Don’t Let Student Debt Keep You From Fulfilling Your Dreams

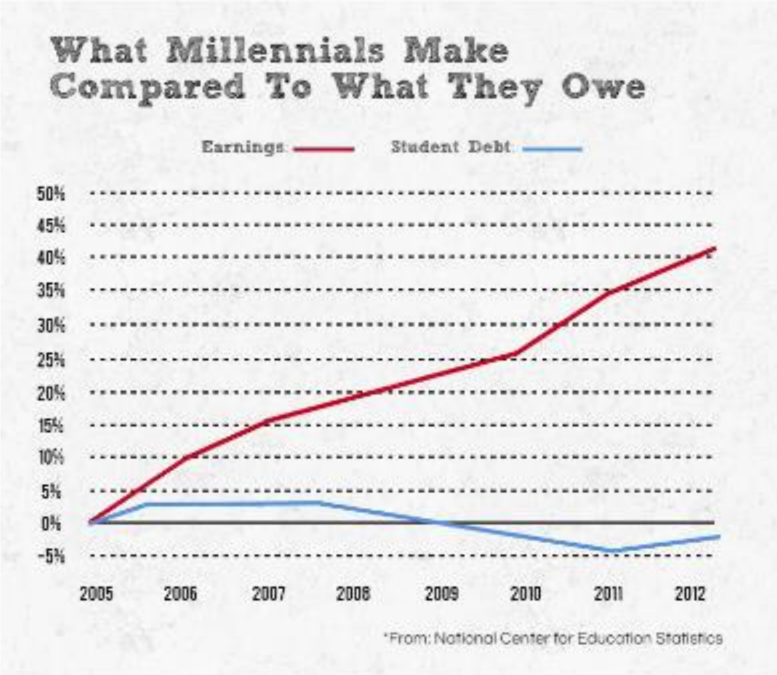
Many millennials have experienced a phenomenon that was the first of its kind; they earned higher degrees at an unbelievable rate compared to earlier generations, only to face some of the worst career prospects and student debt our country’s ever seen.

Job prospects are slowly getting better –*in 2009 the unemployment rate for people under 25 spiked at 18%, and as of February 2016 that rate dropped to 10.5%*.

This creates a heavy pressure that spills over into personal milestones. Who wants to start a family with that weight hanging over them? Then, the dreams of entrepreneurship, which run deep amongst millennials, are dimmed or entirely diminished due to their inability to pay back debt.

And herein lies the problem…
Americans owe over $1.3 trillion in student loan debt. The average college graduate of 2016 has $37,172 in student loan debt, up six percent from last year. Even if the debt doesn’t overwhelm to the point of giving up the dream, it can render it impossible. No matter how deep your passion is for entrepreneurship, if you’re drowning in $100,000 worth of debt (plus interest), your business can suffer dramatically and lose the ability to gain financial tools that could offer quicker and greater success.
Here’s why:

- It is difficult, nearly impossible, to find loans, lines and credit with high debt
- On top of that, you’re juggling monthly demands of loans with regular living expenses and possibly credit card debt; this high debt can cause delinquencies or hurt your personal credit, thus reducing your already immature, higher risk credit scores.
- When you combine a high debt load with lowered credit scores, it is almost impossible to get approval on reasonable personal loans/mortgages, business lines, loans, and credit cards



And thus, low personal credit scores brought on by massive student debt makes starting a business very difficult.

Now, that's not to say there isn't someone who is willing to extend varied types of financing your way. You will find many websites that offer "guaranteed financing" or "bad credit loans", but at what price?
If you do seek out a business loan, but you're without established credit and a limited cash flow, you'll likely be faced with exorbitant interest rates. These rates can run anywhere from 13%-30%. On the other hand, loans with good credit could have rates as low as 3%.

You may even find investors or those willing to be a partner, but now you're accountable to someone else. As a business owner, you got into this to make your own way, as opposed to having a lender own you and your company.

But don't worry, millennials. **Even with heaps of student debt, there are ways to fund your entrepreneurial dreams**.
We'll explain.
1 **Never just *stop* paying your loan**.

This will damage your credit and make your future aspirations harder and more expensive to achieve. The simplest way to maintain your credit while paying back loans is to **always pay on time.** Students usually havevery limited credit history, so paying off debts on time is one of the most important ways to build healthy credit history. This may mean putting off opening your own business or limiting other expenditures, but the long-term payoff is worth it.

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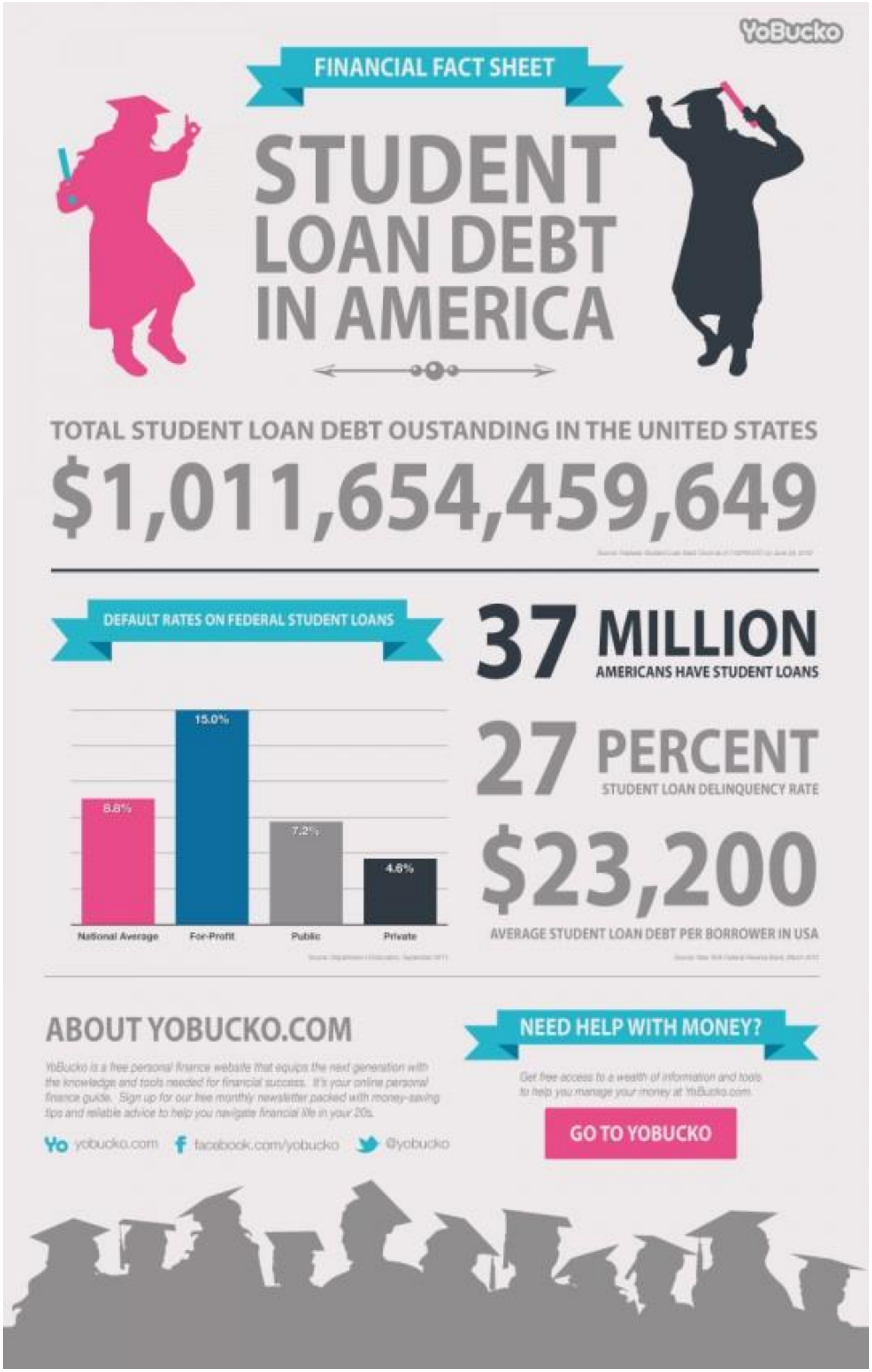
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Average age of credit is a factor used when calculating personal credit scores. Many millennials do not have old credit, so being added as an authorized user to a parent or older trusted friend's credit card can make your average age of credit increase and thus improve your personal FICO scores. An important note: be sure to use MasterCard and Visa for the authorized user addition, and avoid using American Express. Reason being, Amex updates authorized user accounts with the open date they were added to the card–rather than the date the account was actually opened–which reduces the average age of credit. Also, make sure the card has good payment history and the balances are not maxed out. With these changes, improvements should show on your credit within a few months.

Once your credit is at a manageable level, there are ways to prepare yourself when you're looking to actually start your business. Here's how:

- **Research and create a business plan**. This may involve seeking advice, mentoring, or coaching from other professionals or organizations like SCORE.
- **Figure out what your startup costs will be**. You can do this by estimating long- and short-term assets and expenses, then calculating how much you will need in savings to keep the business running during the first few months (especially when revenue is expected to be low). Then you can start budgeting for the expenses well ahead of time, while factoring in your student loan expenses.
- **Make sure that you're not counting on really high interest or fee lines and loans to keep your business moving**. If your business was to run into financial hardships, you will want to make sure that your personal credit and assets are protected.
- **Look into how you want to structure your business**: You have many options here; carefully consider each to protect you and your new business.
  - *Sole proprietors & partnerships* – Owners are personally responsible for debts.
  - *Setting up an LLC or corporation, etc*. – You are legally separating yourself from the business. This is the best way to limit personal liability as well as impacts on your personal credit, should your business runs into financial hardships.
- **Research startup and operational financing**. SBA loans, angel investors, crowd funding, traditional bank loans are a few (of many) options. Your ability to obtain financing will depend on your credit standing.

- **Licensing.** You may need to get state/federal licenses and permits to operate legally. This will depend on the industry you're specialty is in and its accompanying requirements.
- **Obtain an EIN (Employer Identification Number)**. This is like a SSN for your business, and every business owner needs one. You will need it for filing taxes, creating your DUNs number, and when applying for lines of credit/loans.

Now that you've gone through the steps to establish your company as a legal entity, you will want to start building business credit.

Start by looking for a small loan, line of credit, or credit card that does not require a personal guarantee and does not report to the personal credit bureaus (if they are asking for your SSN, it requires a personal guarantee). You will want to avoid providing a personal guarantee in order to protect your personal finances and credit, if you can.

You will also want to establish accounts through vendors who report to the bureaus. When doing so, always ask what bureaus they report to. This will vary depending on the company and you would be surprised to find out how many do not report at all. If your vendor accounts are not reporting, you are not building business credit through them. You might consider either asking them to report or finding an alternative vendor.

In order to find out if your vendors are reporting, you can simply ask them, or you could request a copy of all three business credit reports to see if they are showing up. Remember that all the bureaus report separately so it's important to order **all three reports**. If your preferred vendor is not reporting, you might consider either asking them to report or finding an alternative vendor.

Succeeding in business, be it big or small, revolves around having strong personal and business credit1. It creates the foundation to be flexible with your financing down the road, and is a great advantage for generating more approvals for partnerships, new accounts and more options in financing and pricing.

About the Author
Tracy Becker
Founder and President Tracy Becker, has been leading North Shore Advisory Inc. since 1990; Tracy has created a highly successful culture for her company built around honesty, integrity and results. Her drive and desire for uncovering

creative solutions to business and personal credit reporting errors, creditor mistakes, and both consumer and business missteps accompanied by her vast knowledge of credit laws are what makes Tracy and her team of experts irreplaceable to the people and businesses they assist.