How to Score on Credit Score?

Quick tips and ideas to improve your credit rating

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Table of Content



What You Need to Know About Credit Scores

Topics covered under this section are:	
5 Myths About Credit Scores Busted	2
Credit Report vs. Credit Score	4
Most Common Credit Report Errors	5



Relationship Between Your Age and Credit Score

	Topics covered under this section are:		
T.	Correlation Between Average Credit Scores and Age	7	
	How Can College Students Build a Strong Credit	8	



Scoring a Higher Credit Score

)	Topics covered under this section are:	
/	4 Quick Tips to Improve Your Credit Score	10
	Protect Your Credit Score Against Unintentional Damage	12



How to Secure Financing If You Have Poor or No Credit History at All

Topics covered under this section are:

Take a Snapshot of Your Finances with Biz2Credit BizAnalyzer™	14
Role of Credit Rating Agencies in Securing Business Loans	15



5 Myths About Credit Scores Busted	2
Credit Report vs. Credit Score	4
Most Common Credit Report Errors	5

5 Myths About Credit Scores Busted

Credit scores have a huge impact on your ability to secure a business loan. Most entrepreneurs find it hard to understand the nitty-gritty of credit scores and thus develop baseless myths. So when it comes to credit scores, there are a few things that a business owner should understand.

Myth 1

Credit Bureaus 'Evaluate' the Credit Score:

Credit bureaus such as Equifax, Experian and TransUnion do not 'evaluate' the credit score. They only lay out the facts of your credit history in the form of a credit score. These companies have no say in approving or denying a loan application.

Myth 2

Age of a Closed Credit Card Influences Credit Score:

The age of a closed credit card, will not influence credit score unless the bureau removes it from a credit report. From the time a credit card is on a credit report, a scoring system will invariably include it in scoring metric up to 10 years.

Myth 3

Carrying Debt Builds Up Credit Score:

Making minimum payments for your credit card does not help in building credit score; in fact, it only makes a negative impact. Paying balances on time in full is a better way to build a higher credit score.



Myth 4

The Utilization Rate Doesn't Matter:

Utilization percentage can be calculated by dividing credit card balances by total credit limit and multiplied by 100. The lower the percentage, the better it is for the credit score.

Myth 5

There is Only One Type of Credit Score

3

Actually, there are different kinds of credit scores, for instance, FICO has a number of different models with varying score ranges. Hence, instead of focusing on the numbers, consumers should determine where their score is falling on the risk model and the factors causing it.



Credit Report vs. Credit Score

People often use 'credit report' and 'credit score' interchangeably despite the fact that these terms define two separate aspects of credit. Mentioned below are the major points of difference between a credit report and credit score. Take a look:



Point of Difference	Credit Report	Credit Score
Meaning	Contains information detailing your credit history.	The actual numerical value assigned to the information in your credit report.
Purpose	Used for assessing financial health and debt history.	Used for determining credit risk.
Bureaus Involved	Three national credit reporting bureaus are – Equifax, Experian and TransUnion.	FICO, VantageScore and banks can create their own proprietary credit scores.
Interdependence	An independent document.	Calculated on the basis of credit report.
Components	Includes account histories, payment histories, public records related to finances, social security number, etc.	Based on five factors: payment history, current debt, length of credit history, new credit, and types of credit.

Most Common Credit Report Errors



According to a study by the Federal Trade Commission last year, one in every four credit reports contain errors. Hence, being on the receiving end of mistakes, a business owner must have a clear understanding as to what can possibly go wrong in their credit reports.

Here are three of the most common credit report errors:

Identity Errors:

Identity errors refer to the mistakes related to personal information such as wrong address, mixed up names, etc. Equifax, Experian and TransUnion – the three major credit bureaus – maintain a database of consumers' personal information. Given the massive data that they deal with, identity errors happen to be a common affair. These errors can be get corrected by bringing the issue to credit bureau's notice.

Account Related Errors:

At times, banks or lenders end up sharing incorrect information about your accounts with the credit bureaus. This results in a lot of ruckus as the credit bureaus further process wrong information. Incorrect credit limit, wrong mortgage origination date, etc. are counted under account errors. Talking to the lender or bank representative directly can solve the issues here.

Fraudulent Accounts:

Fraudulent accounts are the most serious errors of all as it refers to using somebody's identity (personal information, account details, etc.) for opening and using accounts. If you notice a line of credit that you never opened, make sure that you immediately add a security freeze on your credit reports or change your social security number to restrict the activities of fraudster on your account.

Relationship Between Your Age and Credit Score

Correlation Between Average Credit Scores and Age _____ 7

How Can College Students Build a Strong Credit History8Before They Graduate?

6

Correlation Between Average Credit Scores and Age

To secure a business loan, an aspiring entrepreneur needs to have an acceptable average credit score. Much of this also depends on the age of the borrower. For example, a young entrepreneur in his early 20s cannot be expected to have a stellar credit score, while a business owner over 55 years old should have a good credit score. FICO score ranges from 300 to 850, where 300 is considered poor while 850 happens to be the perfect number.

Over the years as people age, they build up a credit history and diversify their lines of credit. This establishes a correlation between age and average credit score. Refer to the table below to know the average credit score at different age levels of life:



Age	Average Credit Score
18 – 24 years	638
25 – 34 years	652
35 – 44 years	659
45 – 54 years	685
55 years and above	724

How Can College Students Build a Strong Credit History Before They Graduate?

Building a good credit history can be a real challenge for students who have little or no credit history and for those who aspire to start up their own business venture after college.

So what exactly should students do to build up their credit score?



Open a Credit Card Account Early:

It is easy to get a credit card while in your teens as banks assume that parents will be a backup source to foot the bill. Credit card applications after college graduation need you to have a job and a salary. Secured credit cards can be another great option to start off.

Open a Checking and Savings Account:

Having a bank history is imperative to build credit history. If you are denied an independent bank account due to age or lack of credit history, think about opening a joint account with an adult first. Becoming authorized user of adults' credit/debit card can also work well in long run.

Apply for an Installment Loan:

One of the best ways to build good credit is to diversify the credit lines. Installment loans such as a student loan, personal loan, mortgage etc. can help a great deal in establishing a worthy credit history. However, students need to borrow only as much they can pay off.

Get a Department Store or Gas Card:

Department store card won't give your credit score a significant boost but it is a good start. As a student, there's just so much that you can do to start building your credit history.

8



4 Quick Tips to Improve Your Credit Score	1()

Protect Your Credit Score Against Unintention	nal Damage 12)
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9

4 Quick Tips to Improve Your Credit Score

Almost every business will need to borrow money at some point or another. When the time comes, a business's credit score is one of the most important factors that lending institutions will consider. So if your credit score is less-than-satisfactory, improve and maintain a good credit score before applying for a loan by following these principles:

Tip 1

Do Not Open / Close New Credit Card:

Opening and applying for new cards will procure new credit inquiries, which lenders check for, and will create doubts in the lenders' minds as to whether or not money can be repaid on time. Closing credit cards will decrease credit scores as well, as it will decrease the total credit limit and, thus, increase the ratio of available credit used. Avoid lowering your small business's credit score by leaving previous credit card accounts alone.

Tip 2

Pay Back All Debts:

With the goal being zero balance, begin paying down card balances as much as possible before applying for small business loans. This is important because high debts will cause potential financers to question your ability to repay them.

Tip 3

Maintain a Range of Credits:

Having evidence of numerous types of credit and the ability to consistently pay all bills on time will increase credit score. Handling all these forms of credit such as business credit cards, mortgage, and auto-loans simultaneously also shows lenders that you are very capable of paying back bills.



Tip 4

Fix Typos:

Unfortunately, it is not uncommon for credit reports to contain errors. In fact, up to 80% of reports contain some type of error! Make sure these errors are not negatively affecting your credit score by reviewing official records of major credit reporting agencies.



Protect Your Credit Score Against Unintentional Damage



When it comes to credit scores, there are many myths related to its various aspects. At times due to ignorance, business individuals tend to damage their credit score unintentionally. Refer to the table below to understand the common mistakes that can hurt your credit score:

What Can Damage Your Credit Score?

Completely Avoiding Credit.	Lenders need to assess if one is consistent in making on time payments each month or not. So, avoiding credit all together would mean restricting yourself from building a worthwhile credit score.
Closing Old Accounts.	If you've had a credit card for a long time with all its payments duly cleared, hold onto it still for it reflects positively on your ability to manage credit over a period of time.
Reducing the Credit Limit.	Reducing the credit limit can actually backfire on your credit score. It is so because one appears more creditworthy if only a small portion of the overall available credit is used.
Purposely maintain a small credit card balance every month.	A common misconception is to carry credit debt under the assumption that it will help in building up the credit score. Though, the fact is that it reflects negatively on the lenders who understand it as the inability of a person to pay off his debts.

How to Secure Financing If You Have Poor or No Credit History at All

Take a Snapshot of Your Finances with Biz2Credit BizAnalyzer		14
--	--	----

Role of Credit Rating Agencies in Securing Business Loans15

Take a Snapshot of Your Finances with Biz2Credit BizAnalyzer



Biz2Credit's BizAnalyzer[™] tool benchmarks the risk profile of your business against the lending criteria of over 400 financial institutions and your risk profile by industry peers. It assesses your business credit score and gives you a fair idea of your financial standing with regards to business loan approval. Also, it offers recommendations to improve upon it.

A typical BizAnalyzer score report will assess your business portfolio under the following parameters:

- Personal Credit
- Debt-to-Income
- Time in Business
- Industry Risk
- Corporate Risk
- Cash Flow



Role of Credit Rating Agencies in Securing Business Loans

Your credit score is a deciding factor in whether or not you may qualify for business credit, and this can impact both the interest rate and loan amount you receive. Owing to its significance, Biz2Credit has partnered with credible credit expert agencies to provide premium consultation services relating to your credit score.

Better Qualified and Equifax are the two main agencies that Biz2Credit partners with in order to assist its clients in improving their credit score and enhancing the chances of securing a business loan through various sources.





Equifax:

When you apply for a business loan, one of the first things that a lender will do is check your Equifax® Business Credit Report and score. Your Equifax® Business Credit Report is not based on opinion; it is a factual document that details important information about your business. The report is based on demographics, business registration, any negative public records filed against your business, your account payment habits and trends, and your likelihood of late payment or business failure. These are the criteria on which lenders make lending decisions

Better Qualified:

Better Qualified LLC specializes in assisting individuals and companies with their credit ratings. This agency assists people with a unique business credit program that helps them establish business credit, (bqbusiness.com), obtain lines of credit (not personally guaranteed) and general legal and consulting services. It also provides Identity Theft Protection and Recovery programs for individuals and families.

Thank you !

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