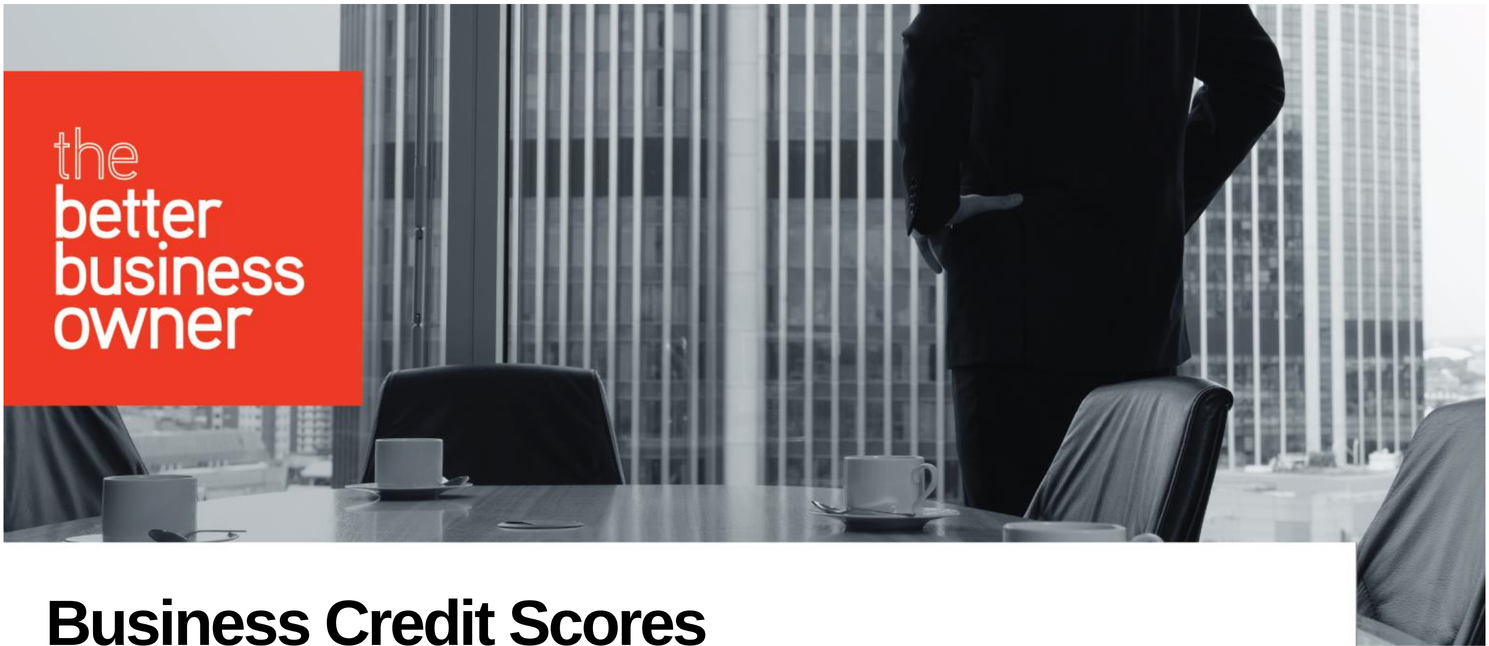

Business Credit Scores

Your credit score follows you from the time you sign up for your first credit card, determining if you are eligible for everything from loans to apartments and even employment. It can determine interest rates and future credit card eligibility—in fact, it seems as though most of the financial opportunities you have are determined by your credit score. Even with credit as such a decisive factor in our financial lives, many business owners remain unaware that they have the opportunity to build and maintain a credit score separate from their personal score. Business credit works differently from personal credit, but if established and maintained, a good business credit score can help you raise capital for your business and give you better relationships with wholesalers and suppliers.

When learning how to build your business credit score, consider the following:

- **Why is business credit important?**
- **What is business credit?**
- **Separating business and personal**
- **How to establish a business credit score**
  - **As a sole proprietorship or partnership**
  - **As a corporation or LLC**
- **Maintaining and monitoring your score**

Why is business credit important?

Building a good credit score takes some effort, so it's important to understand how it can benefit your business. First and foremost, business credit gives you more security in both your business and personal finances by separating them from each other. You don't want to damage your personal score from a business failure, just as you don't want your business to suffer from a bad personal score. Building business credit helps shield your new or growing company from your personal finance mistakes while also allowing your personal score to remain untainted if your business fails. Business credit can help grow your business by offering you an increased credit capacity, as businesses are generally eligible for larger amounts of financing than individuals. A solid business credit score can also help improve your company's image in the eyes of potential customers or trade partners.

What is business credit?

If you establish business credit, you will have two credit scores: one score for you as an individual and one for you as a business owner. Business credit is determined by factors such as

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company size, business structure, industry risk, business account balances, payment habits, length of credit history and public records such as liens or bankruptcies. Business credit bureaus such as Experian Business, Equifax business, Business Credit USA and Dun & Bradstreet keep a file of your business, identified by your employer identification number (EIN). These firms then use these factors to determine a single number that helps banks, credit card companies and other businesses determine how much they will lend you and under what terms. The most commonly reported and recognized business credit scale is based on the PAYREX scale used by Dun & Bradstreet. This scale ranges from zero to 100, with scores of 75 or higher considered excellent. Unlike personal credit scores, which can only be viewed with the permission of the report holder, business credit reports are available to the public.

Separating business and personal

Although business and personal credit scores differ in many ways, the biggest difference is that information provided to business credit bureaus is sent in voluntarily, rather than automatically as with personal credit. So, unless you make an active effort to establish business credit, credit bureaus may never receive any information about any of your business credit transactions; you could think you're establishing credit for years without any of it being reported.

It may be difficult, especially as a new business, to keep your business and personal credit scores separate. Since new businesses will have little or no credit history for lenders to base their decisions on, it's likely they'll view your personal credit as a "reference." If your personal credit history isn't great, you will want to work at improving your score before applying for business credit. Some creditors may be more likely to offer you business credit if you come armed with up-to-date business licenses, business insurance and a solid business plan to show them that you are serious about your business. Establishing business credit with a poor personal credit history may require the help of a sympathetic loan officer, but it's not impossible—and it's much better than harming your personal credit further with the possibility of business failure or starting your business out on the wrong foot by backing it with poor personal credit.

Once you establish some form of credit, you will be able to establish a history and slowly gain more and more. As your business and credit history grow, you'll be able to rely only on your business credit report to apply for more business credit, and therefore separate personal and business credit history as much as possible. Unfortunately, half of all small businesses use some form of personal credit to finance their business, putting both their business and personal finances at risk.

How to establish a business credit score

As a sole proprietorship or partnership

If you operate as a sole proprietorship or partnership, your personal and business debts and assets, and therefore your personal and business credit scores, are very closely linked. This doesn't mean that you shouldn't attempt to secure business credit, however. Keeping a business credit history can be helpful for your own reporting, as it will force you to keep separate books and may help with business budgeting. It will also help should you decide to deduct any business expenses on your taxes. Leaving a trail of documentation showing that you have separate expenditures for personal and business use will make it much easier to prove to the IRS that your business expenses are indeed business expenses if you are challenged.

First, if you are a sole proprietorship, you will have to obtain an EIN from the IRS. Although as a sole proprietorship, you may not need one to run your business, you will need an EIN to establish business credit, as this is how creditors and credit bureaus will identify your information. If you are operating as a partnership, you can use the EIN you already have. Opening a business bank account is also crucial to applying for business credit, as it shows that you have capital to pay off your credit. The next step should be to apply for credit in the form of a loan or business credit card. As a sole proprietorship or even a partnership, it may be difficult to secure any type of credit at first, especially if you have a poor personal credit score. In a partnership, it may be wise to have the partner with the best personal credit score apply for business credit. However, establishing business credit as a sole proprietorship or partnership isn't impossible; in fact, according to Experian Business Credit Facts, "Many creditors have begun moving away from relying on personal credit alone when judging the financial health of the owner's small business, as personal credit does not ideally predict future business behavior. Many creditors instead have begun taking advantage of new blended commercial scoring tools that integrate both personal and business credit attributes to predict small-business risk."

While you won't be eligible for trade credit, or lines of credit established between incorporated businesses, using a business credit card and creating a separate score as well as keeping business transactions separate from your personal ones can still provide some benefits. While your personal credit and business credit will be much more closely linked, having two scores ensures that a business failure will not be as devastating to personal credit and vice versa.

As a corporation or LLC

As a corporation or LLC, you can start the process by applying for a business credit card, loan or lease to start your business credit report. Remember that although they may use your personal credit as a reference initially, gaining your first piece of business credit goes a long way toward separating personal and business credit in the future. If you are approved for a corporate credit card, the transactions from this card will only be attached to your business credit. Unlike a business credit card, used by sole proprietorships and partnerships, you do not have to personally accept responsibility for late payments on corporate credit cards (the business does that), so business credit will not affect your personal credit report.

Beyond business credit cards and loans, however, corporations and LLCs also have the added opportunity to establish trade credit. Trade credit occurs when one business establishes a line of credit for another. It allows for delayed payment for the exchange of goods.

You will likely have several trade accounts if your company works with a lot of vendors. Don't be afraid of opening up multiple trade accounts—unlike with personal credit, establishing multiple accounts won't hurt your business credit score. Trade accounts generally have "net 30" terms, meaning that any outstanding balance has to be paid within 30 days of billing. However, paying earlier than this can help improve your credit score. While some new businesses will not be able to find trade credit right away, establishing a good relationship with businesses by consistently paying for your supplies right away can help you move forward with the process sooner. Some large companies are known for extending credit to new businesses and don't require personal references. These companies include:

- Dell
- FedEx
- Home Depot
- Lowe's
- Staples
- UPS

Once you've established relationships with vendors, you will want to ask them to report your transactions to a credit bureau using your EIN. Provided you maintain good relationships with your trade vendors, the more vendors that report your transactions, the better your score will be.

Maintaining and monitoring your score

After you obtain a business credit profile, you should be sure to manage your debt and continue to make monthly payments to credit grantors so that your credit stays active and your credit score doesn't suffer. The same tenets of a good personal score apply to your business score: paying off debt, not making late payments and monitoring your score regularly. Errors in credit reports happen more than you might think—a study done by the Federal Trade Commission found that 1 in 5 individuals had an error on one of their credit reports—so it's important to consistently monitor yours. Although the fact that business credit scores are available to the public makes it easier for you to track yours, it also means that lenders, suppliers and customers can all look at this score before deciding to do business with you. Since this can affect your company image, you want to make sure that any debt reported on your credit report definitely belongs to you. By establishing and maintaining good business credit, you can help with business growth, business image and above all, credit security for both your personal and business finances.