



Get Insight from a Debt Schedule

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The last few years have been a bumpy ride for many small businesses. Sales may have slumped. Costs could have gone up. Small business owners have weathered this economic storm with a courageous combination of resilience, creativity, clarity and passion. Those who have been able to keep their doors open understand that important fundamentals about how to manage money in a small business are as true today as they've ever been.

Financial institutions do not want saddle people with loan payments they cannot afford. Community-based lending organizations, such as ACCION New Mexico • Arizona • Colorado, are in the business of helping people understand their financial health and providing access to healthy business credit. That credit is a tool, and like all tools, performance must support its cost. Lenders do not want credit to become overwhelming and prevent a small business from reaching its goals.

One tool lenders use to determine the financial health of a business is a mathematical expression called the debt-to-income ratio. Calculated by dividing total monthly debt payments by total monthly net income, the ratio is expressed as a percentage and provides a quick indication of the ability of a small business to pay its current debts. A number that exceeds 20 percent could be a sign that the business may have trouble paying off its current obligations and should not take on additional debt.

When an owner finds herself in this position, it's time to refocus and get a handle on both business and personal financial health.

Make a list of business debt obligations, including the current balance and the typical payment amount. At the top, record the most expensive debts or those with the highest annual percentage rates. Note whether the interest rate is fixed or variable; if variable, note the maximum amount of fluctuation allowed in the near future. If a loan is a revolving line of credit – a loan whose account balance may go up or down over a given time period with a varying payment amount – make note of the current balance and corresponding payment. An owner should make a similar list reflecting personal debt.

The resulting debt schedule is a guide to payment priorities when the small business owner is able to commit a little extra money to paying off debt. The faster debt is paid off, the less money the business spends on interest and the more that is available for operations and growth.

If current debt obligations are overwhelming and payments are at risk of being missed, begin by calling the lender. A change in terms, such as a temporary payment reduction, might be possible.

More serious problems should be discussed with a reputable credit counseling agency. They provide advice, budgeting assistance and may be able to negotiate with lenders for modified payment terms.

The recession created an abundance of disreputable counseling agencies, and it's vital to find one that is honest, law-abiding and trustworthy. One resource is Money Management International. Visit www.crediteducation.org for more information.

To learn more about ACCION New Mexico • Arizona • Colorado, visit www.accionnm.org.

Finance New Mexico is an initiative of the New Mexico Small Business Investment Corporation (NMSBIC) and its partners to assist individuals and businesses with obtaining skills and funding-resources for their business or idea. To learn more, go to www.FinanceNewMexico.org.

