

Financial Empowerment in Life A Shop 52 Seminar and Business

Personal Finance and the Small Business



1. Credit Scores Demystified

- Britt Scarce, SCORE Counselors to America's Small Business

2. Credit Reports

- Mary Hurlburt, Consumer Credit Counseling Service

3. Saving to Fund your Small Business

- Dionne Owens, SmartMoney Community Services

4. Debt Management

- Simón Sotelo, PNC Bank

1. Credit Scores Demystified

Britt Searce

bscearce@emeryfcu.org

SCORE[®]
Counselors to America's Small Business

Credit scores are vital to your financial health!

- A credit score is a number that helps lenders and others predict how likely you are to make your credit payments on time.
- Each score is based on the information found in your credit report.
- Having good credit scores will make financial dealings a lot easier and save you thousands of dollars over time.

In what ways will your credit scores affect you financially?

- **Mortgage Rates**
- **Auto Insurance**
- **Homeowner Insurance**
- **Auto Loans**
- **Credit Card Rates**
- **Employment**
- **Basic Utilities and Services**

BASIC CREDIT SCORE INFORMATION

- Scoring has been around since the 50s!
- Fair, Isaac & Co. calculates credit scores
- FICO calculates scores for Equifax, TransUnion & Experian.
- FICO scores range from 300-850
- FICO's model is used 455 times a SECOND!
- It's all about risk

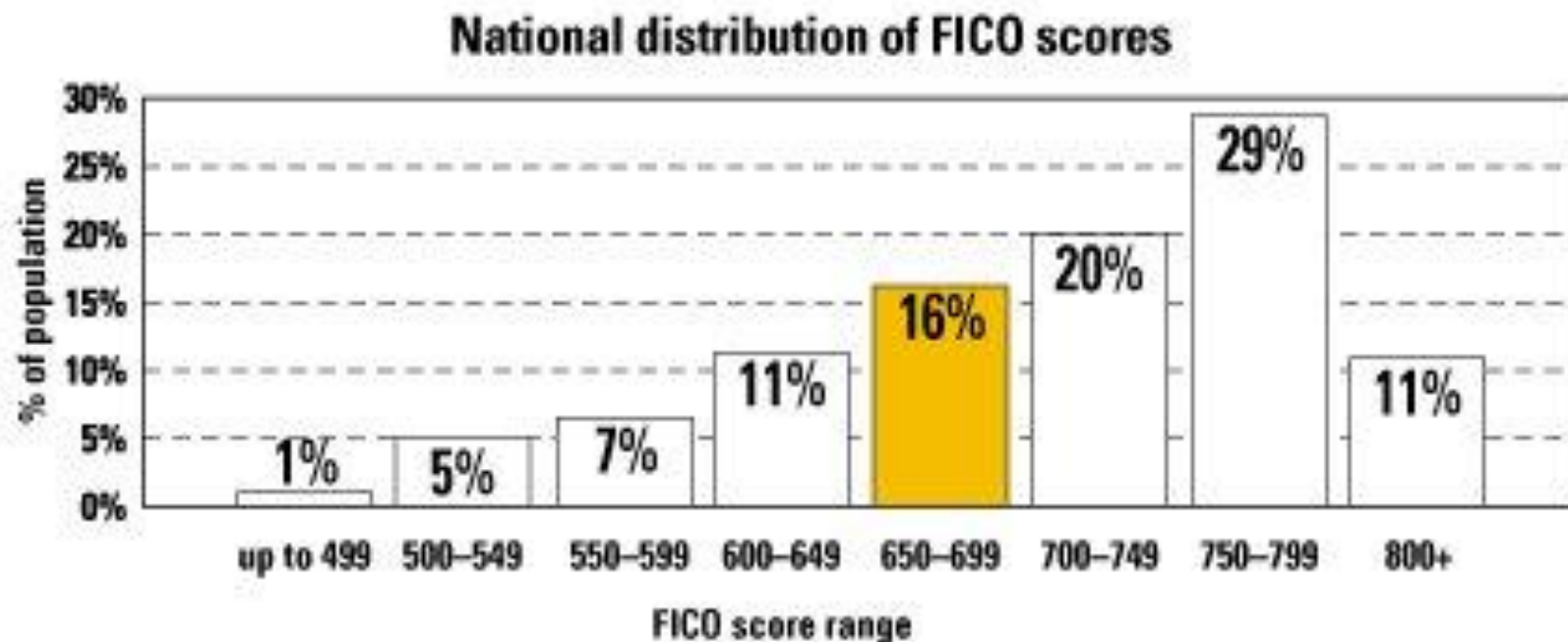
THE SCORING SYSTEM

- SCORE / LETTER GRADE / MORTGAGE

530 & Lower = D		Buy Here		10 – 20% Down
531 – 550 = D+	=	Pay Here	=	Premium Yield Spreads
		Highest Rate		Must have Reserves
				Full Document Loans
551 – 579 = C		Sub-Prime		0 – 10% Down
580 – 619 = B	=	High Risk	=	Premium Yield Spreads
620 – 679 = A-				Must have Reserves
				Full Document Loans
680 – 699 = A		Prime Lending		0 – 5% Down
700 – 719 = A+	=	Lowest Rates	=	Low Reserves
720 & Above = A++				Stated Loans
				Low Closing Cost/Points

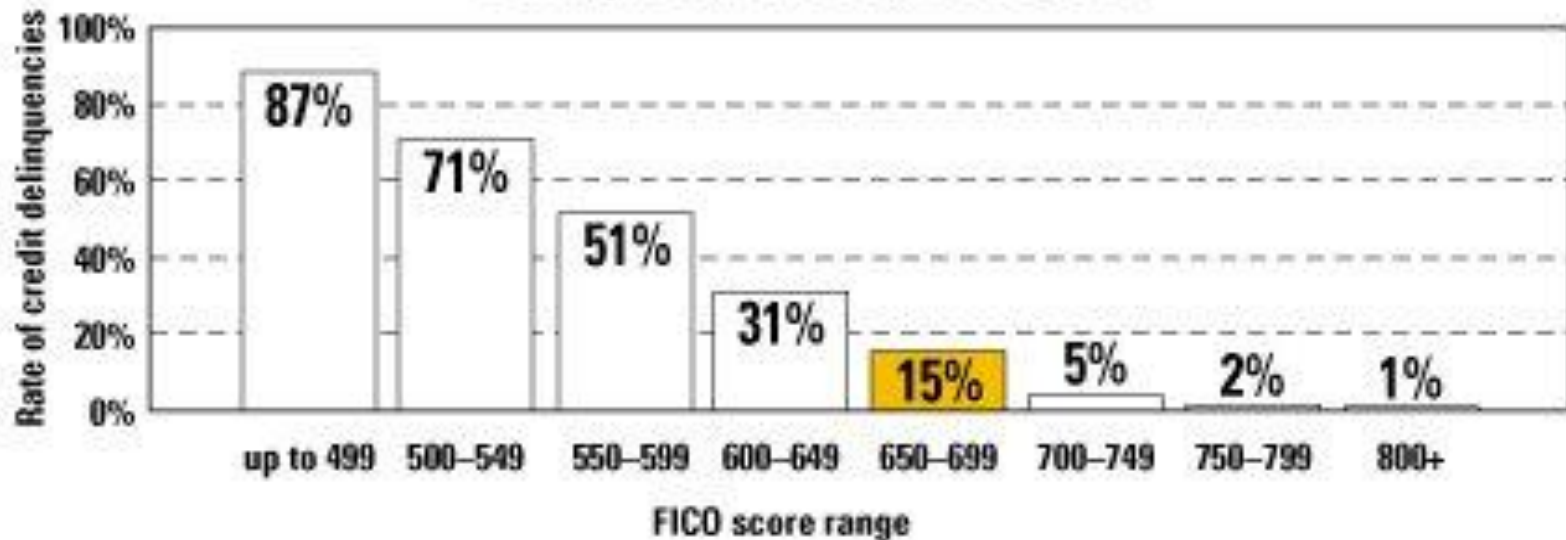
Do YOU know YOUR score?

Score Distribution



Scores and Lender Risk

Delinquency rates by FICO score



HOW ARE SCORES CALCULATED?

- **Payment History (35%)**– the largest factor determined on your FICO score is your basic payment history. Your payment history includes things like: the number of unpaid bills you have, any bills sent to collection, bankruptcies, etc. The more recent the negative information, the lower your score will be. For example, even a 30 day late payment being within the last few months can have a tremendous impact on your score.

HOW ARE SCORES CALCULATED?

- **Outstanding Debt (30%)** – Are your credit card balances close to the high limit? If so, this can definitely have a negative impact on your score. Simply keeping your credit card balances lower than 40% of your high limit will have a positive effect on your credit score.

HOW ARE SCORES CALCULATED?

- **Length of your credit history (15%)** –Accounts that have been open longer than 7 years will greatly help your score.
- **New credit (10%)** – An inquiry is generated every time you apply for credit. If you have more than 4 within a three month period, it can negatively impact your credit score.

HOW ARE SCORES CALCULATED?

- **Types of credit in use (10%)** – having loans from secondary lenders such as: Finance companies and payday lenders - can subtract from your score.

HOW ARE SCORES CALCULATED?

- **Payment History – 35%- 193 Points**
- **Outstanding Debt – 30% - 165 Points**
- **Length of Credit History – 15% - 82 Points**
- **Types of Credit Used – 10% - 55 Points**
- **New Credit – 10% - 55 Points**

According to USA TODAY, this is a system with some problems.

“Problems with credit reports are not uncommon. A 2004 survey by the U.S. Public Interest Research Group found that 79% of credit reports contained errors, and 25% contained mistakes serious enough to prevent the individual from obtaining credit.”

MAKING THE MOST OF YOUR SCORE

- **Pay your bills on time**
- **Challenge incorrect information hurting your score**
- **Keep accounts open as long as possible**
- **Use less than 30-50% of limits at all times**
- **No more than 4 inquiries per 3 mo.**
- **Stay away from secondary lenders!**

GOOD CREDIT SAVES YOU MONEY!

Increasing your credit score from 580 to 680 could make a BIG difference!!!

	<u>580 Score</u>	<u>680 Score</u>
• Mortgage*	\$1,096/mo. at 10%	\$710/mo. at 5.5%
• Auto Insurance**	\$240/mo.	\$58/mo.
• Home Insurance*	\$96/mo.	\$42/mo.
• Auto Loan**	\$424/mo. at 10%	\$349/mo. at 2%
• Credit Cards***	<u>\$41/mo. at 25%</u>	<u>\$16/mo. at 10%</u>
TOTAL	\$1,897/mo.	\$1,175/mo.

Total Monthly Savings: \$722.00

Total Yearly Savings: \$8,664.00

*Based on a \$125,000 Home ** Based on a \$20,000 Automobile *** Based on 2,000 Credit Card Debt

GOOD CREDIT SAVES YOU MONEY!

- A \$125,000 home with a 30 year mortgage for a person with a “D” Credit grade earns him/her with a 10% interest rate, costing him/her \$1,096.96 per month with total interest payments costing \$269,907.21.
- The same \$125,000 home with a 30 year mortgage for a person with an “A” credit grade earns him/her a 6% interest rate, costing him/her \$749.44 per month with total interest payments costing \$144,797.74.
- Therefore, a person with an “A” credit grade will pay \$347.52 less per month, and \$125,109.47 less on total interest payments

THE SECRET

A recent 2005 Gallup Poll survey revealed this startling fact:

- If consumers raised their credit scores by only 30 points, they would save \$16 Billion on lower credit card finance charges alone.

My FICO Website

- WWW.MYFICO.COM

Stop Junk Mail Offers

- The major credit agencies all sell aggregate credit information to any bidder. Direct mail and credit companies generate mail based on demographics including zip code, income band and credit payment patterns. Stopping this is easy, you just need your address, former address within two years, and social security number. One call does it all for agencies Equifax, Trans Union, Experian.
- Dial **1-888-5 OPT OUT** (or 1-888-567-8688) 24 hours a day.

Be proactive! Actively manage your credit.

- Monitor – Get a monitoring plan.
- Improve – Make the necessary adjustments
- Protect – Get identity theft insurance.

It is vital to your financial Health!!

Thank You!

Britt Searce

513-646-4218

bscearce@emeryfcu.org

2. Credit Reports

Presented by

Mary Hurlburt

Consumer Credit Counseling Service



Consumer ***Credit Counseling*** Service

Important Because...

- **It's your financial report card.**
- **Corporation or Not: You will be asked.**

3 Major Credit Reporting Companies

- Equifax – www.equifax.com 800-685-1111
 - Transunion – www.transunion.com 800-888-4213
 - Experian – www.experian.com 888-397-3742
- Free if denied within last 60 days
 - 8.00/8.50 if through them for single report from one company
 - Can also purchase trimerge reports that combine info from all three onto one report.

Free Credit Reports

- One free copy of credit report from each of three credit bureaus every year.
 - www.annualcreditreport.com
 - 1-877-322-8228
 - Annual Credit Report Request Service
P O Box 105281, Atlanta, GA 30348-5281
- Credit Score does not come automatically with the free report.

Information on a Report

- Identification
- Account information & payment history
- Summary
- Public record
- Inquiries

Accurate Information

- Account information will be reported for 7 years.
- Bankruptcy info – 7-10 years.
- Defaulted student loans, judgments on loans, and lawsuits can be listed longer.

- Sample credit report
- CREDIT BUREAU REPORT-

- IDENTIFYING INFORMATION

- Public, Joe 15 Any Street 325 Broad St. Someplace, USA 55555
- Sam's plumbing Welder Nice City, America 33333 03/15/52 222-22-2222

- Trade Line information

Industry	Date reported	Acct. Number	High credit	Balance	Current rating	Historical delinquency
Bankcard	05/03/92			\$5000	Current	90 – 5 yr ago
Auto loan	05/03/01		\$15,000	\$9750	Current	
Retail	04/24/00		\$2500	\$1200	30 days	
Retail	04/05/02		\$800	\$700	Current	
Mortgage	06/05/99		\$125,000	\$115,000	Current	

- Credit Inquiries

Date	Industry	Date	Industry	Date	Industry
12/04	Bank	5/04	Auto finance	01/04	Retail

- Public Record / Collection Items

- 7/03 collection \$450 8/04 judgment \$1500 Paid 12/0402/05 collection \$250

Act On Information

- **Maintain**
- **Correct**
- **Improve**

MAINTAIN

- Watch major purchases
- Acquire little new credit
- Check report annually
- Beware ID Theft
- Allow no collection items
- One thing at a time!

CORRECT

Fair Credit Reporting Act

- The Dispute Process
 - Follow credit bureau's instructions.
 - CRAs must investigate – within 45 days
- Must delete what they can't verify
- Must correct inaccuracies
- Must report back to you

IMPROVE

- Last two years – most important
- Pay current debt first
- Check for duplicate listings
- Filed Bankruptcy – Balances must say \$0
- Handle the medical bills!
- Maintain your cool!

Thank you!

Mary Hurlburt

513-366-4504 ext. 17

mhurlburt@cccservices.com

CCCS

1-800-355-2227

www.cccservices.com

3. Saving to Fund Your Small Business



Dionne R. Owens

Financial Education Director

How Much Do You Need?

- **Before you determine how you are going to finance your business, you first must know how much money you will need.**
- **Some business can be started on a shoestring, others require considerable investments.**
- **Identify all the expenses that your business will incur in the start up phase.**

Identify Your Expenses

- **Examples of One Time Cost**
 - Fees for incorporation
 - Price for signage, furniture, etc.
 - Renovation
- **Examples of Ongoing Cost**
 - Cost of utilities
 - Supplies, inventory, etc.
 - Insurance
- **Decide whether these expenses are essential or optional**

Categorize Your Expenses

- **Fixed Expenses (Overhead)**- have a set cost

- **Rent**

- **Administrative**

- **Insurance**

- **Variable Expenses (related to business sales)**-
Cost can fluctuate; you can decide how much to spend

- **Inventory**

- **Shipping and packaging**

- **Sales commission**

Estimator Calculators

- www.bplans.com
- www.businessknowhow.net

Financing a Start Up

- **Lines of Credit**
- **Conventional Business Loans**
- **Business Alliances**
- **Angel Investors**
- **Asset-Based Financing**
- **Venture Capital**
- **Personal Savings**

Why Personal Savings?

- **Banks cite risk factors and increasing cost of servicing small accounts as the primary reason for minimizing their exposure to small businesses**
- **Most lenders will require 15% -25%, some up to 50% of your own money to secure a loan**
- **Most popular source of startup financing is personal savings**

Tips for Saving

- **Build your cash reserve**
- **Know your financial risk**
- **Manage debt wisely**
- **Separate your business finances from your personal finances**
- **Keep at least \$5000 in emergency savings**
- **Borrow from your 401 K**

How to Save Money

- **Set savings goals**
- **Establish a timeframe**
- **Establish a set amount to save**
- **Track your current spending**
- **Cut back on your current expenses**
- **Create a budget**
- **Stop using credit cards**
- **Separate your savings from your checking account**
- **PYF-Pay Yourself First**

“A-Ha” Saving Tips

- **Unexpected cash**
- **Match your indulgence**
- **Drink free water**
- **Dine out less**
- **Save your change**
- **Conserve energy**
- **Drink at home**
- **Trim your cell phone cost**
- **Have a closet party**
- **Get a second job**

When You're Ready For Loans

12 Tips for Getting Approved

- **Banks need to make loans**
- **Be prepared**
- **Anticipate possible questions**
 - **How much do you need?, How long do you need it?, What are you going to do with it?, how and when will you repay?**
- **Don't take an apologetic or negative attitude**
- **Dress in a professional manner**

When You're Ready For Loans

12 Tips for Getting Approved

- **Don't stretch the truth**
- **Make sure your documents are neat, legible, organized, cohesive, attractive, complete**
- **Don't push for a decision**
- **Be confident**
- **Keep trying**
- **Don't be afraid to discuss the risk**
- **Remember that the first loan is the hardest to get**



SmartMoney Community Services SmartChange Financial Counseling

- **Celebrating 20 years in the community**
- **Helping individuals obtain financial self-sufficiency since 1998**
- **5-session curriculum**
- **One on One counseling**
- **Help establish a budget and create a savings plan**



19 W. Elder St.

Cincinnati, OH 45202

(513) 241-7266

www.smart-money.org

4. Debt Management

Simón Sotelo

Vice President

Simon.sotelo@pnc.com

(513) 651-7532



Agenda Topics

1. The importance of Debt Management
2. Different ways to manage your debt.
3. Debt payment VS. Saving for business
4. Debt management and debt consolidation



The importance of Debt Management

- **Create a short, medium and long term financial plan.**
- **Lower your credit burden**
- **Increase available cash for savings**
- **Establish a timeline for your business planning**
- **Positioning your access to capital**
- **Credit worthiness**



Ways to manage your debt.

- **Highest interest credit first**
- **Lower credit balance first**
- **Minimum payment only on remaining accts.**
- **Other**



Debt Consolidation & Debt management

- Debt Consolidation = New loan
- Is a new loan available? Do you qualify?
- What if you don't? Than, what?

- *Creating a plan to decrease your debt*
- *Budgeting to establish priorities*
- *Creating a better credit history*
- *Maintaining/increasing FICO score*

