



What We Need to Know About....

**Credit Management & Credit Repair
for Entrepreneurs**



What is Credit?

- When someone lends you money, and you pay them back with interest, they have “extended you credit.”
- **Credit** is the ability to borrow money and manage it responsibly.
- Buy now, pay tomorrow.

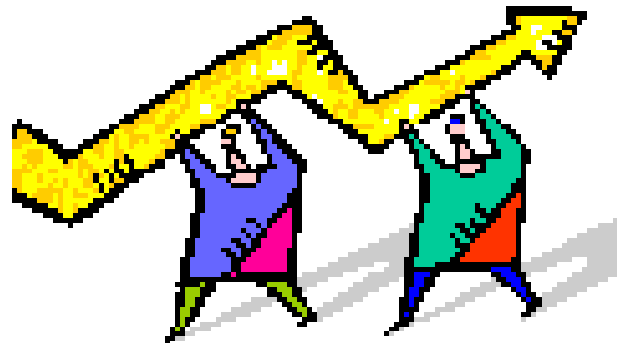
Why is Credit Important for Me?

Credit helps a business:

- Grow
- Buy inventory
- Publicity
- Buy equipment
- Obtain working capital

Credit helps a person:

- Buy a home
- Rent an apartment
- Borrow more money
- Finance a car
- Get an insurance policy





Credit for an Entrepreneur

Why is credit important for a small business owner?

- Your personal credit will be checked when applying for loans
- A lender will want to see that you can handle your personal finances before they lend you money for a business.

Debit vs. Credit?

Debit Cards

- Use your own money to buy things
- Can spend only what you have
- Withdrawn directly from your account by computer
- No bills – purchases show on your monthly checking statement
- No interest charged

Credit Cards

- Use the card agency's money to buy things
- Can spend more than you have, up to a given limit
- Purchases collected into an account that you pay monthly
- Charge interest if you don't pay full balance each month



Cost of Credit

- **Principal** is the amount of money you are borrowing.
- **Interest** is the amount the lender charges you to let you use their money. It is a percentage of the principal (charged per year, month, or week.)
- **Fees** cover the lender's costs to review your credit application or to service your account (maintenance fees, service charges, late fees)

Understanding Terms and Conditions

Term of the loan (length of time you have to pay back)

Amount	Term	Interest	Monthly Pmt.	Total Interest	Total Cost
\$15,000	3 years	10%	\$484	\$2,424	\$17,424
\$15,000	5 years	10%	\$319	\$4,122	\$19,122

Interest Rate

Amount	Term	Interest	Monthly Pmt.	Total Interest	Total Cost
\$15,000	5 years	10%	\$319	\$4,122	\$19,122
\$15,000	5 years	25%	\$440	\$11,416	\$26,416

Understanding Terms and Conditions

Penalties and Transaction Fees

for late payments and/or exceeding your credit limit

Example: You have a credit card with a \$1,000 limit. You have charged \$990 on the card. There is a \$19 penalty for late payments AND charges over the limit. Your payment date is due April 1. You mailed your payment on March 30 and it gets posted on your account April 2. You will be charged \$38 (\$19 for late payment, \$19 for over the limit)

Understanding Terms and Conditions

Default APR

a higher interest rate that you may be charged if you default on *any* account (make a late payment on any of your credit cards or loans, charge over your limit, or bounce checks)

Example: You have a card with 12% APR and the default APR is 24%. If you make a late payment on this card *or any other card*, your APR can be permanently increased to 24%.

These “terms and conditions” are usually on the back of the credit card applications.



Basic Credit Rules

Because it costs you money to use credit,
Use credit only for things that have a useful life beyond when you finish paying for them.

- Business loans – will help you start/grow your business which will exist long after you finished paying the loans.
- Homes, cars, education.
- It may **not** be a good financial decision to use credit to pay for things such as clothing, which has little resale value once used.

Basic Credit Rules

Credit Cards

Because credit cards usually have higher interest rates than loans,

Never purchase something with a credit card that you know you cannot pay back within 6 months to 1 year.

With Credit Cards- Think Short Term!!

Note on Secured Loans

Secured loans are backed by valuable goods (often cars or houses) called **collateral**. If you default on the loan, the lender can take your collateral.

Example: Casey has a catering business. When he applied for a business loan, he put his catering truck as collateral. Casey stopped making payments on the loan, so his car was repossessed. At that point, Casey owed the lender \$8,000. The lender sold the car for \$5,000. Casey still owes **at least** \$3,000.

Note on Secured Loans

Home Equity Loans – A loan secured by the “equity”, or portion that you own, of your home.

Example: You buy a home for \$100,000. You make a down payment of \$20,000 in cash, and take a mortgage loan for \$80,000. Your equity in your home is \$20,000, the amount you’ve paid.

You may be able to borrow money secured by the equity you own in your home. Your home is then collateral for **two** separate loans: the mortgage and the home equity loan.

If you default on **either** loan, you can lose your home!



What is a Credit History?

- Your history of payments on:
 - Credit cards
 - Loans
 - Mortgages
 - Other (medical bills, utility bills, etc)
- Includes judgments, bankruptcies, liens and any other public records.
- Your *credit report* is a written summary of your credit history.



How to Get your Credit Report

Contact all **3** Credit Reporting Agencies:

TransUnion: 1-800-888-4213 or visit www.transunion.com

Experian: 1-888-397-3742 or visit www.experian.com

Equifax: 1-800-685-1111 or visit www.equifax.com

Beginning in September 2005, you can request one free credit report per year at www.annualcreditreport.com or by phone at **1-877-322-8228**



How to Get your Credit Report

- To request a copy of your credit report, you will generally need to provide:
 - Full name
 - Social Security Number
 - Current and previous addresses within the last 2 years
 - Birth date
 - Telephone number
 - If you request it in writing, include a copy of your driver's license or a billing statement to verify your address
- The cost of obtaining a credit report is an average of \$10.

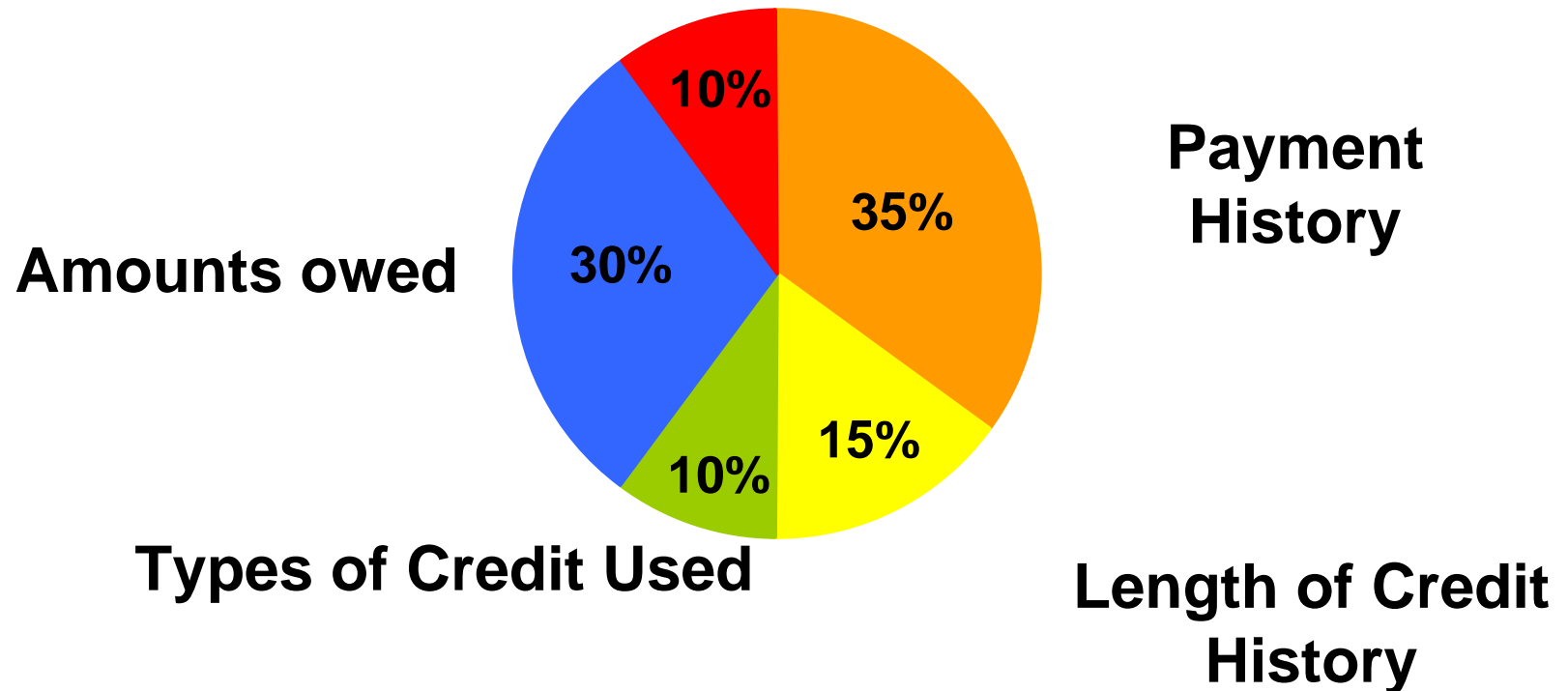


Information on Credit Reports

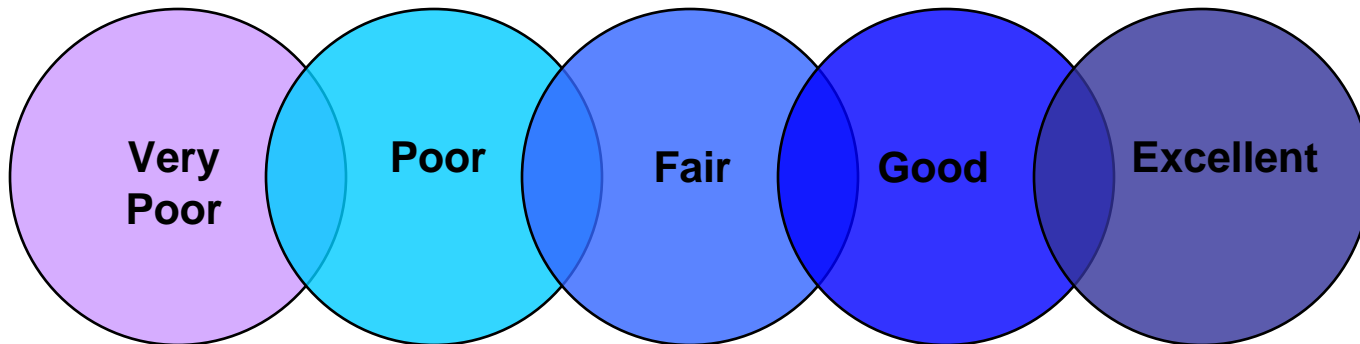
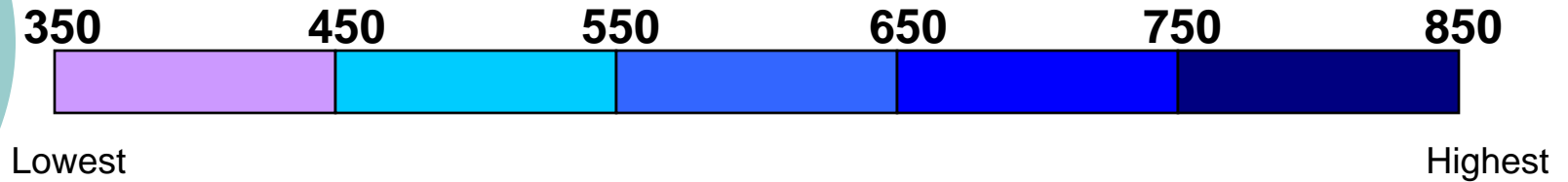
- **Your credit report contains information about:**
 - Your name, date of birth, SSN, addresses
 - Employment
 - Total credit limit
 - Outstanding balance
 - Number of accounts and their status
 - Payment history
 - Credit score
 - Number of inquiries

What is a Credit Score?

- A number that lenders use to predict how you will use credit in the future (350-850).
- Credit scores take into consideration:
New Credit



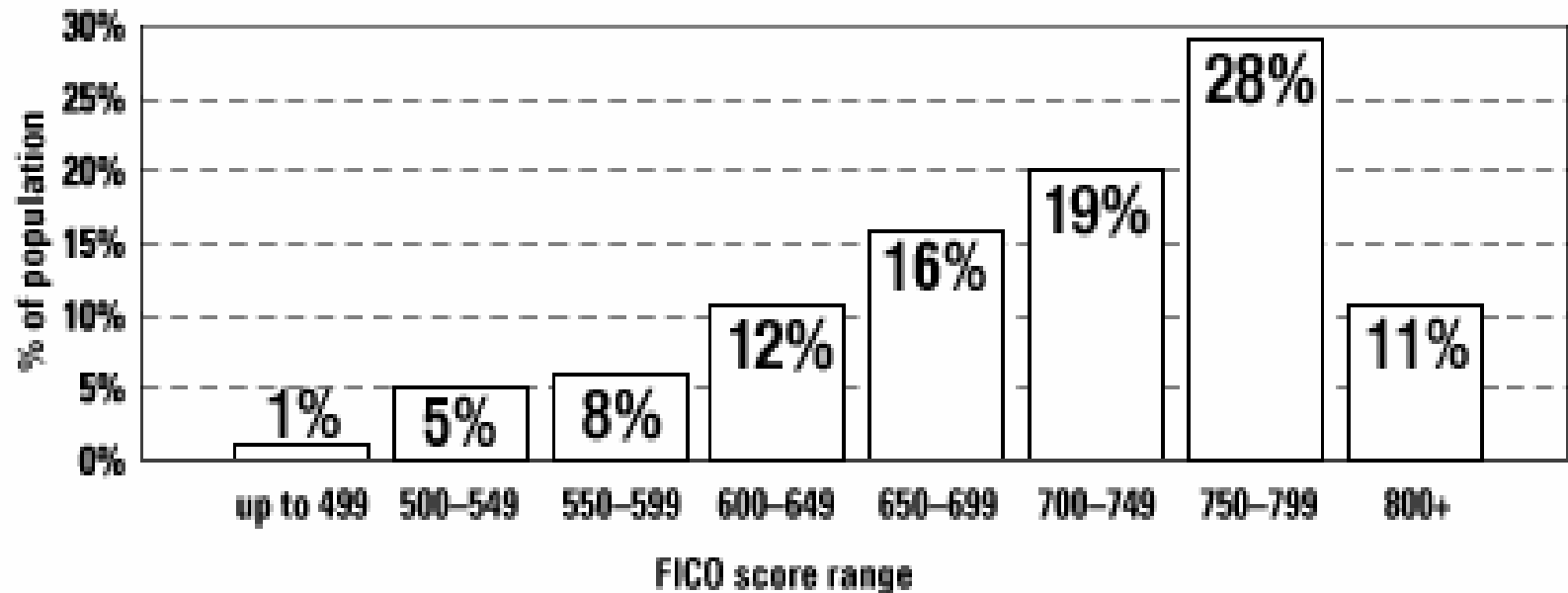
What is a Credit Score?



Source: www.truecredit.com

How do I Compare to the Rest of the Population?

National distribution of FICO scores



Source: MyFico.com

How does my Credit Score Affect me?

Example: \$250,000 mortgage loan for 30 years

Credit Score	APR	Monthly Payment	Total Interest Paid
720-850	5.771%	\$1,462	\$276,417
700-719	5.894%	\$1,482	\$283,477
675-699	6.425%	\$1,568	\$314,429
620-674	7.561%	\$1,758	\$383,057
560-619	7.969%	\$1,829	\$408,444
500-599	7.893%	\$1,816	\$403,687

Warning Signs of Credit Problems

- You are at or near the limit on credit cards
- You are only making minimum payments
- You have recently been denied credit
- You have defaulted on a payment or on your rent

How do I Improve my Credit Score?

- **Pay your bills on time** to protect your credit and to avoid late fees.
 - If you cannot pay on time, call your creditors **before** payment is due to explain the situation.
- **Get current and stay current** if you have missed payments.
 - Recent late payments are more damaging than a bankruptcy discharged a few years ago.
 - The longer you pay your bills on time, the better your score.

How do I Improve my Credit Score?

Pay off your entire bill each month.

- If you do, you pay **zero interest** and you build your credit at **no extra cost**. If you can't, try to pay **more than the minimum** payment due.

Credit Card Balance	Interest rate	Minimum payment due	Monthly payments	How much you pay in interest	Months to pay off
\$800	18%	\$20	\$20	\$815.49	131
\$800	18%	\$20	\$50	\$121.72	19
\$800	18%	\$20	\$80	\$73.30	11

How do I Improve my Credit Score?

- **Keep low balances** on credit cards (less than 50% of your limit). *Remember, 30% of your credit score is determined by how much credit you use!*
- **Don't open a lot of new accounts too quickly,** especially if you have been managing credit for a short time.

How do I Start a Credit History?

- Open a **secured credit card**. These are credit cards backed by money in a savings account. Use this card every month and pay it in full to establish a good payment record.
- Apply for **credit with a department store or specialty store**.
- Apply for an **ACCION** small loan to start your credit history and make all your payments on time (we report to credit bureaus).



Credit Repair

ACCIÓN
NEW YORK

ACCIÓN
NEW JERSEY



Credit Report Mistakes

- **Review** your credit report from all three credit agencies once a year.
- **Dispute** inaccuracies with the credit agencies and with your creditors.

How can I Repair my Credit Report?

- Request a dispute form from the credit agency. Return it with copies of all documents that support your dispute.
- Or, write a brief letter explaining your dispute.
 - Attach supporting documentation
 - Include ALL specifics you have about the account
- The credit report agency must verify the information you dispute, and should answer you by mail within 30 days.



How can I Repair my Credit Report?

- If the credit agency will not correct the information, **call the creditor directly** to request a review of your account.
- If everything fails, you are allowed to add a **100-word statement** to your credit report, explaining why you believe the information is inaccurate.

How can I Repair my Credit History?

YOU CAN DO IT YOURSELF!

- **Determine how much you owe**
 - Make a list of all your creditors, balances, and interest rates.
- **Determine how much you can pay**
 - Look at your monthly income and expenses and decide how much you can commit to repaying your debt.
- **Repay past debts**
 - Contact creditors to work out a monthly repayment plan or a partial settlement. Make sure you get all the agreements **in writing**.

How can I Repair my Credit History?

YOU CAN DO IT YOURSELF!

- Once you made a payment agreement, make sure you **follow up with it.**
- When you finish paying a debt, update your credit report. Ask for a “**proof of payment**” letter and mail a copy to all 3 credit agencies with a dispute letter.
- Get a **secured credit card/secured loan** and begin rebuilding a good payment history.



Consumer Credit Counseling

- A service that helps people get out of debt.
 - Advice on budgeting
 - Debt consolidation and management programs – you make monthly payments to the organization, which in turn pays your creditors
- Make sure the organization is licensed by the New York State Banking Department.

Dealing with Identity Fraud

1. **Place a fraud alert on your credit file:**

Equifax: 800-525-6285;

P.O. Box 740241, Atlanta, GA 30374-0241

Experian: 888-397-3742;

P.O. Box 9530, Allen, TX 75013

Transunion: 800-680-7289;

P.O. Box 6790, Fullerton, CA 92634

2. **File a police report.** Get a copy of the report to submit to your creditors and others that may require proof of the crime.

3. **File a complaint with the FTC** at www.ftc.gov

Scams and Money Traps

Rent-to-own stores – can be a good option for short-term use. However, you need to understand the total cost!

- If you miss a payment you can lose the desk
- You may end up renting used goods

Example: You rent a desk for your new business (\$300 value). You pay \$16/week for 52 weeks = \$832. You paid \$532 in interest, which is 254% on an annual basis.

Scams and Money Traps

Loan Sharks: loans obtained from informal lenders without credit checks or documentation.

- You can borrow high amounts of money to cover for business needs or in emergency. However, the interest can be up to 600% annually.

Example: For a \$10,000 loan you agree to pay 4% weekly interest. You pay \$1,700 a month for 5 years. That means you pay \$92,000 in interest!!

Scams and Money Traps

Refund Anticipation Loans (RALs) and Refund Anticipation Checks (RACs)

- Tax preparers promise to give you your refund on the spot. These are actually high-priced loans!

Example: You should receive a \$2,000 tax refund and decided to take a RAL. The tax preparer deducts their fees \$215 and you receive \$1,785. You have just paid 10.75% of your refund in

Scams and Money Traps

Check Cashers

If you receive a weekly paycheck of \$320 and pay 4 bills per month and use a check casher:

Services	Fee Amount	Fees in One Month	Fees in One Year
Cashing Checks	\$4.80 (fee = 1.5% of check)	\$21.60 (\$4.80 x 4.5 weeks)	\$259
Money Orders	\$1.25	\$5.00	\$60

Total Cost in One Year: \$319.20

Scams and Money Traps

If you have an account at a credit union or bank:

Services	Fee Amount	Fees in One Month	Fees in One Year
Writing Checks	\$15.00 (book of checks)	0	\$15.00
ATM Withdrawal	\$1.50	\$3.00	\$36.00
Monthly Account Fee	\$3.00	\$3.00	\$36.00

Total Cost in One Year: \$87.00



Business Bank Accounts

It is important to keep your business and personal accounts separate.

Having a bank account is useful for many reasons:

- Cost
- Keeps track of expenses and income, which will help with loans in future
- Leaves paper trail

Small Business Financing Options

As a small business owner, you have many options for financing

- Bank/Credit Union
- Microlender: i.e. ACCION New York
- Friends & Family
- Informal Lenders
- Credit Cards



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