What Does My Business Credit Profile Reveal About My Business?

In my last column, I discussed the impact your personal credit score has on your ability to qualify for a small business loan and the options a strong score makes available compared to a weaker score. That triggered many more email responses on the topic and most wanted to know more about their “business profile”.

I explained that as a SCORE mentor, this is not one of my areas of expertise, so I will again lean on Ty Kiiisel, one of SCORE’s resource partners for more specifics.

Ty writes that there is some confusion about whether or not every small business has a credit profile (in addition to a personal credit score), but he clarifies that if your business is a registered business, including sole proprietorships, along with your personal credit score, your business will have a business credit profile.

Small business owners in the United States have two profiles, their business credit profile along with their personal credit information. Because a business owner’s personal credit score is usually a part of any creditworthiness decisions-making process, he is often asked to explain the business credit “score” and how that impacts a small business’ ability to qualify for a loan. While the different credit bureaus do score a business’ credit (Dun & Bradstreet’s Paydex Score is a good example), there is no universal business credit score, but rather a collection of scores and information that make up a small business’ credit profile.

What’s Included Within a Business Credit Profile? Any time a potential lender reviews your business credit profile, they see:

1. General information about your business like your address, your industry, your number of employees, how long you’ve been in business, and your size
2. Information about your business’ credit relationships with suppliers
3. Your payment history with any current business loans or business credit cards

Business credit bureaus pull information about your business from the public record and your business credit history. Most lenders are also interested in information like your cash flow, your annual revenue, your time in business, the industry you’re in, and whether or not you have specific collateral. Some of this information is included in your business credit profile.

In addition to the credit performance of your business, your business credit profile will also include credit information about your industry and the credit performance of your
peers. It will likely report on the potential for financial stress for your business and will compare your business to others in your region, businesses about the same size as you, and businesses that have roughly the same time in business.

In a nutshell, your business credit profile could be considered an aggregation of all this data to provide a potential lender with the information they need to make a credit decision about how your business will meet its credit obligations in the future, based upon what it has historically done in the past.

It’s important to understand the information included in your business credit profile and how that information is used to make credit decisions about your business—and how it differs from your personal credit score.

As I have shared in these columns in the past, SCORE has numerous resources for small business owners. As an example, Ty recorded Understanding Business Credit, a webinar with SCORE that you can visit on the SCORE.org site to not only learn more about your business credit profile, but the questions from the audience will likely be similar to those you might have. The access to this free webinar is “www.score.org/event/understanding-business-credit”

**What Can You Do to Build a Strong Profile or Improve a Weak One?** There are five things you can start doing today that will help you build a strong business credit profile. While a good profile is no guarantee of a small business loan, it will make options available to your business that might not otherwise exist for a business with a weak profile.

1. **Know Your Profile.** If you don’t know what the credit bureaus are reporting about you and your business, it’s hard to make any changes to make it stronger. What’s more, because some of this data is pulled from public sources, it’s not uncommon for there to be mistakes or errors within your business profile.

   Fortunately, the credit bureaus are motivated to ensure the information they have about your business is as accurate as possible. Therefore, any errors you discover that are verifiable, they will correct.

2. **Don’t Use Your Personal Credit for Business Purposes.** There are a couple of reasons this is important. It doesn’t help build your business credit profile and may even hurt your personal credit score.

   Because the personal credit bureaus don’t report your personal credit usage, none of that credit history will benefit you. What’s more, because 30 percent of your personal credit score is a reflection of how much credit you access—your debt to credit limit ratio, if you regularly max out your personal credit cards on business expenses, it could hurt your personal credit. This is true even if you pay the balance down to zero every month.
Because your personal score will likely be part of the equation, it’s important to avoid practices that have the potential to hurt your personal credit score.

3. Establish Trade Accounts with Your Suppliers. Although vendor credit (or payment terms) aren’t really a small business loan, those 30- or 60-day terms are relatively easy to get and will help you build a strong business credit profile pretty quickly.

Don’t just assume your suppliers don’t offer credit terms. Ask. If they don’t, companies like Home Depot and Staples offer credit to their business customers, and they offer many products that most businesses use on a regular basis.

4. Make Sure Your Suppliers Report Your Good Credit Behavior. If they don’t report, it may help you with that particular supplier, but it won’t help your business credit profile generally. You may want to consider asking potential vendors as part of your vetting process—it can be an important strategy to build your business credit profile.

5. Use the Credit You Need and Stay Current. This is probably the single most important thing you can do. Your business credit history, described in simple terms, is a collection of both positive and negative (if there are any) notations in your profile. If the positives outweigh the negatives your profile will improve. It might not happen overnight, but you might be surprised at what a concerted effort over six to 12 months can do.

If you have a struggling profile, there are no quick fixes. In fact, beware of companies that claim they can fix your profile by changing your tax ID or creating a new business identity. Not only is it legally questionable, it doesn’t take the credit bureaus long to find out your trying to game the system—which could really hurt your profile.

A strong business credit profile might not be a guarantee that you’ll get the loan you’re applying for, but it will give you options and help you know where to look to improve the odds of success.

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