THE 4½ MINUTE GUIDE TO

IMPROVING YOUR BUSINESS CREDIT SCORE

A strong business credit score is key to getting approved for bank loans, trade credit, and financing, and it can make a big difference for any small business or startup. So how can you make sure your business has a credit profile? And what can you do to boost your score? Read on!

ESTABLISH CREDIT

Create a business

First things first, you need to have a business—a real business, not just an entity—to get a business score. That means getting relevant business licenses from local and state authorities, and setting up a phone line and professional-looking website. You can count on loan officers reviewing your website and social channels to see how serious your business appears to be.

Incorporate your business

Structuring your business as a corporation (C Corporation or S Corporation) or limited liability company (LLC) will help you apply for credit under your business's name. You may still be able to establish business credit under a sole proprietorship or partnership, but your personal credit information will likely be included on your business credit report (and vice-versa). Your accountant or financial advisor can help you choose the best legal structure for your business operation.

Get an Employer Identification Number

Every business must have a Employer Identification Number (EIN)—also called a tax identification number—to operate in the United States. The EIN is a unique nine-digit number assigned by the Internal Revenue Service. You can apply for one online through the IRS website.

Open a business bank account

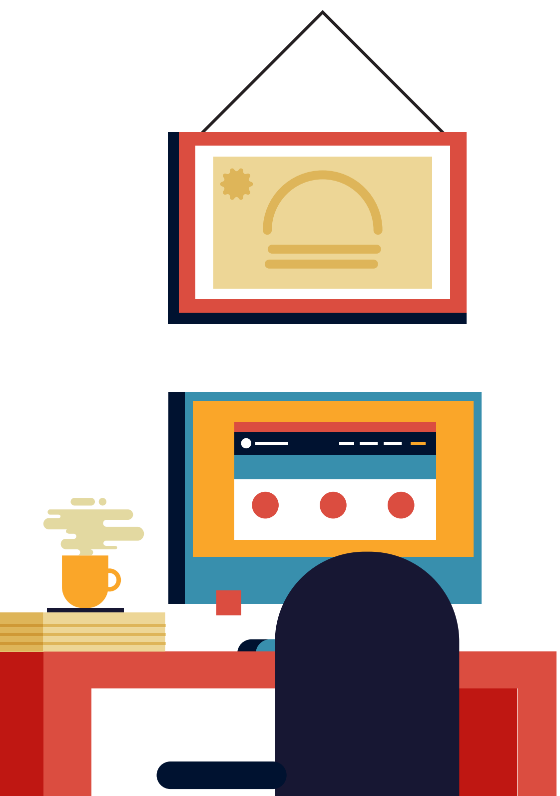
This is a critical step for separating your business finances from your personal finances. Even if you are a sole proprietor, a separate business account will help you keep track of your day-to-day expenses and business records.

> “A separate business account will help you keep track of your day-to-day expenses and business records”

Documentation requirements vary depending on the type of business. Sole proprietors generally only need a tax identification number and social security number to set up a business bank account. Corporations will likely need more documentation, including articles of incorporation and a certificate of good standing with the state.

Get your business listed with Dun & Bradstreet

Several bureaus track business credit, but the most important one—especially for small businesses and startups—is Dun & Bradstreet (D&B), which uses a nine-digit D-U-N-S number to identify businesses and assign them Paydex business credit scores. You can register for a free D-U-N-S number on the D&B website.



OPTIMIZE YOUR CREDIT SCORE

"Building business credit isn't that different from building personal credit"

Get a business credit card

Once you receive your tax identification number, you can apply for a business credit card and start using it regularly (and wisely, of course). Getting a card is one of the most important steps in building a strong credit report. Cards also allow business owners to rack up "rewards points" that can be cashed in for rebates and air miles.

Apply for vendor credit

If you don't qualify for a standard business credit card, you can still start building a business credit history by applying for lines of credit from vendors—e.g. Staples, Walmart, Home Depot—under the name of your business. You may need to personally co-sign for some of these credit lines, but it will be worth it to establish your business credit footprint. (And if you already have a business credit card, you should still apply for vendor credit.)

Make sure your vendors and suppliers are reporting your payment history to D&B or other credit bureaus. Even if they're not sharing payment information, you can still add them as trade references on your company's Dun & Bradstreet (D&B) credit file.

Make timely payments

Building business credit isn't that different from building personal credit: always make timely payments on your vendor and credit card accounts. Late payments will negatively affect your score and reflect poorly on your business. For maximum impact, pay invoices well ahead of the due date.

Improve your credit utilization ratio

The lower the percentage of your available credit that you utilize on a month-to-month basis, the better your score. Lenders view businesses with high utilization rates as greater debt default risks. Work to keep your credit utilization low—preferably under 30%. Lenders prefer businesses that can manage their debts, and low credit utilization ratio is a good indicator of financial stability.

Increase your credit limit

You can usually request a credit limit increase after six months of opening a credit account. An increase in your available credit will improve your credit utilization ratio (see above), which should improve your credit score.

MAINTAIN YOUR SCORE

Monitor your credit report

All of the information in your business credit report is public—anybody who pays to see it can access it. That means it's especially important to monitor the information in your profile and make sure it's accurate. (Reporting and contesting inaccurate account details can boost your score.) Information such as the number of years your business has been operating, number of employees, and gross annual sale should always be current.

Stay up to date on your taxes

Failure to file and pay your business taxes will have a negative effect on your business credit. You should strive to pay what you owe when you owe it. If you're unable to do so, you should seek advice from financial advisors who can help you manage your budget and overcome obstacles.

Maintain a good personal credit rating

Even though the entire point of establishing business credit is to separate your business and personal finances, your personal credit is still relevant—especially if you're the sole proprietor of the business. Creditors may review your personal credit—or the credit of any shareholders with more than 20% ownership—when considering a loan.

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