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CREDIT SCORES 101



Jacqueline Taylor, Deputy Director, Strategic Operations, Texas Gulf Coast Small Business Development Center Network, shares her expert business advice in her bi-weekly column seen in the Houston Chronicle.

Q. What goes into a credit score? My banker told me that I could get a lower interest rate on a loan if my credit score was higher, so I'm wondering what I could do to improve.

A. Your credit score is based on how you've handled credit in the past, which is why it's so important to a potential lender. A

high score means you've managed your finances well and would be a good risk for a loan; a low score means you've had problems in the past and might not be able to handle more debt. Even though you might be able to get a loan if you have a relatively low credit score, the tradeoff would most likely be a high interest rate, just as your banker indicated.

There are five factors that impact your score, weighted as follows:

- **35% - Your payment history.** A record of on-time payments is the most important factor in your score. This shows lenders you pay your bills as agreed.
- **30% - How much you owe.** A lender wants to see that you have credit available. Being maxed out on all your credit cards will be a red flag.
- **15% - The length of your credit history.** The only way for a lender to tell if you've handled credit well in the past is if you've had credit, and the longer you've had it, the better.
- **10% - The last time you applied for credit.** Opening a new credit card account or applying for a loan often triggers a credit card check. Opening several accounts in a short time will negatively impact your score.
- **10% - Your credit mix.** Having a varied mix of credit types improves your score. The mix can include credit cards as well as revolving, installment and mortgage loans.

Business lenders today are typically looking for a score of at least 700. If yours needs improving, start by checking for inaccuracies in your credit report that could be corrected. Obtain a copy of your report from all three of the major credit bureaus, since the details may vary:

- www.equifax.com
- www.experian.com
- www.transunion.com

You can also get a free copy of all three reports once a year at www.annualcreditreport.com, but you won't get your actual credit score unless you purchase that separately.



The Texas Gulf Coast Small Business Development Center (TGC SBDC) Network serves 32 counties in Southeast Texas. The program is anchored by a vibrant office facility in midtown Houston and supported by fourteen centers located with or sponsored by colleges and universities and economic development organizations throughout the Gulf Coast. The TGC SBDC Network focuses on providing business training and advising to start-up entrepreneurs, emerging businesses, and firms needing strategies for high growth. Professional business advisors work with client companies to assess feasibility of ideas and business models, develop business plans, identify funding opportunities, prepare loan and financing packages, and analyze financial results. Business advising is supplemented by a wide range of training classes and seminars concentrating on growing a successful business. Workshops are taught by experienced businessmen and women who blend formal learning and real-world experiences into practical curriculum.

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