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Securing credit and meeting your business goals

by Qing Lin, OPEN Chief Credit Officer

Of all the tools in a small business owner's arsenal, perhaps none is as powerful as having good credit. The ability to access funds can be both a linchpin for growth and a temporary panacea in troubled times. Fast access to cash will help a forward-thinking entrepreneur take advantage of rapidly changing opportunities, or help a troubled business get past rough spots in the road.

But credit can be hard to find when you are most in need, so don't wait. Having good lending relationships is something that takes careful planning and attention well before the rubber meets the road. Credit card companies aim to help entrepreneurs meet their business goals by providing appropriate levels of finance. Here are the five best practices that you should consider to improve and expand your access to capital:

Balance growth and risk

Entrepreneurs are pretty good at taking risks. Not all entrepreneurs, however, are good at balancing risks with the likely reward. To build great credit, balance is key. That means planning conservatively before you use borrowed money for a project. If you consistently plan for the worst, and work for the best, you'll avoid credit problems and build a track record of success.

On the other hand, it would be counterproductive to shy away from real growth opportunities. When a golden opportunity presents itself, make the most of it. Learn how to plan both the use and repayment of funds, and then frame the opportunity in terms your lender can understand. If the opportunity is real, and you can describe it in reasonable terms, you should have no problem accessing capital.

Who are you dealing with?

Bad credit has a tendency to be contagious. Don't let a bad customer ruin your own credit. Protect yourself from late-payers (or no-payers) by putting a reputable intermediary in the middle. Credit card companies should minimize their merchants' exposure to credit risk by always carefully approving card holders and ensuring that your receipts are cleared in a timely manner. Likewise, as a credit card holder, you ought to be protected from fraudulent transactions of any kind. And in case of any dispute about the payment, the credit card company can be a valuable third-party mediator.

Keep business separate

This is probably the most important tenet of building and maintaining good credit. Separating all accounts — both deposit accounts like checking and savings, and credit accounts like charge cards and loans — can seem onerous. But there is no other way to build a good credit record for your company. Separating accounts protects your personal credit score from the vagaries of business transactions. Business problems that cause missed payments are bad enough, but allowing them to impact your personal credit would be far worse.

Use multiple capital sources

Stretch your credit by using the right tool for the job. If you pay your charge card by the end of the month there is no cost of capital, so if you want a large line of money available but only pay interest on what you draw on, credit is a

better option. If you have a large investment (such as land or significant equipment), then a traditional loan may be sensible. When you apply for — and properly use — multiple credit tools, you are demonstrating your ability to handle other people's money efficiently. As you demonstrate good judgment, and repayment habits, you build your creditworthiness.

Select the right partner

Lenders grant credit based on “the five Cs”: capacity, character, collateral, capital and conditions. In other words, they want to know if you can afford to repay a loan (capacity); are you the kind of person who is likely to repay a loan (character); what's left for the bank if you can't repay a loan (collateral); your ultimate net worth (capital); and how the current economy and your own stage in life might affect the situation (conditions).

When considering a new loan or lender, ask similar questions of them. Determine the three Cs of any lender's offer: Is it the right size loan (capacity); does it have the right repayment terms/fees (character); and does it come with the best ancillary benefits (collateral). Don't forget that even if the loan is right for you, the lender might be wrong. Find one with a solid reputation who offers you some other tools that you need to run your business.

In the end, a long-term relationship with a lender you can trust (and who learns to trust you) will pay off in better credit, and more of it.