

2008



Credit Reports & You

SO WHAT IS A CREDIT REPORT?

THE PREMIER
BUSINESS
MANAGEMENT FIRM
FOR EMERGING AND
GROWTH COMPANIES

We're On The Web
strategicbusinessgroup.com

Phone: 651 484.0093

See **LINKS** at our website to get a free copy of your Credit Report.

We often begin a consulting assignment doing work other than finance but in many cases we are called upon to help the company secure a new line of credit, restructure a current credit arrangement, or develop a credit policy for the company.

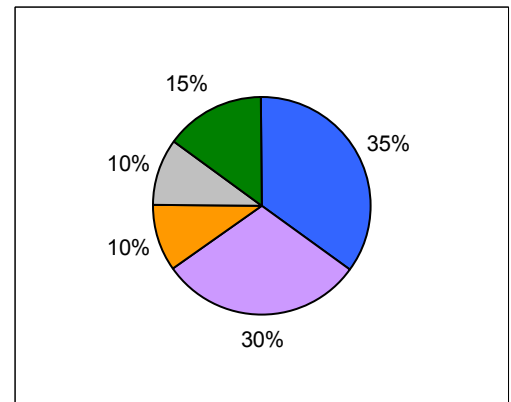
It's not unusual to discover that the company's financial statements do not reflect its true performance. Sometimes it's over stated and other times understated. We help improve their financial statements.

If you're like most Americans you have borrowed money at some point in your adult life. Prior to making you the loan the bank, credit union, credit card company, retailer, or utility first checked your credit report and score in determining if you're a good credit risk and likely to repay the loan for the goods or services provided to you.

However like most people you probably have a slight or vague understanding of what generally is a good credit score (often 650 or greater). The higher your credit score the easier it is to get additional credit and possibly a lower interest rate. The median FICO score in the US is 723 (see the graph to the right for components of the credit score). There are numerous variations on the FICO formula that are used by specific industries e.g. auto lenders may use one that predicts vehicle repayment behavior.

FICO is a proprietary analytical model that predicts payment patterns and services as a guide for granting credit. For detailed information on FICO we suggest you go to the URL: www.myFICO.com.

Small business owners personal credit is often tied to the loans made to their business. Why? Because these business loans are normally personally guaranteed by the principal owners. They have control of the business therefore the lender wants them committed to the loan. On the reverse side we discuss this relationship and how you can use your business credit report.



- Payment history—35%
- Amounts owed— 30%
- Length of credit history—15%
- New credit—10%
- Types of credit used—10%

Graph and information from www.myFICO.com, FICO credit scores. MyFICO is a division of Fair Isaac Corporation of Minneapolis, Minnesota. Stock symbol NYSE: FIC

LET OUR GROUP HELP YOU

- We have assisted many small businesses to obtain long-term financing to expand or improve their business. *With our guidance from application to cash can be less than 90-days!*
- Our Group helps you think through the issues critical to growing your business i.e. acquisitions or merger, equipment, inventory, training, signs, grand opening costs, and working capital.
- Our client's have their revenue plan reviewed by our Group and receive helpful suggestions to consider to improve their profit and loss —critical to receive financing.

Business Credit Reports

Like the FICO credit reports for individuals businesses also have credit reports. Dunn and Bradstreet, Inc. (D&B) is the largest US provider of business reports (URL: www.dnb.com). D&B offers three reports; Comprehensive Insight Plus Report, Business Information Report, and Credit eValuator Report. D&B's business reports are not as inclusive as personal credit reports. The primary reason is that many smaller companies (under \$15-million in sales) have failed to provide D&B with specific information about their business. D&B's information is limited to some information about the company that may have been supplied by a lender or company personnel. Financial payment information is often solely from large companies who have open accounts with the small company and they report their payment history directly to D&B.

What's the benefit of having accurate up-to-date information about your company with D&B? Potential suppliers and buyers often check your company's D&B report before they commit to buy from your company or sell to your company on credit. Large companies are concerned about smaller companies ability to perform on their contracts and they look at these reports as an indicator of how your company has handled its credit—and its ability to be a stable supplier.

Small business owners and managers should have their financial department contact D&B and provide them with solid information about the company such as; correct business name and address, telephone number, year incorporated, industry, number of employees, net worth, chief executive officer, and chief financial officer or accounting manager.

If your company's sales are increasing and your financial statement is good or improving you may want to consider providing D&B a brief outline of that information such as; current assets, current liabilities, other assets, total assets, long-term debt, and net worth. Also sales information such as; annual sales, gross profit, operating expenses, and net operating income. With this limited information your company may be perceived as possessing a higher level of business sophistication than your competitors.— and this may translate into better terms or new business from larger companies.

D&B credit scores are more specific than the personal FICO score such as; 1) Default on payment financial stress summary, 2) Payment within terms: credit score summary, and 3) Historical payment trends: PAYDEX comparison to industry.

Businesses do not require your company's permission to request a D&B report and many larger companies have established procedures as to when and how often they request reports on suppliers.

YOUR BUSINESS AND PERSONAL CREDIT MEET

If you're the sole owner or one of the majority owners of your business and it has a bank loan or loan with another lender, the probability that the company's loan is personally guaranteed by you and the other owners is near 100%. Private companies are controlled by a small group and they determine to a large extent its fate. Lenders know this and they want to know that when the business encounters problems the owners have a vested interest in attempting to return the business to profitability.

Lenders refer to the **5 C's** of Credit and they are: **CAPACITY** or the business' ability to repay the loan, 2) **CAPITAL**, the business' equity and the equity of the owners (a second source of loan repayment), 3) **COLLATERAL** –market liquidation value as a source of repayment, 4) **CONDITIONS** –general and industry specific economic conditions, and 5) **CHARACTER**—a subjective assessment of the owner's honesty, integrity and skills.

You can expect to see a more critical analysis of your business financials as lenders become more concerned about credit quality. For many small business owners banks have effectively relied on the homes of the owners as "additional collateral" and with home values in decline banks will be more focused on your business's ability and future ability to repay the business loan.

We have helped many companies obtain new loans or credit sources for a variety of industries.

We can help your company!



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