

# Credit by the numbers

*Use it wisely and it can help your business. Make a misstep and the effects can last for years. Here are nine things you need to know*

BY WILLIAM LYNOTT

Like fire, business credit can be a valuable friend or a dreadful foe. Used sensibly, credit can be a major asset in your business. Use it carelessly and it can become your worst enemy. Here are nine ways to help you put credit to work for you and your business.

## 1 Your credit report is important

If you are operating as a sole proprietor or partnership, it isn't possible to separate your personal credit from your business credit. To learn more about how your credit score is calculated, see the Federal Trade Commission's information site at [www.ftc.gov/bcp/menus/consumer/credit/reports.shtm](http://www.ftc.gov/bcp/menus/consumer/credit/reports.shtm).

The credit reporting agencies (CRAs) are required by law to provide you with a free copy of your credit report, at your request, once every 12 months. You can order your free report online at [www.annualcreditreport.com](http://www.annualcreditreport.com), or by calling 877-322-8228.

If your business is incorporated, you should register with Dun & Bradstreet (877-753-1444) using your legal business name. Registration is free and will provide you with a DUNS number. The DUNS number is a unique nine-digit sequence recognized as a universal standard for identifying and keeping track of the over 100 million businesses in the D&B database.

## 2 Improve your credit score

A good credit score will make it easier for you to obtain credit when you need it and to qualify for business loans at advantageous interest rates. You can improve your score by:

- Paying your bills on time. This is the smart way to handle credit. Late or missed payments are a sure way to lower your score.
- Avoid large balances. Outstanding balances larger than about 25% of your credit limit are a red flag to financial institutions.
- Transferring balances won't help. Closing out an account and transferring the balance to another credit card is likely to lower your score. Each time you close an account, you lower your overall credit limit, causing the same amount of debt to become a larger percentage of your credit limit.
- Review your reports from the credit bureaus for accuracy once a year. When you find an error, such as a payment wrongly labeled as late, notify the CRAs of the error at once.

## 3 Use other people's money to make your routine monthly purchases

Whenever possible, don't charge more than you can pay off in full when your monthly bill arrives. When you pay the full balance on your credit card bill each month, you are taking advantage of an interest-free loan from the card issuer. That's a plus for your cash flow.

If you make only minimum payments on a significant balance, it can take years, and sometimes decades, to pay off the full debt. Once you fall into the "minimum payment trap," it can be difficult if not impossible to dig your way out.

## 4 Beware of canceling unused credit card accounts all at once

If you have a number of credit card accounts, but use only a few of them, you should close out the unused ones. However, be sure to keep the cards that you've had the longest and cancel the newest cards. The CRAs like to see a long record of prompt payments. Too many new cards will tend to lower your credit score.

If you have more than one or two unused cards, spread out the cancellations over a period of several months. A rash of card cancellations in quick succession is another red flag for the monitoring agencies.

## 5 Think twice before opening new credit card accounts

Don't apply for new credit card accounts unless it's absolutely necessary. If your business doesn't already have a long and favorable credit history, opening a new credit line will tend to lower your score since the business doesn't have a proven track record. New accounts lower the average age of your accounts. That, in turn, will affect your credit score.

## 6 Consolidating credit card balances won't help

Chances are you've seen those advertisements on television and the Internet: "Consolidate all your credit card debts into one low-payment loan." Some debt consolidation companies also claim that they will negotiate with your creditors to reduce your debt.

Debt consolidation comes in several varieties, including debt-consolidation

loans, balance transfers to a zero-percent credit card, and home equity loans or lines of credit.

"However, these services are not a magic cure for crippling credit card debt," says Chris Viale, CEO of Cambridge Credit Corp. "Once you allow yourself to get into unmanageable debt, there's no easy way out. Debt consolidation may sound like an easy cure, but many business owners have discovered that this choice only led them down the road to an even more burdensome debt load."

According to Viale, one out of every three or four persons who takes out a home equity loan to pay off credit cards finds themselves in the same (or higher) debt position after two years. Only then, they have the additional burden of the home equity loan to pay off.

"The first step that anyone with unmanageable debt should take," says Viale, "is to seek professional debt counseling." Viale's advice is not surprising; he heads a debt-counseling group.

Still, other professionals agree with him. "Consolidating debts may be only digging yourself into a deeper hole," says Brent A. Neisner, certified financial planner, Greenwood Village, Colo. "Before you take that step, you should ask yourself how you got into debt trouble. Overspending almost always involves emotional and psychological issues that aren't going to go away by treating the symptoms."

## THE BIG THREE CRAs

### Equifax

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

**Order credit report:** 800-685-1111

**Report fraud:** 800-525-6285

### Experian

P.O. Box 2104  
Allen, TX  
75013

**Order credit report:** 888-397-3742

**Report fraud:** 888-397-3742

### TransUnion

760 Sproul Road  
P.O. Box 390  
Springfield, PA 19064-0390

**Order credit report:** 800-916-8800

**Report fraud:** 800-680-7289

## 7 Eliminate pre-approved credit card offers from your mailbox

Those pre-approved credit offers that find their way into your mailbox represent a temptation for identity thieves who might try to open new credit accounts in the name of your business.

Fortunately, you can opt out by visiting the official Credit Reporting Industry website at [www.optoutprescreen.com](http://www.optoutprescreen.com) or by calling 888-567-8688 to opt out via telephone.

## 8 Be aware of the differences between debit and credit cards

Card issuers promote debit cards for several reasons, few of which work to your advantage. While there are many similarities between debit and credit cards, the differences can significantly affect the cash flow in your business.

It's easier to qualify for a small-business debit card than a credit card. That's because there's no credit involved. When you use a debit card, you must already have the money in your business account at the bank. Your purchase is debited to your account electronically as soon as you make your purchase.

Debit cards, then, are almost like cash. Unlike writing a check, using a debit card saves you from having to show identification when you conduct a transaction. Having a debit card not only frees you from carrying cash; it will be more readily accepted than checks where you aren't known.

However, debit cards carry their own set of disadvantages that you need to know about. Unlike credit cards, debit cards give you no grace period for paying your bill. The money is deducted from your account immediately each time you use it.

Keeping your account in balance can be a problem. It's easy to misplace a receipt and forget to notate the transaction in your check register. That can result in overdrawn accounts and financial penalties.

While you get protection from liability due to fraud on both credit card and debit card purchases, debit cards do not offer the same protection as credit cards in the case of defective or unsatisfactory merchandise. With credit cards, you may dispute errors or unauthorized charges and withhold payment until the matter is resolved. This allows your business to use

## CREDIT COUNSELING

The National Foundation for Credit Counseling is the nation's oldest and largest nonprofit organization providing education and counseling services on budgeting and credit with nearly 1,500 member agency locations across the United States and Puerto Rico.

Many NFCC member agencies use the Consumer Credit Counseling Service trademark. To contact the NFCC member office nearest you, call toll-free from a touch-tone phone 800-388-2227 or visit the NFCC website at [www.nfcc.org](http://www.nfcc.org).

the money while the credit card issuer investigates the circumstances. With a debit card, your money is irrevocably spent the moment you complete the transaction.

If you pay off your credit card balances in full each month, the last thing you need is a debit card. You're now enjoying up to 30 days of free use of someone else's money. This is "using the float" — the period between the purchase date and when the money is actually withdrawn from your account. In this case, you should congratulate yourself on your financial acumen and hang on to those credit cards.

## 9 Never commingle business and personal funds

Not only is mixing your business and personal finances together an open invitation to problems with the Internal Revenue Service, it complicates your recordkeeping and cash flow management. You should maintain separate business bank accounts and make all of your business purchases on a small-business credit card.

Credit in itself is not harmful. In fact, used skillfully, credit can be a profitable tool for managing your business affairs. Observation of these tips will help to make credit one of your business assets, not one of your liabilities. ■

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