How Your Company Credit Can Hold You Back

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Money is an important component of the fuel that keeps the business engine flowing and ultimately gives all businesses the opportunity to grow and prosper. Cash flow is so important that many companies turn to financing in order to expand or weather slow periods. Unfortunately, small businesses often end up being thrown a curveball when they apply for a business loan. It becomes more complicated than they originally thought, and the reason often boils down to credit.

We spoke with Tracy Becker**,** a business/personal credit expert, FICO certified professional, expert credit witness, and President of North Shore Advisory, whom we've featured on our company blog in the past. As she explains it, "Business credit is often uncharted territory for business owners; many do not understand its importance or the impact it can have on business growth and success. Company credit is very important to approvals, finance costs, and keeping existing partners/new partnerships or accounts, so business owners need to have a clear understanding of its heavy impact. Healthy credit requires strategic business credit building and well-managed monitoring to ensure accurate information is reflected."

There are many business credit reporting bureaus, but the most commonly used are Dun & Bradstreet, Experian and Equifax. Unlike with personal credit, third-party companies don't need permission to view business credit profiles, nor do they have to inform the company that their credit has been reviewed. There are very few laws on the books regarding business credit, so there is no protection or privacy for company credit profiles. As a result, loan decisions can be made and future success may be limited based on what is visible on the credit report, whether accurate or not.

Lenders will explore the "five C's" of the customer — credit, character, capacity, collateral, and condition of the business. The Small Business Administration (SBA) will check both your business credit profile and the owner's personal credit profile, better known as your FICO® SBSS℠ Credit Score.

The FICO® SBSS℠ Credit Score

This score assesses the potential risk of a small business defaulting on loan payments or going out of business. The score ranges between zero and 300, with a higher score representing a lower-risk business. The FICO® SBSS℠ Credit Score is tabulated using information from the business owner(s)' FICO® personal credit score and the company's business credit reports.

Why Do Lenders Use The FICO® SBSS℠ Credit Score?

This system allows lenders to created a score tailored to their specific needs. Lenders can choose which bureau's information is pulled first. The generator will automatically pull from the next two business credit bureaus if there is insufficient data.

Funding Options And How They Weigh Credit

The Small Business Administration (SBA) offers a variety of programs for small businesses. The SBA works with verified lenders and sets guidelines for loans. SBA loans are partially guaranteed by the government, thus eliminating some risk for lenders and making them more willing to offer larger loans to small businesses. SBA loans can have a much longer term; payments can be spread out equally over a term of up to 25 years.

Alternative lending is a term used to describe a type of financing that has gained popularity over the last decade, when many entrepreneurs found they were unable to get the funding their businesses needed to flourish post-recession. The most popular product that falls under the alternative lending banner is the merchant cash advance, which doesn't require collateral or a stellar credit history and offers business owners flexibility. Payments may be made by taking a percentage of your debit/credit sales and vary depending on your revenue. Your payment could be lower if business is slow, and more is remitted once sales increase. In addition to the traditionally used credit score, alternative lenders may also look at online presence, business financials, bank and credit card statements, credit score, etc. to get a fuller understanding of the business and its financial needs. A business' FICO® score is only a part of the picture.

Preparing For The Application Process

There are two main steps to take before the application process begins for most business owners, as follows:

- Business owners should check their personal credit scores. FICO® personal credit scores are created using data gathered by the major personal credit bureaus: Experian, Equifax and TransUnion.
- Review all business credit profiles. The largest and most widely used business credit bureaus are Dun & Bradstreet, Experian and Equifax; there are many smaller bureaus that also generate business credit scores.

A Few More Things To Know About Business Credit

Finally, here are a few more points to consider:

- Business information can play a huge role in how viewers critique your reports.
- Company reports can reveal that the last time information about a firm was updated was when the number of employees was substantially lower. Those viewing the credit report may have the impression the

firm is much smaller than expected and, from this information, may presume that they cannot handle the large orders the potential account may require.

- Not all creditors report. Not every creditor updates payment information to Dun & Bradstreet, Equifax and Experian; some do not report to any of the bureaus. This means you could be working with a vendor for 15 years and assume you have a well-rounded, vibrant credit profile. Then you may come to learn that none of your payment history has been reported and your credit profile is thin, making you look like you have limited experience as a company.

- Delinquencies on business credit can have a devastating impact. If the amount of debt owed on the delinquent account is high relative to the rest of the trade lines on credit, the risk of becoming undesirable to work with drastically increases.

By having an understanding of where your business stands and needs to be for affordable loan approval, you’re preparing yourself to gain the best opportunity and edge for success.