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The ongoing recession has tightened credit availability for many small businesses. That's why it is especially critical for business owners to be vigilant about managing their access to credit. Here are steps you can take to improve your odds of obtaining the financing you need.

DEMONSTRATE GOOD DEBT MANAGEMENT SKILLS

One of the first steps to building a positive credit history for your business is to use credit. Look for opportunities to borrow when you are confident your business can use the money responsibly and pay it back quickly. Developing a record of timely and complete payments can help to provide a solid foundation for future borrowing.

Be sure to use borrowed funds for the right purpose. Good reasons to borrow may include financing growth or covering a temporary cash flow shortage. Less ideal is taking on debt to dig out of a financial crisis or to fund payroll. Unless you have funds earmarked to repay the loan, borrowing can be risky.

UNDERSTAND LENDER'S GUIDELINES

To understand how you can improve your odds of obtaining credit, it's important to know what lenders look for. Many lenders use the "5 Cs" to assess the creditworthiness of a business.

1. **CHARACTER.** What is your company's credit history, and how likely are you to repay the loan?
2. **CAPACITY.** Is your company's cash flow adequate to meet current and prospective repayment commitments?
3. **COLLATERAL.** What non-cash business assets — property, equipment and inventory - can you use to secure a loan?
4. **CAPITAL.** What is your personal net worth? What is the net worth of your business?
5. **CONDITIONS.** What outside factors - including economic conditions or competition - could affect repayment?

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TIP

Having more than one active bank account in good standing can actually raise the credit score of your business.

MINIMIZE BAD CREDIT RISKS

One of the key things lenders look at is your payment history. Slow-paying customers can impact your payment record by restricting your cash flow, and thus your ability to pay bills on time. If you have any questions about a prospective partner's or customer's ability to pay on time, call their references, and check their business profile from a business information provider such as Dun & Bradstreet or Experian. Send notices immediately after a receivable is due or late to encourage prompt payment. Weigh the benefits of accepting credit cards which may help reduce late payments.

SEPARATE BUSINESS AND PERSONAL CREDIT

Keep your business savings and checking accounts, charge cards, loans and credit lines separate from your personal accounts. This can help your company establish a credit history and reduce the impact of a business problem on your personal credit. Be aware, though, that many lenders will also examine the personal credit history of a company's owners before approving financing.

Determining Your Company's Credit Score

Business information providers determine your company's credit score based on many of the same factors used to determine your personal credit history, such as payment history and debt load. However, your business score differs from your personal credit rating in several ways, including:

- ▶ Your business credit score is based primarily on payment timeliness. Paying bills early can boost your score.
- ▶ Having multiple active accounts in good standing can be beneficial.
- ▶ You can self-report some of the information about your company. To do this, you need to establish a business profile. Visit the websites of the business information providers listed on the next page for details.
- ▶ Business creditors are not required to report payments to these information providers. Be sure to ask vendors if they will report your payment performance.

TIP

You should review the credit report of your business at least once a year and convey any discrepancies to the credit reporting agency immediately. Submit corrections in writing, along with copies of documentation supporting your claim.

Major Credit Reporting Agencies

It's a good idea to obtain a copy of your company's credit report from the major reporting agencies to verify accuracy (there may be a charge for this). Here is a quick overview:

D&B™ (DUN & BRADSTREET)

www.dnb.com

Information sources:

Compiled from vendor information and data provided by the business owner

Scoring system:

PAYDEX* score based on payment experiences; D&B Rating based on financial statements

EXPERIAN BUSINESS"

www.experian.com/business_services/

Information sources:

Compiled from vendor information only

Scoring system:

Intelliscore⁵" based on payment experiences

EQUIFAX®

www.equifax.com/commercial/en_us

Information sources:

Compiled from public records, payment histories, optional personal data of business principal, bank and lease data

Scoring system:

Small Business Credit Risk Score for Financial Services™, Small Business Credit Risk Score for Suppliers™, Business Failure Risk Score™, Risk Class™

FICO^s

[www.fico.com/en/products/dmapps/pages/](http://www.fico.com/en/products/dmapps/pages/fico-small-business-scoring-service.aspx)

[fico-small-business-scoring-service.aspx](http://www.fico.com/en/products/dmapps/pages/fico-small-business-scoring-service.aspx)

Information sources:

Ongoing partnering, data sharing and analysis between FICO and its clients

Scoring system:

Small Business Scoring ServiceSM

TIP

Keep your credit report current by asking your vendors to report your payment history, to the major credit bureaus...

How to Review Your Company's Credit Report

The main reason to review the credit report of your business is to check its accuracy and see how the reporting agencies portray your company to potential lenders (and customers).

THE FOUR KEY ITEMS TO CHECK ARE:

- ▶ **COMPANY PROFILE.** Check details for accuracy, including business name and years in business, address, phone, industry, number of employees and incorporation status. Much of this information is "self-reported," meaning the onus is on you, the business owner, to ensure that the data is current and correct.
- ▶ **CREDIT RATING.** Is your rating strong, average or poor? Reporting companies use different scoring methods, so their numbers won't be exactly the same. For example, Dun & Bradstreet's PAYDEX* score ranges from 1 to 100, with higher scores indicating better payment performance. Meanwhile, Equifax's Small Business Credit Risk Score™ uses a scale of 101-992. If the report doesn't provide an explanation for your score, consult the agent's website on how to interpret the numbers.
- ▶ **PAYMENT HISTORY.** Confirm that your payment history is accurate. Look for trends that lenders might flag, such as a change from paying in full each month to making minimum payments. Also, ensure that all key supplier relationships are represented. If some aren't, ask the vendor to report your payment history.
- ▶ **UNIFORM COMMERCIAL CODE (UCC) FILINGS.** These show any liens or leases that you have in place. Ensure this information is accurate, and that your company won't be perceived as over-extended.