

## Strategies for the self employed: getting credit when your income is uncertain

You or your business has a need for money and you want to borrow some. You go, hat-in-hand, to your friendly banker. If you think it's tough getting a loan for a conventional business or for someone who has a job, you don't know tough until you approach a banker when you're self employed.

Those who work for themselves and have tried to get a loan, mortgage or other form of credit have probably encountered a situation similar to this: You are in the banker's office, the banker smiles, appears reasonably bright, even human — and then shows he or she is from another planet by asking such questions as: How long have you been working for your present employer? Did you bring your last two pay stubs? How much money do you earn each year? What is this person thinking, you wonder.



**Alan Horowitz**

Welcome to the world of credit which is decidedly oriented to employees, not the self-employed. Assuming you will want credit at some time, here's a piece of advice: If you have no credit history, get some, right now, even if you don't have any immediate need for money. Bankers are more willing to lend to those who don't need money than those who do (those who don't need it are more likely to pay it back). Then, when you do really need the bucks, the banker will often come to your aid. It's harder to get money when you're in a financial hole and have no history with the banker. What the banker wants is: A track record as a good borrower.

I recently spoke to two bankers at Wells Fargo Bank, Michael Paazi, executive vice president in charge of business banking, and Roger Bennett, senior vice president and business banking manager, and they gave me some valuable advice. They recommend that if you're self-employed, pay off all existing credit obligations in a timely manner. Whether it's a credit card, car loan, bank loan — whatever credit history you have, make sure it looks good. This is true for everyone, but especially the self-employed.

Banks understand that the income of self-employed folks can vary greatly year-to-year. For that reason, Paazi and Bennett recom-

mend having three years worth of tax returns available. This gives the banker a relatively long income history to look at and helps smooth the ups-and-downs in your income history.

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Get credit in your business' name. You want a credit history not just for you, personally, but for your business. If you have a DBA (“doing business as”), get credit in the DBA's name.

Close all credit card accounts you don't need. If you have a dozen credit cards and only use two, the banker will look at all dozen credit cards as though they

you're rejected for credit. The cost of having a CPA do your taxes may be high, but if you can afford it, it's probably worth the cost. Bankers like to see financials drawn up by a CPA and, besides, a good accountant's advice can be invaluable.

And if you have a third-party do your tax returns, be sure you know what your returns say, warn Paazi and Bennett. If the banker asks questions and the only answer you can give is, “Oh, I don't know because my accountant prepared these statements,” don't be surprised if the banker doesn't feel too confident in your ability to repay.

Getting credit isn't easy for anyone, especially the self-employed. But if you plan properly and understand your business and its financial needs, the money you need may be more available than you think.

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Match the credit with the need. For example, if you need a piece of equipment, don't pay for it with a credit card. The vendor can usually supply better financing. You may want to lease the equipment, especially if you won't want to keep it for many years, as with equipment that goes obsolete in a short time (computers, digital cameras, even photocopiers). Also, don't use short-term debt to pay for long-term obligations.

Keep good financial and tax records. Promptly file your tax returns. Stay current. If your banker expects to see last year's tax return on April 15 before making a loan decision, and you file for an extension until August, don't get mad at the banker if