
your bottom line

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Credit—who needs it?

Credit plays a major role in modern business practices. Most business specialists believe you cannot operate a business without a sufficient line of credit to draw upon for major purchases or to cover operating expenses during a slow period.

As important as credit is to a successful business, many professional photographers have severe credit problems, often as a result of plain carelessness in handling credit in the past. As a distributor of equipment to professional photographers, I personally have found, much to my surprise and disappointment, that half of all established studios who apply for as little as three or four thousand dollars of credit, with the purchased equipment shown as security, are turned down!

An analysis of the situation has identified three problem areas. First many studios simply do not have a strong enough cash flow or bottom line profit at the end of the year to justify the extension of even as little as a few thousand dollars of credit. Sometimes, there may be enough income but the business records are in such bad and unprofessional condition that bank officials or leasing companies cannot form an adequate opinion of the establishment's financial state. Also, lenders are very reluctant to make loans to new businesses because history clearly shows that the vast majority of new businesses fail.

Mismanagement of past credit is another common reason for credit rejection. Lending institutions place an enormous amount of faith on your credit record, which is gathered from a national pool of recording agencies. Lenders look most favorably on businesses and individuals who always fulfill their credit obligations on time and preferably ahead of time. If your bills are payable by the 30th of the month and you routinely pay them by the 10th, this information is often part of your credit history.

Lenders are always more interested in one black mark than in 100 good marks. For example, last week one of my clients was refused a lease because two years

ago he and his father had argued over who was responsible for a \$50 Master Card bill and the bill had gone unpaid for several months. Master Card took the case to court. Even though the account had been paid in full, and two years had passed, the lending agency would not approve credit for my customer. He tried to explain the situation but the lenders were unsympathetic.

While we may not like the situation, we must realize that we live in a computerized society. Machines are programmed to "simplify" our lives. When a computer finds a black mark in your credit history, it displays it. The humans who work with the computer are programmed also. They are programmed to say: "I'm sorry, but there is really nothing we can do." Procedures exist to correct your credit record when there are errors or other important considerations, but the process is difficult, time-consuming, and does not always work as it should.

A third reason why photographers are often rejected for credit is simply because lending institutions do not like to make loans on photography and specialized equipment. A lender knows that you cannot very well hide a car that he might have to repossess, and he knows that he will be able to dispose of this car quickly and for a fair price, should he need to. But what does a lender do with a \$25,000 color print processor? The lender knows nothing about selling this type of equipment, so if he has to pick it up and sell it to try to clear the loan, he may feel that he will be lucky to get ten cents on each dollar of loaned value. There is little that can be done about this problem.

If you are in business, sooner or later you will need credit. If you haven't planned for your future credit needs, you should start now. Your first step is to establish a long-term relationship with a bank, and preferably with specific people within it who are likely to be there in the future.

I personally prefer working with a smaller local bank rather than a big city

bank. Today, larger banks, despite their claims to the contrary, operate much like a big business and often know as much about you and your business on a personal level as your check-out person at the supermarket. You are a batch of numbers on a report. Smaller banks often try to get to know you as an individual and are more willing to work with you.

Remember that banks are businesses like your own, operated by real people with personalities and business policies and ethics. You should shop for a bank and banker like you shop for anything else. Look until you find one that seems to fit. If you find you've made a mistake, move on, even if you have to bank out of town. I prefer to work with a bank that treats me like a valued customer, as I feel I must treat my customers in order to maintain a good, fair, and ethical relationship. If your bank does not take care of your needs, and you feel another bank may, it is time to change banks.

Some banks are more "nosey" about your financial history than others. While a bank needs accurate financial information in order to make a decision, you have the right to draw the line on what you want to disclose. Some bankers today are even asking for complete copies of your income tax reports for the past five years, to be kept in their files, claiming that their auditors demand it. I consider this an example of voyeurism, the psychological term for "peeping tom." If this behavior bothers you—and it should—it is time to find another bank.

Some photographers feel that if they cannot obtain a bank loan, they will be able to obtain a lease on equipment. Actually, a lease is often harder to obtain than a bank loan. Leasing companies usually do not pay for the equipment you lease. Instead, in most cases, they take your contract to a bank and ask the bank officials if they will put up the money. Most likely, their bank has never heard of you. They base their decision totally on the computer print-out of your credit history and your financial story.

Leasing can be an attractive way to purchase new equipment. A good leasing company provides you with a lease-purchase contract that clearly states how much you will have to pay at the end of the lease to take permanent possession of the equipment (usually ten percent). When leasing, look for a lease that turns over the IRS Investment Tax Credit to you—an additional ten percent savings. Check the rates carefully. Remember that leasing company rates can vary like anything else. Leases are also attractive because normally they do not affect your regular line of credit.

What do you do if you have bad credit or don't know what your credit rating is like? If you don't know about your credit, the next time you need to make a major purchase, apply for credit or a lease just to see if you can be approved. If you are approved—even if you don't use the credit—you are in good shape. If you are turned down, find out why. If there are errors in your credit report, get them corrected. If you have a legitimate bad credit history, make it a point to buy several small things for your business on credit, even if you don't need the credit. Then, always make your payments early. It will cost you some dollars to establish or re-establish credit, but consider the money spent as an investment in your credit future.

Every business needs credit. You may need it if your bottom line isn't doing well or in order to make large equipment purchases that are intended to improve your bottom line. Plan for tomorrow's credit needs today, use your credit wisely, and you and your business will be better off as a result. Credit is one of your most important assets. ■
