



BUSINESS CREDIT **SCORING** EXPLAINED

What small business owners need to know
about managing their applications for finance



HOW THIS GUIDE CAN HELP YOU

This short guide has been designed to help you as a business owner understand how business finance decisions are made and the factors that affect your application for finance.

By understanding this information, small business owners can increase the likelihood of future applications being successful.

Whether you're a new business that needs start-up funding, or a growing company that needs the funds for expansion, any application for finance will mean that your bank will try and build up a picture of your personal and business circumstances combined with your financial history. This is a critical part of assessing the business and will often be used alongside your business plan and cash flow projections.

For further information about an application for finance, please contact your bank relationship manager.



BUILDING UP A PICTURE OF YOU AND YOUR BUSINESS

Usually a bank will use four sources of information to build up a profile of you and your business.



A good personal credit record is extremely important for any new business. Before a business can attain a credit rating in its own right, all assessments of eligibility for lending are done on the basis of the credit history of the individual, business owners or directors.

Credit Scoring is part of the process used by banks and other lenders to help assess whether they will lend to you. Each bank you approach for credit will calculate a score for you based on the information available to them at the time. The system allocates points for each piece of relevant information and adds these up to produce a total score.

When your score reaches a certain level then a bank will generally agree to your application. If your score does not reach this level, they may not.

If you are declined, this simply means that based on the information available, the bank is not prepared to lend at this time. Each bank has different lending policies and systems, and so applications to them may be assessed differently. One bank may accept an application which another may not. Credit reference information is also used by non-bank sources of finance including trade credit.

THE TYPES OF INFORMATION USED

Credit reference agencies (CRAs) collect and maintain information on individuals' and businesses' credit behaviour in the UK.

The credit agencies record five different elements of your credit profile, these are:

1. Your Payment History
2. Your Total Amount of Debt
3. Time and Length of Credit
4. The Type of Finance You Have
5. Recent Applications for Finance

1 and 2 are likely to contribute most towards your credit rating. You need to get these in order to improve your credit rating in the longer term. Please see below on what you can do to improve your credit rating.

It's important to note that there are many factors that affect a credit score; it's based on more than just whether you pay your bills on time. Your score can be affected by the amount of available credit you have with your bank, credit cards, the length of time you've had a credit history, the number of inquiries made on your credit profile and more.

As your business builds up a track-record and history in its own right then the balance of future borrowing decisions becomes more about the business than the person. Credit Scoring may also be used in conjunction with some local assessment by your relationship manager.

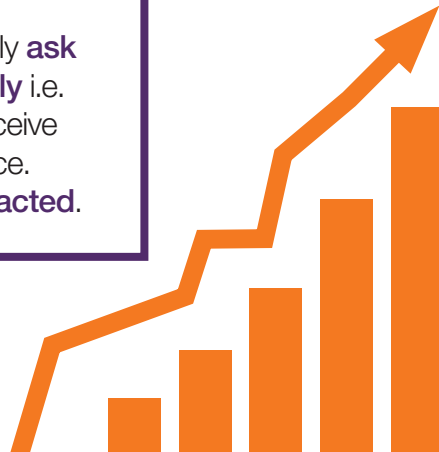


Sources of information about you and your Business

- Electoral Register
- Companies House
- County Court Judgements
- Payment History to Utilities and Telecom Companies
- Bankruptcy Orders
- Trade Credit Information
- Previous Applications to Banks/Building Societies
- Past and Current Bank/Building Society Account Conduct
- Finance and Leasing Companies

WHAT YOU CAN DO TO **IMPROVE YOUR CREDIT SCORE**

- Make any credit payments **on time** and for the required amount.
- Ensure you are on the **Electoral Register**.
- Ensure that if you are a limited company, you **file full** rather than abbreviated accounts at Companies House.
- Always **ensure the balance** on your account or approved overdraft limit **is sufficient to cover any payments** due from your account (e.g. cheques, standing orders, Direct Debits, debit card and online payments).
- Build up use of your business bank account over time to **demonstrate your turnover** (e.g. don't pay business receipts into your personal bank account).
- When enquiring about finance you should initially **ask your bank to provide the cost of the loan only** i.e. a quotation. It is important to make sure you receive quotations until you are ready to apply for finance. **This will ensure your credit score is not impacted.**



WHAT TO **AVOID**

- Making several requests for finance applications at once over a short period of time will result in 'multiple searches' (also known as 'footprints') showing on your credit record which could affect your credit rating.
- Exceeding your agreed credit limit without approval or going overdrawn without agreeing a limit with your bank/lender first.
- Missing payments leading to credit arrears.



WHAT HAPPENS IF YOUR APPLICATION IS **DECLINED?**

If a bank does not wish to accept your application, they will tell you.

They will also tell you on request the main reason why they were unable to agree your application and whether this is the result of adverse data held by the credit reference agency. If you did not pass their credit score they will tell you. As credit scoring is based on a range of different factors they may not be able to give you the exact reasons why you did not achieve the score the bank requires.

If a bank has declined your business borrowing application you may contact them and ask them to reconsider their decision. You have the right of appeal and you should contact the bank within 30 days of a decline decision if you wish to do this. If you want to appeal they may ask you to provide additional information.

If you believe that any of your information held by a credit agency may be incorrect, then you should contact them directly to obtain a copy of your credit report. In the UK there are a number of agencies that provide consumer and business data to the banks. Your bank will tell you which of these agencies they used when assessing your request for borrowing.

The contact details are listed on the next page. The credit agency will usually charge you a small fee for supplying details of your credit record.



The Credit Agencies

Call Credit	Call Credit, Consumer Services Team, PO Box 491, Leeds LS3 1WZ 0870 060 1414 www.callcredit.co.uk (Personal credit data only)
Equifax	Equifax Ltd, Credit File Advice Centre, PO Box 1140, Bradford BD1 5US www.equifax.co.uk
Experian	Experian, Consumer Help Service, PO Box 8000, Nottingham NG80 7WF 0870 241 6212 www.experian.co.uk

Business Credit Agencies

Credit Safe	Bryn House, Caerphilly Business Park Van Road, Caerphilly CF83 3GG 02920 886500 http://www2.creditsafeuk.com
Dun & Bradstreet	Marlow International Parkway Marlow, Buckinghamshire SL7 1AJ http://www.dnb.co.uk/
Graydon	66-68 College Road Harrow, Middlesex HA1 1BE 020 8515 1400 www.graydon.co.uk

Other sources of information on finance and help for businesses

For much more help and guidance around start up business support, mentoring, funding and appeals, please visit:

www.businessfinanceforyou.co.uk

www.betterbusinessfinance.co.uk

www.mentorsme.co.uk

For more information about an application for finance or to lodge an appeal, please contact your bank Relationship Manager.



Facilitating business decisions
by protecting access to publicly
available data

