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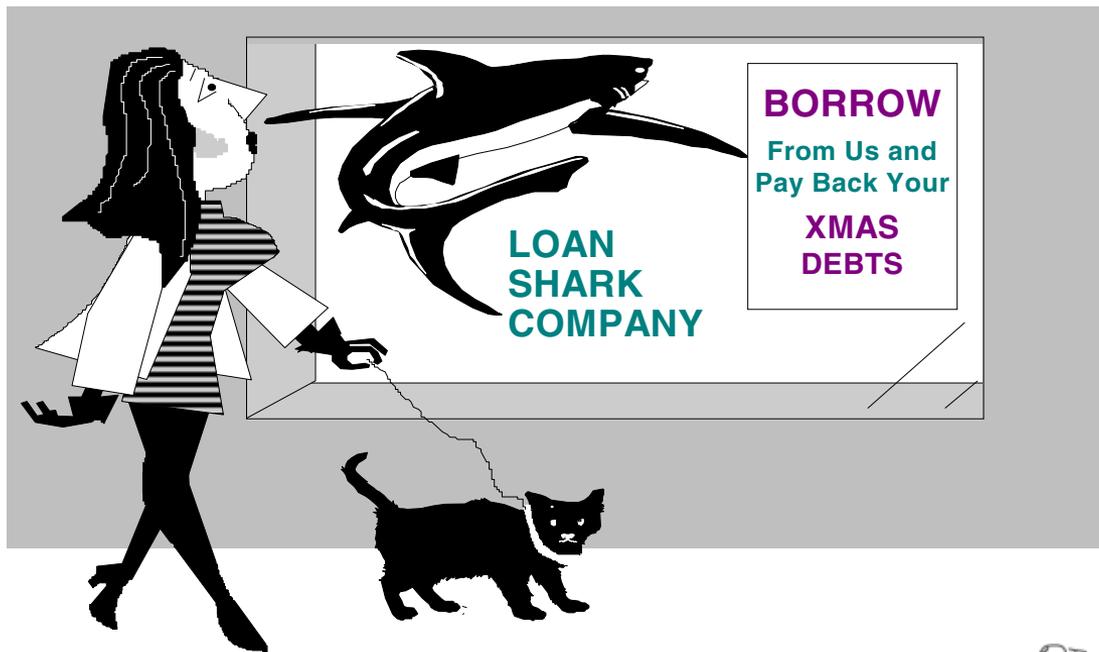
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PERSONAL PLANNING

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OPENING A BUSINESS BANK ACCOUNT

Banks get rich by manipulating a few percentage points here and there. They charge high interest rates for credit card loans, personal loans and mortgages and pay out low interest rates for savings accounts, investment certificates and the like. Banks also get rich by squeezing every single penny they can out of each and every monetary transaction. They nickel & dime the masses by charging for basic withdrawal and deposit services that not too long ago were free. Banks are the epitome of the perfect miser.

However, despite this, they are essential partners to every small business. The fact is every small business needs a checking account to help keep track of their cash disbursements. Many will also need a line of credit or a loan at some point or another and thus need to establish and maintain an excellent credit rating. And of course, all businesses need a safe place to store their hard-earned profits. An old mattress just doesn't cut it.

SETTING UP A BUSINESS CHECKING ACCOUNT

ONE OF THE first things you need to do when starting a business is open a business checking account. Good business practice dictates that you keep your personal financial affairs separate from your business financial affairs.

NOTE To open a business checking account you will need a copy your business registration (DBA statement) to verify your business name.

If your company will be receiving lots of cheques in the mail, you may have to make special arrangements with your bank. Especially, if the cheques are out of country.

SUPERTIP

Selecting a Bank

To assist you in the task of selecting the right kind of bank for your business checking accounting, consider the following guidelines:

1. **Avoid banks with unreasonable and expensive checking account policies.** Good business practice dictates that every disbursement be made by pre-numbered checks. This will assure you of a formal record of all payments and expenses. Therefore, when

looking for a bank to meet your needs, avoid those that charge excessive fees. Many commercial Canadian banks for example are unwilling – so

far – to offer interest on the balances in business or corporate accounts. Since these same banks do, of course, charge checking fees, this creates an undesirable situation for business owners.

Consider dealing instead with a trust company or Credit Union. Those these institutions often do not publicize the service, they are often willing and able to give you a daily-interest checking account, with statement privileges. As well, many trust companies are experimenting with no-fee or low-fee accounts that further minimize these extra charges. Shop the trust companies and credit unions in your area.

Never bounce a check without telling your bank first and giving them a chance to fix things, no exceptions.

NOTE When choosing a bank it is important to make the following inquiries: What service charges are their for issuing and clearing checks? What clearing services does the bank have for clearing foreign checks quickly?

2. **Choose a bank that offers overdraft protection.** Considering the amount of checks you will write as a business owner, and the resulting wildly fluctuating bank balances, quite often you will unknowingly bounce checks. Therefore, it is paramount that you protect yourself in such cases and avoid extra fees and the embarrassment to your suppliers or other creditors. You must talk to your bank or trust company branch manager in advance about overdrafts and credit

lines. Ask for an automatic overdraft protection of \$1,000 on your account, secured by your name only, that is without collateral. Most managers have the authority to do this, but you have to ask.

3. Choose a bank that offers over the telephone services.

Many banks now offer services that allow you to transfer money between accounts, make credit card inquiries, pay bills, and check account balances over the phone using a push button phone to enter account numbers and other pertinent information.

These services can even be accessed via your cellular or car phone.

If you use a cellular to access your bank account, make sure that security measures have been taken to properly scramble the messages.

bank account, make sure that security measures have been taken to properly scramble the messages.

4. Choose a bank that offers electronic banking services.

The relatively new capacity of making financial transactions by computer over phone lines is destined to speed up cash flow more than any other current technology. Businesses are already using electronic order entry systems, which enable customers to reorder merchandise and check shipping dates directly.

The next step will be the invoicing of customers via computer, and then receipt of payment electronically by wire

NOTE If you use a cellular to access your

transfer from the customer's bank to the vendor's.

To its advantage, electronic banking takes less paper and less transit time, reducing the work and cost of paper invoices, payroll, and bills and thus solving two of the biggest problems bothering both commercial and non-commercial depositors. It also makes long-distance transactions as convenient as dealing with a local neighborhood bank opening up the entire country to financial interfacing.

Already more and more banks are offering electronic banking privileges to small businesses, enabling them to have the convenience and cash man-

Smaller banks in smaller communities tend to be more conservative in their lending practices and investment returns.

agement control enjoyed by larger corporations. These banks allows you to use your PC to check balances, transfer funds, consolidate cash between accounts, and pay bills.

5. Choose a bank based on the following additional criteria:

Availability of FDIC Deposit Insurance – Make sure the bank has deposit insurance. FDIC Deposit Insurance covers up to \$100,000 of a customer's account.

Banks' Willingness to take Risks

– Generally, smaller banks in smaller communities tend to be more conservative in their lending practices and investment returns.

Compensating Balances – Are compensating balances required?

Interest Rates Charged & Paid – Review the interest rate paid on your deposits and the effective rate charged on loans.

Loyalty to Customer – Research the bank's history regarding loans. Will it pressure your business to liquidate your assets and pay off the loan during an economic downturn?

Maximum Loan Size – If your company will need a large loan in the future, find out the maximum loan size of the bank you are interested in. Usually, any one single loan is limited in size to 10 percent of bank's capital accounts.

Good credit is essential. It enables you to obtain loans and mortgages from bank as well as credit from suppliers.

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Specialization – Larger banks have separate departments specializing in different types of services, which may be more useful to you as a business operator.

Other Services – Does the bank have transfers, electronic banking, foreign currencies, lockbox service etc.

Getting the Most Out of Your Checking Account

To get the most out of your business checking account, use the following strategies:

6. Use a checkbook that has enough room to identify the source of deposits as business income, personal funds, or loans.

7. Make all payments by check to document business expenses.
8. Write checks payable to yourself only when making withdrawals from your business for personal use.
9. Avoid writing checks payable to cash. If you must write a check for cash to pay a business expense, include the receipt for the cash payment in your records. If you cannot get a receipt for a cash payment, you should make an adequate explanation in your records at the time of payment.

AMAs are cash and investment management accounts established by major brokerage firms, mutual funds, or other large financial institutions.

1. **Consider using an Asset Management Account as your small business checking account.** AMAs

are cash and investment management accounts established by major brokerage firms, mutual funds, or other large financial institutions. Depending upon the account, you may be able to trade securities, earn healthy interest rates on your cash reserves (AMA interest rates are based on money market rates which in the United States have averaged between 6.5% and 18% since 1980), and write checks to

pay bills or for other financial matters without being charged – this means you can pretty much access your money whenever you wish. An addi-

More Banking Strategies

To get the most out of your savings, consider using the following strategies:

tional profit point to consider is the 1/2 to 1 percent gain created by daily compounding.

When choosing an AMA, check out AMAs that offer a no-charge credit card. A no-charge credit card tied into your AMA means that your charge account gets paid of “automatically. If you don’t have the cash in the account, the financial institution will likely create an instant loan to pay your charge bill at a preferred loan rate.

A second point to consider is that all AMAs charge yearly fees. Thus, you

should choose an AMA with the lowest yearly fee as long as it has the other features you want.

In Canada, the Wood Gundy Asset Advantage Account has an annual fee of \$200. It includes daily compound interest (prime less 2%); margin loans for any purposes (prime plus 3/4%); U.S. and Canadian no-charge checking available; no-cost VISA card included; and a comprehensive monthly summary.

SUPERTIP

Also, keep in mind that because your AMA account is really an investment account, you can claim these yearly fees as tax deductible miscellaneous investment expenses.

NOTE The best of the U.S. based AMAs will happily accept Canadian customers. Though such a situation is impractical for busi-

ness – cheques are issued and cleared in U.S. Dollars through U.S. banks – it is of interest to anyone who maintains a U.S.

investment portfolio or does some business in the United States. Canadians can access existing AMAs in the United States via toll-free numbers.

2. Replace high-interest credit cards with low-interest credit

cards. More and more banks are offering low interest credit cards. For example the American Express *Small Business Card* offers in addition to its regular customer services a special over draft protection and lower interest rates.

Avoid the “spread” for purchases made in foreign countries by opening up an account in that country or currency.

NOTE In some cases, it is possible to call your existing credit card company and ask them to lower your rate. They are more likely to respond to this if you are a “good customer” who always seems to be

using their credit.

3. Avoid the “spread” for purchases made in foreign countries by opening up an account in that country or currency.

In converting currencies, banks buy low and sell high. The difference between the buy and sell is usually about 5% at any given time – this is called the “spread.” For example, if you live in Canada, every time you purchase an item in the United States on your Canadian credit card, you are paying the higher rate and that includes some hidden profit for the credit card company.

To avoid this hidden “fee,” set up a separate bank account in U.S. funds.

These accounts are available at virtually all Canadian banks and financial institutions. They generally include both interest and checking privileges, depending on the account chosen.

Once you have an account set up, your strategy is to avoid any subsequent transactions that involve a currency exchange. Settle your U.S. bills via check or money order drawn on your U.S. account. If you receive any funds in U.S. denomination, do not convert them. Deposit them to your U.S. account directly.

NOTE If you must have a credit card for United States purchases, apply for a card issued by a U.S. bank in U.S. denomination, and settle the monthly statements with cheques drawn on your U.S. account.

An American credit card . . . is just as good in Europe as American gold used to be.

**EDWARD
BELLAMY**

4. **Use a mutual fund with easy transfers to your checking account.** Some Money Market Funds, paying a high daily savings interest, allow you to write checks. You can use these funds to invest excess cash in the name of your business. Then once a month withdraw funds and transfer them to your business checking account to cover disbursements for the next upcoming month.

NOTE Expect to wait up to five working days for funds to be transferred, from a mutual fund account to a bank account. Companies make a profit on this wait time as the withdrawn funds sit in their account, not yours.



MAKING A BANK DEPOSIT

A BASIC PRINCIPLE of cash management is to keep it moving. The faster cash moves from your customer's pocket to your bank and into appropriate short-term investments, the better. Therefore, ideally all forms of cash including check and credit card slips should be deposited at the end of each day.

Preparing a deposit slip takes only a few minutes. All that is required of you is to fill in the date of the deposit, your account number, your name and name of business, as well as credit slip totals, check totals, and cash to-

tals including dollars and cents (see example on following page). Deposit slips are available from most banks and almost all banks maintain 24-hour deposit services.

The frequency of your bank deposits will depend upon the amount of cash that is generated by your businesses and the proximity of your bank to your business.

NOTE Only keep on hand the amount of cash you are prepared to lose.

To get the most out of your banks, learn how to take advantage of credit cards with long floats and lower interest rates, and among other things, how to make your money grow and grow through the magic of compound interest.

SUPERTIP



Bank Deposit Slip			
		The First Canadian Bank	
		Bank of Montreal	
Account No		Date	
<i>Current</i>		<i>Aug 18/89</i>	
Credit		<i>Harry's Pet Supplies</i>	
Deposited by		<i>Harry Griswald</i>	
Check	Cash	Dollar	Cent
<i>7 00</i>	<i>41</i> x 1	<i>41</i>	<i>00</i>
<i>212 00</i>	<i>1</i> x 2	<i>2</i>	<i>00</i>
<i>14 00</i>	<i>7</i> x 5	<i>35</i>	<i>00</i>
	<i>9</i> x 10	<i>90</i>	<i>00</i>
	<i>1</i> x 20	<i>20</i>	<i>00</i>
	x 50		
	x 100		
	Change	<i>5</i>	<i>00</i>
	Credit Slips		
	Coupons		
	Total Cash & Coupons	<i>193</i>	<i>00</i>
	↪ Total Checks	<i>233</i>	<i>00</i>
	Total Deposit →	<i>426</i>	<i>00</i>
Teller's Initials			

IMPROVING YOUR CREDIT RATING

TO ESTABLISH a credit rating, you need to secure and use credit from a number of businesses. Over time, your rating will improve or get worse depending upon your record of paying for goods and services according to any agreed terms. This record is maintained and updated at a credit-reporting agency.

When a bank or creditor needs credit information on you, they consult this credit-reporting agency. Credit reporting agencies do not evaluate your credit file, but make the information available to credit bureau mem-

An AMA for business give the business owner the best of all worlds – a high-interest, compounded return plus regular statements and no charge for checks.
POWERPOINT

bers who may be banks, mortgages, department stores, or other issuers of credit.

When evaluating your credit, they use a rating system with the letters O, R or I followed by a number from 0 to 9 (for an explanation of these letters and numbers, see the chart on page 16). To improve your credit rating, get all accounts to R1 and then pay off all R9 accounts.

To takes steps in the right direction to accomplish this, use the following 10 strategies:

- 1. Always pay your bills on time.** To improve your credit rating even more, try and pay your bills ahead of time.
- 2. Check your credit file once a year.**

Every credit bureau, by law, must on request give you a complete, accurate report of everything in your file, including your credit history and a list of every potential creditor and employer who has been given information from your credit file during the past year. Knowing what others know about you is half the battle.

To obtain a credit report, you are required to identify yourself by completing a mail-in form, or appear in person at the credit bureau with identification. There is no charge to inspect your file. Look in the telephone book under Credit Reporting Agencies or Credit Bureaus.

3. Check your credit file for er-

rors. Credit card files are notorious for containing errors. Make sure all the information contained is correct. Request re-verification by the credit bureau if information is incorrect.

4. **Add all missing positive information to your credit file.** Supply the credit bureau in writing with a list of all charge accounts, credit cards, loans

Credit Bureau Rating System

O	open account (30 days or 90 days)
R	revolving or option account (open end account)
I	Installment (fixed number of payments)
1	pays account as agreed
4	pays 90 to 120 days late; three payments late
9	bad debt; placed for collection

and mortgages you have kept current. Include account numbers. Also, include loans that have been paid off or accounts no longer in use.

5. **Add explanations to your credit file as to why certain payments were late.** You can add your side of the story to your credit file.
6. **Remain silent about poor credit.** You don't need to inform the credit bureau about poor credit information that does not currently appear in your file.
7. **Have detrimental credit information removed when you can.** After seven years, by law you can request to have all detrimental credit information, such as bankruptcy, re-

You don't need to inform the credit bureau about poor credit information that does not currently appear in your file.

moved from your file.

8. **When you are refused credit, find out why.** To do this exactly you must contact the institution refusing credit as soon as possible.

NOTE In Canada, if your credit rating is "good" and you are refused credit, the company does not have to tell you why you were refused.

9. **Resolve any disputes with credit reporting agencies as soon as possible.** In Canada, you can use the Consumer Reporting Act administrators and/or small claims court to resolve any disputes with the credit bureau about incorrect, inaccurate information in your file.

- 10. Have your credit file transferred when you move.** If you plan to move from one area of the country to the next you can request a credit bureau to have a positive credit report transferred to the city you plan to move to.

The 8 Elements of a Positive Credit Profile

In addition to the above 10 strategies, use the following *8 Elements of a Positive Credit Profile* to improve your credit rating shown in the chart on the right. These elements are listed from most important to least important.



8 Elements of a Positive Credit Profile

- 1 A positive up-to-date credit report
- 2 A home with a mortgage
- 3 An American Express card and/or Diner's Club card
- 4 A job you've held for a year or more
- 5 A current or paid-off bank loan
- 6 A Master Card or VISA
- 7 A department store credit card
- 8 A telephone in your name