



Part of the Washington SBDC Podcast Series

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Your Credit Your Character:

Remember that bankers are risk averse; their main interest is getting their loan repaid in a timely fashion. Lenders evaluate you, the borrower, as a part of your risk factors.

5 C's of credit:

- Collateral
- Cash
- Capacity
- Conditions
- Character

Lenders used to know the borrowers personally. Today, a commercial lender will likely not know you or your character, and doesn't have time to find out about your character. Fortunately this makes the process **more objective**.

Lenders now use the credit report as a substitute for a personal evaluation of his borrowers.

Check your credit report before looking for a business loan.

The bureaus:

- Experian
- Trans Union
- Equifax

Credit Number Rating Game:

- 1's mean you pay your bills on time (the best report to have)
- 2's means you've gone over 30 days but not over 60 days in paying your debts. This is a slight blemish on your record.

- 3's, 4's and 5's are not a good sign and the banker's develop suspicions.
- 7's mean that your wages have been garnished.
- 8's mean you have had property repossessed for nonpayment.
- 9's mean you were charged off to bad debt causing red flags to go up and alarms sound.

Acceptable explanations:

- Prolonged illness
- Divorce
- Corporate layoff

These event coupled with indication that you are in the process of paying back on your debts may allow the lender to ease up on credit requirements.

Information on your credit report that does not belong to you might be an error in data entry. This will stay on your report unless you challenge it in writing with the credit bureau. You may have to be persistent to get the errors removed.

Remember that your credit report reveals your character when it comes to dealer with a lender and with a little forecast you can overcome a major hurdle in the loan application process.

Visit your local SBDC for no-cost, confidential advising services: www.wsfdc.org