

Credit Clean Up...A Critical Concern for Entrepreneurs

By Donna Kelsick

As entrepreneurs plan to fulfill their dreams of launching a business, they should be very attentive to all the steps required to ensure success. Those steps typically include developing a comprehensive business plan that can be submitted to lenders to secure funding for their new business. Imagine planning for a significant event and overlooking a critical step that will inevitably delay the project. As surprising as it may seem, many business start-ups make that specific mistake by failing to assess their personal credit condition prior to contacting lenders to request funding.

Potential business owners should realize that lenders normally utilize the 5 Cs of Credit (Character, Cash Flow, Capital, Collateral, and Conditions) as the key factors to evaluate a loan proposal. From the lender's perspective, one of the best ways to assess the borrower's ability to repay the loan is based on their past credit history which reflects character. Entrepreneurs should definitely address all of the above factors in order to successfully obtain funding for a business start-up.

In order to analyze the current credit status and determine if credit repair is necessary, an entrepreneur should first understand the reasons why the credit score is not as high as it needs to be. Then the future business owner should identify the best ways to increase the credit score.

The following tips can be used by the entrepreneur to assess the current financial condition and implement specific actions for

credit clean up. These crucial steps should be incorporated into the business planning process in the six months to one year timeframe prior to business start up.

1. Obtain and analyze credit reports from all three credit bureaus: Experian, Trans Union, and Equifax.
2. Categorize derogatory issues: delinquencies, charge-offs, bankruptcies, federal debt, tax liens, errors and inaccuracies, high debt levels, etc.
3. Understand the negative impact of items indicating high risk to lenders: bankruptcies; tax liens; delinquent mortgages and student loans. Additionally, numerous inquiries suggest shopping for money and high credit card balances reflect unavailable funds in emergencies.
4. Analyze the best way to address each issue.
5. Correct errors by disputing inaccuracies with creditors and credit rating institutions; get a timeframe for when reports will be updated; request that a note be added to your report denoting the item is in the process of being disputed.
6. Pay down outstanding debt, attacking the highest interest rate debt first.
7. Get current with mortgage payments and student loans and keep current.
8. Monitor your credit report on a regular basis.

It is in the best interest of entrepreneurs to understand all the variables used by credit bureaus to determine credit scores. These components include payment history, outstanding debt, length of credit history, recent inquiries, and types of credit in use. These factors should be incorporated into the credit clean-up process to insure that loan approval will be obtained for your business.

Entrepreneurs can choose to handle the credit clean-up process themselves or decide to pay a credit repair company. Beware of credit repair companies that charge significant fees and promise miracles...most don't deliver. Although it can be time consuming, in most cases you can manage the credit repair process yourself if you are determined and persistent.

The bottom line for any successful entrepreneurs is to recognize all the critical components involved in the business



planning process. Having a good credit position will play an integral part in determining if a lender will approve the required funding for your project. So it will definitely be a worthwhile investment to perform a thorough credit clean up in the early planning stages of your new business.

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