UNDERSTANDING BUSINESS CREDIT

YOUR BUSINESS CREDIT PROFILE

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INTRODUCTION
In collaboration with our partners from OnDeck, the leader in online lending, we developed this guide to help small businesses secure financing in a fair, efficient and transparent manner so that they can get back to what they do best: growing their businesses, hiring workers and fueling the economy.

Whether your business is an early-stage startup or an established company, accessing the financing you need to fuel expansion or provide working capital is essential to success. But in order to get that financing, you need to understand how your business credit profile works.

How strong is your business credit profile? Did you even know that your business has a credit profile? If you didn’t—or if you don't understand how your business credit profile works—you're not alone. In this eGuide, we’ll explain:

- How your business credit profile and personal credit score affect your ability to get financing for your small business
- The three questions most lenders will ask about you and your business
- The two factors that have the biggest influence on your business credit profile, and
- The five things you can start doing today to build a strong business credit profile.

You might be surprised at how simple some of these tactics are and how quickly you can build a business credit profile that will help you borrow the money you need.

UNDERSTANDING YOUR PERSONAL CREDIT PROFILE
Every small business owner has two credit profiles:
1. Your personal credit profile, expressed in your personal credit score
2. Your business credit profile, expressed in your business credit score

Regardless of which credit bureau is measuring your personal credit profile, the scores are very similar.

WHAT MAKES UP MY PERSONAL CREDIT SCORE?
There are five factors that make up your personal credit score.
1. Payment history (35%): Do you pay your personal bills on time?
2. Amount owed (30%): This is the ratio of your available credit to how much you use. If you have a personal credit card with a $5,000 limit, and you regularly use all $5,000 of it, that will negatively impact your score even if you pay the bill in full every month. Credit bureaus prefer to see you using only 15 to 20% of your total available credit.
3. Length of your personal credit history (15%): It's tempting to cancel credit cards that have a blemish on their history, but it's not a good idea.
4. Type of credit used (10%): Mortgages, car loans and other personal loans are great opportunities to demonstrate creditworthiness. However, lenders also want to see how you handle revolving credit, like a credit card. A broad mix of credit types will help boost your credit score.
5. New credit inquiries (10%): When you shop for a car or mortgage or apply for a new credit card, each of these inquiries negatively affects your credit score. Try to limit these inquiries.

WHY DO LENDERS WANT TO KNOW MY PERSONAL CREDIT SCORE?
Before making a business loan, every lender has basically three questions:
1. Can you repay a loan?
2. Will you repay a loan?
3. What will you do if something unexpected happens? Will you still find a way to make your loan payments?

When lenders assess your creditworthiness, they start with your personal credit score because it’s readily available and easy to check. They also use it to get insight into how you will likely treat a business loan.

Unfortunately, although your personal credit score reflects how you meet personal credit obligations, it’s not always the most complete or accurate way to determine how you will meet your business obligations. That’s where your business credit profile comes into play and why it is so important.

UNDERSTANDING YOUR BUSINESS CREDIT PROFILE

Some business owners make it a point to pay cash for everything, rather than borrow money or establish a line of credit. They’re proud of not taking on debt. But in reality, always paying cash may not be the best move for your business.

Why? If you never borrow money or use credit, when credit bureaus pull up your business credit report, there won’t be anything to see. If a lender has ever told you that your credit profile is “thin,” they mean it doesn’t contain enough data for them to evaluate your creditworthiness.

You shouldn’t borrow money or establish business credit accounts just to establish them, of course—but you should do so when it makes sense for your business and when it will help build your business credit score.

WHAT MAKES MY BUSINESS CREDIT PROFILE DIFFERENT THAN MY PERSONAL CREDIT PROFILE?

Your personal credit profile is expressed in a score – one that you probably know. Your business credit profile is more complex. Each credit bureau looks at the information a bit differently. There isn’t one overall score, but there are several that create your business credit profile.

Your business credit profile includes:

1. General information about your business that is part of the public record, such as your business address, years in business and your industry

2. Information about the credit relationships you have with your suppliers and vendors, including your utilities and lease payments

3. Your payment history with any current business loans and business credit cards

The two biggest factors influencing your business credit profile are your credit history and the public record.

WHERE CAN I SEE MY BUSINESS CREDIT PROFILE?

It’s important to know what your business credit profile looks like and to make sure it’s accurate. Although there are others out there, the three biggest business credit reporting bureaus are Dun & Bradstreet (D&B), Equifax and Experian.

If you view a D&B credit report, for example, here’s some of the information you’ll see about your business:

● **PAYDEX score**: This score ranks a business up to a maximum of 100 points based on a variety of factors. D&B’s credit report will also show whether your business’s PAYDEX score is improving or declining.

● **Company overview**: This includes publicly available information about your business, such as the owner’s name, year started, number of employees and the business’s SIC code.
Public filings: This will show if your business has any lawsuits, judgments or liens against it as well as any bankruptcies. This information is taken from public records.

Line of business: The D&B report will specify the industry you're in, including your business's NAICS code. It's important to make sure this code is accurate, so your business isn't ranked as being in a riskier industry than it really is. D&B also ranks the industry's Financial Condition and the business's Commercial Credit Score Class.

Financial stress score: On a scale of 5 (high stress) to 1 (low stress), this measures whether your industry in general is under financial stress. For instance, in 2008, any business in the automotive industry was under financial stress.

PAYDEX trend chart: This shows your company's PAYDEX score for the past 3 months, compared to the PAYDEX score of all businesses in your industry, as well as a trend for both scores.

Credit capacity summary: Your business receives an overall rating based on factors including the size of the business, annual revenues, net worth, cash flow and average credit usage.

Credit limit recommendation: D&B will recommend a conservative limit and an aggressive limit. Your lender may or may not follow these recommendations, but they do use the information to evaluate your creditworthiness.

Credit score summary: This predicts how likely your business is to become severely delinquent on paying its bills, based on factors including the average risk level of your industry, financial ratios, proportion of past due balances to total amount owed, evidence of open suits and judgments and the proportion of slow payments in recent months.

Credit score percentile: D&B will compare your business's credit score to that of millions of other businesses to show where you stand in respect to other businesses in the region, other businesses in the industry, other businesses of similar size and other businesses that have been operating for the same number of years.

5 STEPS TO BUILDING A STRONG BUSINESS CREDIT PROFILE

Now that you have an idea of what your business credit profile contains, how can you start building and improving it? Here are five simple steps.

STEP 1: KNOW YOUR BUSINESS CREDIT PROFILE.

Regularly review it to make sure it's accurate. Correct any errors you find. Visit each of the three major business credit reporting agencies to get your business credit report. Some of the agencies charge for this, but it's well worth it.

Dun & Bradstreet
Equifax
Experian

Although all three credit reporting agencies report the same basic information, each has a different perspective. For example, Dun & Bradstreet focuses primarily on your relationships with vendors and suppliers, while Equifax focuses on what banks and lenders say about you. To get a well-rounded view of your business credit profile, it's best to check all three.

STEP 2: DON'T USE PERSONAL CREDIT FOR BUSINESS PURPOSES.

Doing so causes two problems. First, it won't help you build your business credit profile. Second, it can actually hurt your personal credit score. Why? Business expenses are typically bigger than personal expenses, which can drive your credit usage ratio up. If you use more than 15 to 20% of your available personal credit, it could negatively affect your personal credit score.
STEP 3: ESTABLISH TRADE CREDIT ACCOUNTS WITH SUPPLIERS.

This is easier to do in some industries than in others, but in general, vendor credit is relatively simple to get. Instead of putting purchases on your business credit card, ask if the vendor offers 30-, 60- or 90-day terms. As long as you stay current on payments, and those vendors report to the credit bureaus, using vendor credit is the single easiest way for a young business to build a business credit profile.

STEP 4: MAKE SURE YOUR SUPPLIERS REPORT YOUR GOOD CREDIT BEHAVIOR TO A CREDIT BUREAU.

Not all companies do this automatically, so you need to ask if they do. If they don’t report the information, ask if they can start doing so. Otherwise, no one but the vendor can see your history of on-time payments—and you aren’t building a strong credit profile with the credit bureaus.

STEP 5: STAY CURRENT ON YOUR PAYMENTS.

Staying current on payments is the single most important factor impacting your business credit profile.

WHAT IF MY BUSINESS CREDIT PROFILE ISN’T PERFECT?

There is no quick fix for a poor business credit profile. However, if you start implementing the five steps above today, within the next 12 to 18 months, you’ll see major improvement in your business credit profile.

CONCLUSION

Your business credit profile is important at every stage of your business’s life cycle, but especially when you’re seeking a business loan. There are four key questions to ask yourself when looking for a small business loan:

1. Why do I need a loan?
2. Which loan terms best fit my situation?
3. How much money do I really need?
4. What does my business credit profile look like?

A strong business credit profile doesn’t guarantee you’ll get a loan, but it does give you more options, including nonprofit micro-lenders, the SBA, banks, credit unions, online lenders and loan matching sites.

Be aware of what credit bureaus have to say about your business from the very beginning. Work to establish your business credit profile, monitor it and improve it. The small amount of time and money this takes is well worth the result: knowing as much about your business credit profile as potential lenders do.

FOR MORE INFORMATION ABOUT THE WORLD OF ONLINE LENDING, VISIT: BUSINESSLOANS.COM

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