Credit Building with Entrepreneurs

Many people know how important personal credit is when trying to buy a house or qualify for an affordable car loan. However, many business owners don't know how important their personal credit is when trying to get a business loan. The following guide provides talking points to use when providing credit building to an entrepreneur before they apply for a loan—or when trying to assist someone after they've been denied for a loan.

Getting Buy-in, Why Personal Credit Matters

Entrepreneurs often think their personal credit is completely separate from their business credit and regardless of what shape their personal credit is in, they can solely focus on building strong business credit. These talking points can be helpful to use with clients when making the case for personal credit.

- Most lenders use a personal credit report and score when they are considering whether to make a business loan to a sole proprietor.
- For newer and/or smaller businesses, lenders might look at their business credit scores but they also incorporate personal credit histories and scores as part of their decision-making process.
- Some small business accounts could also appear on personal credit reports.
- A strong personal credit score can help entrepreneurs in other ways, like qualifying for a cell phone plan without putting down a deposit or securing better insurance rates. This money can be re-directed to their business.
- For those still interested in building business credit, consider simple steps such as opening a business account with a retailer that does not require a personal guarantee or opening a secured business credit card.

Certain Products May Assist with Credit Building, Including Secured Cards

A business owner may have no file or a thin file and need active tradelines to build their credit. The challenge is helping the business owner (temporarily) set aside their primary goal of securing business capital and follow credit building best practices like keeping credit utilization low. A secured credit card may be a good tool for business owners, but you will want to talk through why credit utilization is important to improving their credit score and make a plan for the client to manage the card effectively.

- As with any credit product, it is important to keep outstanding balances low for the best credit score benefits. Even if the business owner pays off the balance in full each month, having a balance of more than about 30% of the credit limit can harm their credit score.
- Business owners might be tempted to use this card for lots of business reasons so let's identify one recurring expense that they have each month. When they graduate to an unsecured credit card they will want to keep their balance at 30% or less of their credit limit. This will give them access to credit for when they really need it and help their credit score stay strong.
- One way to stay on track with improving their credit is to only use the card for that one expense, and make sure they pay their full balance each month on time.

But what about that business loan?

Whether a client has been turned down for a business loan or intends to apply, you can help them have the strongest personal credit possible. Exact underwriting terms vary by lender, but these are commonly evaluated items that a client will need to have in good shape in order to be approved for a business loan.

- *Strong credit score.* A credit score of approximately 680 is considered a good or "prime" score although each lender has slightly different cut-offs. The higher the score the more likely the entrepreneur will be to be approved or considered for a business loan.
- *On-time payments on existing obligations.* Even when entrepreneurs are applying for business credit, a lender is often evaluating their personal credit report. Are they able to pay their existing obligations on time? Have they made late payments in the last year? If so, qualifying for a business loan will be much harder.
- *Bank statements with no "non-sufficient fund" occurrences.* Even though bank account information may not show up on a credit report from the three national bureaus, many lenders will require bank statements to confirm that entrepreneurs have enough money to cover your expenses.