

By Manuel Diaz

Credit Where Credit Is Due

The best way to maintain a good credit history is to be proactive rather than reactive.

YOU COULD HAVE APPLIED FOR THE LOAN FOR ANY number of reasons. Perhaps you wanted to consolidate your business debts, or maybe you wanted to expand your day spa operation. You might have even been looking to fund the opening of a second location. The reason, at this point, doesn't matter. The only thing that's important is the response: Your application was turned down because your credit score was too low. If you're like most individuals you probably don't give your credit-worthiness much thought unless you're turned down for a loan or something drastic, like iden-

tity theft, occurs. But as a small-business owner, it's important to maintain a good credit history and FICO score (the credit bureau risk scores produced from models developed by Fair Isaac Corporation). According to the United States Small Business Association (www.sba.gov), a good personal credit history is one of the most important factors in identifying borrowers who will repay their commercial loans. Additionally, says Michael Foresta, business development manager of Business Credit Services in Las Vegas, to borrow money, new business owners or those with no established credit will have to provide personal guarantees. "Strong credit is one of those things it's better to have and not need than need and not have," says Foresta. "Building your business credit should begin long before your spa is in need of capital. Even if you don't need outside capital today, you don't know if you'll need it a year from now." The following guidelines can help keep your credit history on track.

Stay Vigilant

For starters, it's a good idea to obtain annual copies of your credit reports. Under the Fair and Accurate Credit Transactions Act (FACT), every consumer in the United States is permitted one free copy of his or her personal credit report every year from each of the three major credit bureaus—Experian, Equifax and TransUnion. These free credit reports can be obtained at www.annualcreditreport.com.



MONEY MATTERS

Knowing what's in your credit report is vital to the long-term success of your day spa business, but thanks to the credit scoring system, it isn't everything. In "the good old days," loan applications were reviewed by individuals who made determinations of a person's creditworthiness based on personal impressions of the individual's character, debt ratio and credit history. These days, the personal touch is gone and almost all loan decisions are based on a credit score.

Craig Galia, sales manager of Theodore Robins Ford in Costa Mesa, California, processes thousands of auto loans every year. "Until recently, I could look at a credit report that included some derogatory information and make a judgment. For example, I know that a certain department store is famous for inaccurate credit reporting, so if I saw a red flag from that creditor, I would disregard it," says Galia. "Now everything is score driven; the source of the information doesn't matter."

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According to the Fair Isaac Corporation (www.fairisaac.com), its FICO credit risk score is the tool most often used by creditors in the United States. The FICO score system ranks consumers numerically according to the likelihood that the obligation will be repaid according to the terms of the loan. The values range from 350 to 850, with 700 or higher being good, and anything below 500 regarded as high risk. So what's the secret to scoring big? First, there's the obvious: Establish a history of responsible use of credit by paying all of your bills on time and not running up your credit card balances.

Unfortunately, in this day and age, simply being good isn't enough; you also have to consider accuracy. Your FICO score is based on what appears in your credit report. If the report isn't accurate, FICO can't assess your risk accurately. According to a June 2004 report by MSNBC News, "One in four credit reports has errors serious enough to disqualify consumers from buying a home, opening a bank account or getting a job—and an overwhelming majority contain mistakes of some kind."

Correcting the Mistakes

So let's say you've ordered copies of your credit report and one of your credit card companies has erroneously reported you as being 60 days late on a payment. Under the Fair Credit Reporting Act (FCRA), you have the right to have

inaccurate information removed and there are specific steps you should follow.

“Once you dispute the accuracy of the information on your credit report, the next step is for the credit bureau to contact the creditor who made the report and ask them to verify the accuracy of the information,” says consumer advocate Bud Hibbs,

true, the ball is back in your court. “The bureaus only echo what they’ve been told by creditors,” says Hibbs. “It’s true that, under FCRA and FACT, creditors are required to remove inaccurate information, but getting them to comply is sometimes easier said than done. In an ideal world, a creditor will be conscientious and responsible, and research the account,

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author of *The American Credit System: Guilty Until Proven Innocent* (Hired Gun Publishing, 1996). “Ideally, a conscientious representative will research your account, discover the error and then delete the derogatory information.”

The bad news is, if a creditor tells the credit bureau that the misinformation on your report is

but in the real world, I often hear horror stories of creditors volleying responses back to credit bureaus in less than 24 hours, verifying the information as accurate when, in fact, it’s inaccurate.”

Hibbs and most credit experts recommend an aggressive approach in dealing with creditors who don’t take their legal responsibilities seriously.

“First, you should try contacting that creditor by phone. Often, you can explain the circumstances, present the facts, and the creditor’s representative will agree to delete the information,” says Hibbs. Once the creditor agrees to correct the mistake, ask for a letter stating that the information will be deleted from your reports. Also, be aware that it can take as long as 60 days before the deletion shows up on your credit reports, and a letter carries very little weight with lenders.

When Diplomacy Fails

Direct contact with the creditor can be a time-consuming and draining endeavor, even if it produces positive results. But what if the creditor doesn’t respond to your complaints or stubbornly refuses to delete negative information?

Evan Hendricks, editor and publisher of *Privacy Times* and author of *Credit Reports and Credit Scores: How the System Really Works, What You Can*

Do (Privacy Times, 2005), suggests putting your demand in writing. “Send a very stern letter, always by certified mail, requesting that the inaccurate information be removed,” he says.

Finally, if a creditor is being stubborn about deleting inaccurate information from your credit report, you do have legal recourse. Start by filing a complaint with the Federal Trade Commission (FTC). The FTC enforces FCRA, and has an online complaint form at www.ftc.gov.

“I’ve seen cases where consumers had to resort to filing a lawsuit under the FCRA to clean up their credit scores,” says Hendricks. “But before doing that, you still have to build your case by giving the creditors an opportunity to delete negative information.” By being proactive, you can avoid problems later, when it comes time to borrow. ●

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