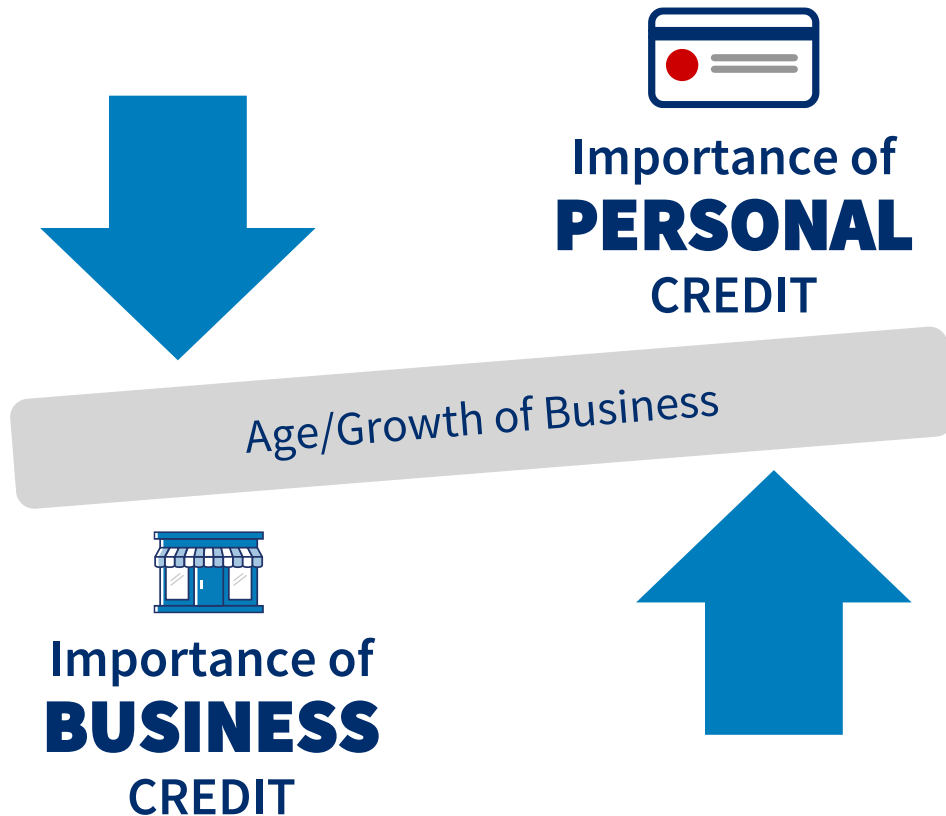
VS



PERSONAL CREDIT HISTORY

A record of your use of credit reported to consumer credit reporting agencies.

[The Personal and Business Credit Spectrum



- ▶ Aspiring entrepreneurs and emerging businesses may need to rely heavily on personal credit as the business is established.
- ▶ As small businesses grow, business credit will become increasingly important, but personal credit will still be a factor in lending decisions.
- ▶ Only very large and sophisticated businesses may not need to rely on a business owners' personal credit history.

[What Is a Personal Credit Score?

- ▶ A number that helps lenders determine your credit risk
- ▶ Frequently used scoring models:
 - FICO® Score
 - VantageScore®
 - Many lenders also use their own credit scores.

Major Consumer Credit Reporting Agencies*:

Equifax

Experian

TransUnion

*Ongoing credit reports are available at www.annualcreditreport.com

[FICO® Score and VantageScore® Factors

FICO®

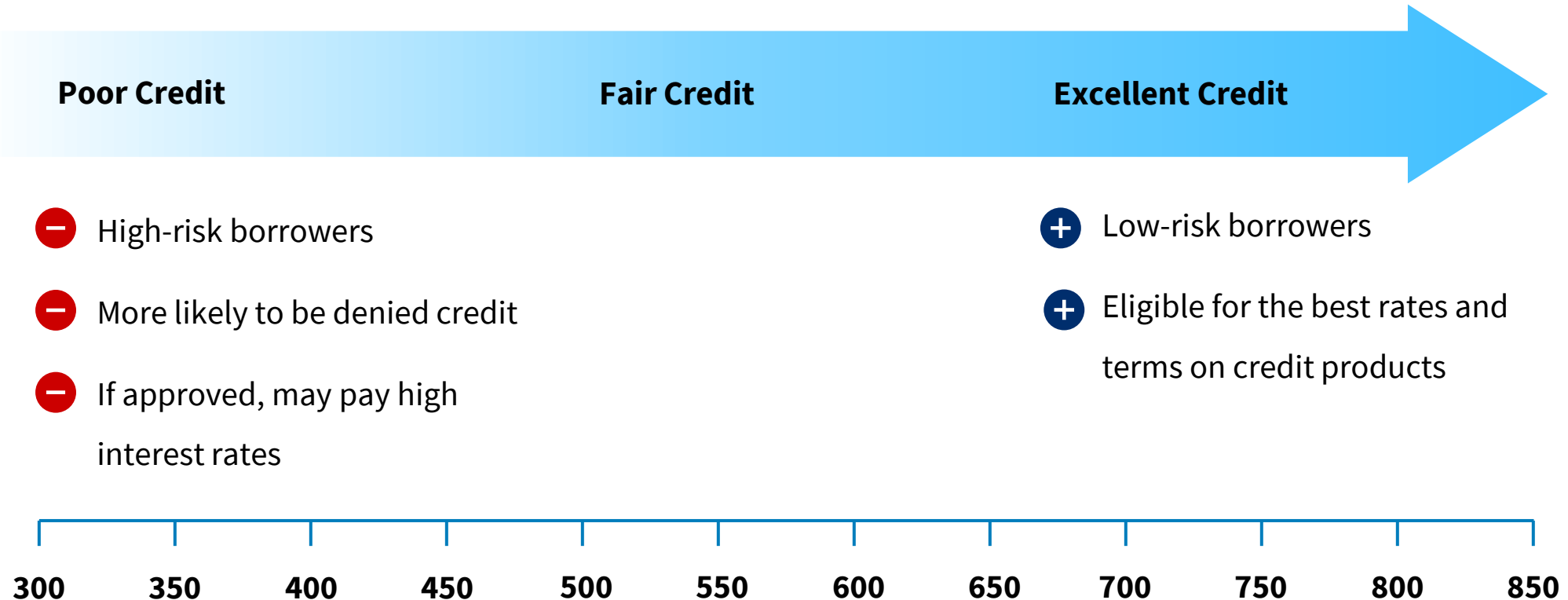
Past payment history	35%
Outstanding debt	30%
How long you have had credit	15%
New applications for credit	10%
Types of credit	10%

VantageScore®



Past payment history	Extremely influential
Age and type of credit	Highly influential
% of credit used	Highly influential
Total balances/debt	Moderately influential
Recent credit behavior and inquiries	Less influential
Available credit	Less influential

[What Is a Good Personal Credit Score?

A typical credit score will range from 300 to 850.



[Personal Versus Business Credit Reports

 PERSONAL CREDIT REPORT	 BUSINESS CREDIT REPORT
Personal Identifying Information	Business Identifying Information
Credit History	Business Credit History
Inquiries	Business Background, Registration, and Financial Information
Public Record Information	Public Record Information

VS

[The Major Players in Business Reporting

Dun & Bradstreet (D&B)	Focus is on how your business interacts with vendors and suppliers (trade credit performance)
Equifax	Focus is on how your business has managed business lines of credit and loans
Experian Business	Focus is on credit information from both lenders and business vendors

[What Information Do Business Credit Reports Contain?

Business Identifying Information Examples	Business Credit History Examples	Business Background, Registration, and Financial Information Examples	Public Record Information Examples
<ul style="list-style-type: none">• Business names and aliases• Business addresses, phone numbers, and web presence• DUNS number• Industry classification codes	<ul style="list-style-type: none">• Companies that have granted credit• Payment data from suppliers and creditors• Risk scores and ratings	<ul style="list-style-type: none">• Registration and incorporation data• Legal structure and ownership• History of business• Affiliations• Corporate financial reports• Contracts, grants, loans, and debarments from the federal government• Self-reported data	<ul style="list-style-type: none">• Uniform Commercial Code filings• Lawsuits, liens, and judgments• Business registrations (state, city, county courts)• Incorporation and current and past bankruptcy filings from state and county courts

[Establishing Business Credit

What you should have	What you should do
<input checked="" type="checkbox"/> Employer Identification Number (EIN)	<input checked="" type="checkbox"/> Get a copy of your EIN if you don't have one already and keep it in a safe place
<input checked="" type="checkbox"/> Business credit report	<input checked="" type="checkbox"/> Verify whether you already have one
<input checked="" type="checkbox"/> Businesses/lenders reporting your credit information	<input checked="" type="checkbox"/> Ask lenders/suppliers to report information about you, and self-report financial and credit data as feasible

[Best Practices for Strong Business Credit



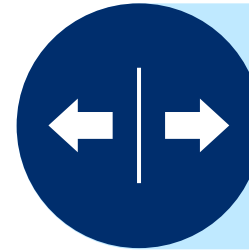
Maintain healthy credit:
Pay your loans, bills, and
taxes on time.



Make sure your business
is visible.



Maintain good
relationships with
suppliers and vendors.



Separate personal and
business finances.



Monitor your personal
and business credit
histories.

[The Five Cs of Credit



CHARACTER

Track record of repaying debts (credit bureau) or other



CAPACITY

The ability to repay a loan from operations (debt to income ratio)



CAPITAL

The money invested by the business owner or management team



COLLATERAL

The assets used to secure the loan



CONDITIONS

Purpose of the loan, prevailing rates, industry trends, and how they impact loan repayment

[Pitching Your Business to a Lender

Helps inform the lender on why they may want you as a customer!



**Who you are
and what
you do**

10-15 seconds.

Introduction of
your name and very
briefly describe
what you do.



**What you
are looking
for**

10-15 seconds.

Identify a problem
and a solution.



**Discuss your
key financials**

15-20 seconds.

Impress the lender by
mentioning your
business growth and
your debt service
coverage ratio.

[What's Your Pitch?

Hi, my name is **Kai Williams**, and I am the owner of **The Midwest Widget Emporium**.

We provide customized widgets to boutique toy manufacturers across the globe, and customers rely on me because **we provide customized solutions for real business needs**.

I am looking to take advantage of **process improvement technology and need additional funding**.

My company's gross revenue is **\$650,000** and on an upward trend for the past **3** years.

I have a **750**-credit score and our cash flow is strong based on a **1.37** debt service coverage ratio on a **\$205,000 commercial loan with a \$40,000 line of credit**.

I'd like to explore how your institution can help me capitalize on this opportunity.

Questions

Questions?

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U.S. Small Business
Administration

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