



CREDIT RATINGS – THE HIDDEN ISSUE AFFECTING YOUR BUSINESS !!

BACKGROUND

- Credit ratings became a bit of a buzzword following the ‘**financial crash**’ in 2008, however the knowledge and understanding of credit ratings appear to have reduced again in recent years.
- However the credit rating of YOUR business and for each Director personally (for a limited company), play an absolutely key element of being able to **successfully grow your business !**
- **BUT** with the value of a credit rating AND the ‘**hidden**’ importance of it to your business under the radar for many business owners – **it is vital that you understand your own credit rating and how it can hold back your business growth !!**

CREDIT RATING – WHAT IS IT ?

- A **credit rating** is essentially the assessment of the ‘**creditworthiness**’ of a borrower, or the measurement of a **person or business entity's** ability to repay a financial obligation (based on income and past repayment histories).
- **The credit rating is typically expressed as a ‘credit score’**, which banks, lenders and providers of various types of finance use as one of the factors to determine whether and how much to lend.
- The **credit score** is calculated from a business (or Person’s) ‘**credit report**’, which is a document that relates to your financial history i.e. your dealings with credit more specifically.
- There are 5 main Credit rating agencies in the UK from whom all credit ratings are managed and/or maintained for UK individuals and businesses.
- Where a business has a **GOOD** credit history, then it will have a **HIGH ‘credit score’**, however where a business has a **POOR** credit history, it will have a **LOW ‘credit score’**.
- ‘**Credit scores**’ (and hence **credit rating**) are reflected **out of a total of 100**
 - with the average credit score being 44
 - an average **LOW credit score** being 31 and
 - an average **HIGH credit score** being 55 to 60
- **FINALLY – do you know what your business’ credit score is RIGHT NOW ??**

CREDIT RATING – HOW IS IT CALCULATED OR UPDATED ?

- There are a wide variety of transactions and issues that impact each business or individual’s credit rating – **some of which are publicly available but many of which are privately obtained but the credit rating agencies !**

- Some of those key issues are below:
 1. **Companies House** - updates such as the submission of the annual statutory accounts confirmation statement(s), SIC codes (sector), significant changes in timeframes for filing accounts - **can all impact on your business(es) credit rating.**
 2. **Company Directors** – the individuals that own or manage a limited company will have an impact on the credit rating of a business i.e. their own credit ratings, ages etc.

Therefore changes in Directors or shareholders of a business will impact on a credit rating, especially if there are issues in an individual's financial history - **then it may suggest potential future issues with the business itself.**

3. **Location of the business (Postcode)** – the location of your business will have an impact of your business credit rating e.g. crime rates, insurance data etc
4. **Sector the business operates in** –this is predominantly based on the SIC codes applicable to the business (limited company) which are reflected at Companies House. Sectors are viewed differently in terms of risk at any given time and therefore changes to SIC codes will impact on your credit rating.
5. **Payment data** – this can often be data obtained from sources not available to the general public, but are frequently used to update a business' credit rating e.g. late payments, missed payments etc. - **which will significantly impact on a credit rating.**
6. **Legal disputes and County Court Judgement (CCJs)** – disputes that result in negative legal judgements or CCJs relating to disputes around payments etc – **all impact very negatively on a credit rating !**
7. **Missed Loan payments** – finance loan repayments that have been missed or paid late against a lender's debt impact very negatively on a business credit rating i.e. **these are maintained on file for a period of up to 6 years.**

CREDIT RATING – HOW DOES IT AFFECT MY BUSINESS ?

- The Credit rating of a business has a significant (and often '**hidden**') impact on many of the '**day to day**' activities of a business – but in many cases the negative impact means certain opportunities may **NOT** present themselves, so the business owner(s) may **NEVER** realise these impact(s).
- 1. **Tenders** – many tenders are NOT presented or made available to businesses that DO NOT meet certain thresholds i.e. a minimum 81 rating required. As tenders are for multi year periods, there is an imperative on the provider to ensure, as far as possible that the Supplier will successfully compete the period of the contract.
- 2. **Overdrafts and loan finance** – the availability and cost of lending will be impacted, often quite significantly by a low credit rating e.g. either you will NOT be able to obtain any credit at all, or in some cases only a limited amount of credit. Also the interest rate(s) applicable may be much higher than other businesses – **for the same amount of lending !**



3. **Energy contracts** – more recently, businesses with low credit ratings have either been refused credit on their office/warehouse energy contracts (and had to pay up front), or have had existing contracts cancelled.
 4. **Finance leases** – businesses with low credit ratings may find that they cannot obtain any finance lending for motor vehicles, office equipment etc - **and have to pay for these capital items in cash.**
 5. **Suppliers** – where your business deals with Suppliers who keep a close eye on their Customers' credit scores and ratings, and/or base their credit limits and/or payment terms on current ratings, you may find credit being removed or in some cases reduced by Suppliers – **leading to pro forma payments or more regular payments to your Suppliers.**
- There are always some steps that can be taken to improve your credit rating (**once you know what your rating is**), which could involve submitting your statutory accounts, paying off any CCJs, reviewing your Director(s) personal credit ratings, updating information at Companies House etc.
 - However if your requirements are urgent or your '**credit score**' is especially low, then specialist '**Credit rating Improvement**' agencies can be involved to use their knowledge and skills to quickly improve your existing credit rating.

If you are interested in reviewing your existing credit rating and/or discussing how to take some steps to improve your rating – then feel free to contact the SAKURA Team for more assistance and support !

Contact us on 0207 952 1230 or at damian@sakurabusiness.co.uk