

8. Don't Overextend Your Credit

Keep tabs on where you've taken on debt and make sure you stay within manageable levels. Many professionals recommend that your level of indebtedness, which comprises all forms of debt, should never exceed your cash on hand. This may not be realistic, but just be aware and manage deficits carefully.

Here are some ways to keep your credit under control:

- a) **Never spend over your credit limit.**
- b) **Keep your balance below your credit limit.** High outstanding debt can negatively affect a score.
- c) **Don't submit too many credit applications.** Whenever you apply for credit, lenders will seek out your credit score from the credit bureaus. Too many requests like this in a short period of time may have a negative effect on your score. Your score will not be affected when you ask for information about your own credit report.
- d) **Be choosy when selecting a credit card.** The fewer accounts you take on – whether loans or credit cards – the better it will be for your credit rating and your business health. Read the small print and shop for the best terms. A small difference in the Annual Percentage Rate (APR) can make a huge difference when you're running a company. Review all of the perks, fees, and interest rate options before signing up for credit. This helps keep your payments within manageable limits.
- e) **How much debt can you afford?** If you don't know how much debt you can handle, it's easy to get in over your head. Before applying for a loan, you should have a good understanding of how much money is coming in from sales and the expenses you'll need to pay with this money, including the cost of borrowing. To figure out your debt-to-income ratio, divide your TOTAL monthly debt payments by your monthly gross income. Generally speaking, if it's over 38%, it's too high.