The Landscape For Small-Business Loans Has Changed – Here Is How to Take Advantage

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Thinking about rolling out a new product, hiring a first employee or investing in fresh equipment? The good news is that right now you're more likely than ever to get the cash you need to expand. "There's never been a better time for small business and credit," says Fritz Elmendorf, spokesperson for the Consumer Bankers Association.

Three forces have converged to make this a great loan market. Not only are rates low, Elmendorf says, but "banks are very liquid and have a lot of deposits right now." That means they're looking for places to invest. Even better, they are increasingly interested in small businesses, particularly the SOHO (small office/home office) market, says Elmendorf. "Even the larger banks are starting to see small business as a real growth area," says Cordell Wise, a manager and small business expert with Fair Isaac Corp., the company responsible for creating FICO credit scores.

Another positive trend is the increased use of credit scoring to determine if you qualify for a loan. "In the past, you had to jump through a lot of hoops," says Elmendorf. For instance, you probably needed to go through the laborious process of drawing up business plans and presenting your tax returns and audited financial statements to bankers. You'll still need to go through those steps if you are taking out a large loan. But for amounts of less than $50,000 to $100,000, your chances of qualifying are based largely on your personal credit history. This trend of using consumer data has given start-ups and other small enterprises without a lengthy business history a foot in the door, says Wise. Of course, to get the best rate and terms, your credit history needs to sparkle. Here's how to position yourself:

1. **Find out if you make the grade.** Your first move should be to check out your credit reports. As Wise says, Before you talk to the lender, find out what kind of standing you have. While there are many ways to determine your credit rating and risk, most lenders rely heavily on FICO scores. So, a good place to start is at www.myfico.com. For $38.95, myfico.com will provide a copy of your credit reports and credit ratings from the three major credit bureaus: Experian, TransUnion and Equifax.

   The reports provide a comprehensive look at your credit history and how you manage debt. Scores range from 300 to 850 -- the higher the number, the better. It's important to look at all three reports, because some lenders don't report to all three credit bureaus. Your score will be slightly different with each bureau.

2. **Review your reports for errors.** Make sure that your creditors are reporting your information accurately. If you find a problem -- say, a late payment that you never made -- contact the creditor directly to ask for a change. Look closely, too, at the various

accounts. Are they all yours? Sometimes another person with a similar name may end up on your report.

3. **Determine the right lender match.** Find out if the lender you are considering has a cut-off point. For instance, some banks won't consider giving a loan to anyone with a credit rating of less than 600. If your score is below the threshold, you would be wasting your time and the lender's to apply there. Generally, if your score is over 700, you're in a choice range and should be able to get the best rate, says Elmendorf.

   If your credit score is lower, search for a lender that will look at other information. "There are banks that have score-driven products only, and there are banks that have judgment loans," explains Stephen Snyder, author of "Do You Make These 38 Mistakes With Your Credit?" Smaller community banks are more likely to listen to your pitch and take into consideration factors different than credit standing.

4. **Look for ways to boost your rating.** "Pay close attention to the reason codes in your report," urges Snyder. For instance, you may find that you could raise your score quickly by improving your mix of credit. Perhaps you primarily own department store cards but need to open another account with a major credit card. Another common problem is being close to maxing out your credit limit. The most serious problems are found in the public records section of your report, including bankruptcies and tax liens.

   If your credit rating is in the dumps, you may simply have to start over. It typically takes seven years for such bad records as missed and late payments to vanish from your report. Meanwhile, "let the good history accumulate," says Maxine Sweet, vice president of consumer education for Experian. "It’s a matter of rebuilding your credit history over time." You may not get the best rate and term today, but it's not too late to position yourself for the future.