

WHY BUILD YOUR BUSINESS CREDIT PROFILE?

- Are you looking for a business loan or financing? Been turned down?
- Do you need a business line of credit for working capital or growth?
- Do you want to lease or finance equipment for your business?
- Would you like to stop having to personally guarantee every loan?
- Know how to get approved with more than 70 retailer credit providers?
- Want access to thousands of vendors you will extend credit terms to you?

Financing is a critical part of growing a small business and almost always a very large concern for the owners. Nothing is more important and vital to the health of a small business than having the right financing in place.

Most small businesses are initially financed by the personal savings or assets of the owners and can rapidly reach a stage of growth where they are forced to seek credit or investment solutions to fund that growth. Below I am going to teach you how to build your business credit profile in order to assist you in obtaining the financing you need to grow and succeed.

Business owners quickly realize that applying for business funding is a much more complicated process than applying for personal credit. Applying for business funding requires careful preparation and demands that you understand the process and what it takes to qualify.

Why Do I Need A Business Credit Profile?

When you apply for business funding, funding sources will look at your personal credit and the business credit profile to determine: If they will approve your request; the amount; what the terms will be; and if you will have to give a personal guarantee.

Example

Let's say you have an "average" personal credit history (FICO score of 650) but no business credit profile. Based on your personal credit, you are approved for a business loan of \$100,000 on terms of 13% interest over 10 years. If there had been a favorable business credit profile the terms on the same loan might have been 7% interest over 10 years resulting in the savings of tens of thousands of dollars.

Here is what you could save by having a Favorable Business Credit Profile:

Loan Amount	\$100,000	\$100,000
Interest Rate	13%	7%
Term of Loan	10 years	10 years
Monthly Payment	\$1,493.11	\$1,161.08
Total Payments	\$179,173.20	\$139,329.60

Total Savings: \$39,843.60

Whatever your financing needs are, it is possible to obtain funding for your business. Poor credit, ok credit or good credit, getting the financing you're looking for is a matter of knowing how to go about it and where to go. Building your business credit profile will improve your chances of success if you go about it in the right way.

KNOWING WHERE YOU ARE NOW AND WHERE TO START

In order to obtain business financing you must know where you are right now! **Do you?**

You must know what any funding source is going to look at before you apply. If you don't you are completely wasting your time and will most likely be declined.

There are over 4,000 institutional sources of business capital in the United States and each one has different criteria for funding a deal. Each one of these sources will tell you NO for just "1" thing. On your own, how can you possibly know what every funding source's "1" thing might be? BusinessFinance.com will coach you on exactly what it takes to pre-qualify before you apply and exactly where you need to improve to pre-qualify for more funding programs in the future.

About 3% of businesses that attempt to receive funding on their own ever do! The bottom line is that you are foolish for going it on your own. If you apply at multiple places without pre-qualifying, you may damage your credit and will destroy your chances of receiving funding from the sources that would have done your deal.

Begin by going to <http://www.myfico.com> and finding out what your personal FICO score is and the FICO of all the principals of the business (anyone who owns more than 10% of the business). This will cost you less than \$40 to find out the exact FICO score for each person for all three (3) credit agencies and will not cause an inquiry to appear on your credit history.

Your FICO score is a numbering system created as a result of your personal credit worthiness based on your past and present usage of credit. Any score above a 680 will easily qualify you for business financing. With a score above 640 there will be some creative funding programs available to you; and with a score below 620 you will most likely need to find someone other than yourself to act as a guarantor for business funding, unless your business has assets or receivables to secure the financing.

For example, your guarantor could have a FICO score of 720 when it is calculated from the Equifax report and a 690 when it is calculated from Trans Union. Most business funding sources use the FICO score(s) as a "Go", "No Go" switch. It is important to know your Guarantor's FICO scores from all three (3) credit agencies before you apply for a business loan.

Next you need to know if your business has a "Business Credit Profile" and a PayDex score. A PayDex score is similar to a FICO score only it is the measure of your business credit worthiness. I will explain it in further detail later.

Having a PayDex score of 75 is like having a FICO score of 750. Go to <http://www.dnb.com> to find out if your business is already listed and has a PayDex score.

When you get to Dun and Bradstreet's site, you will see that they have tools to check if your business is currently listed and what is being said about it. D&B also has a tool that, for **\$499**, allows you to establish the framework for your business credit profile. If you are in a great rush you can use this service; however, you can do it for FREE.

D&B has a free form to apply for a new D&B number only. This option does not establish a business credit profile. It takes about three weeks to receive your business D&B number and on the pages that follow I will be showing you the steps to build your own profile, absolutely free.

HOW TO BUILD AN EXCELLENT BUSINESS CREDIT SCORE

Once your Business Credit Assessment is complete, you can begin to build your Business Credit Profile. In order to successfully fund your future capital needs, it is important that you build a favorable credit profile for your business.

The action items that you must do to build an excellent Business Credit Score:

1. Have a Legal Business "Entity"

In order to create and build a "business credit file" that is separate from your personal credit file, you must have a business entity.

There is no such thing as a "business loan" to a sole proprietor. That is a personal loan. Without a business entity there is nothing for an investor to invest in or for a lender to lend to. You must separate the business as an entity apart from the personal owners and the only way to do this is setting up a legal business entity such as a corporation, LLC, etc.

If you do not have a business entity, SET ONE UP NOW!

Establishing your business as a separate legal entity is where you begin to build a business credit profile that is separate from your own personal credit profile.

2. Business Listing Confirmation

Your next step is to confirm that every agency and trade credit vendor has your business listed the **exact same way**, with the same address and phone number.

For example, one might have you listed as "ABC, Inc.", while another has you as "AB Consultants", and yet another as "AB Consultants, Inc."

Take the time to verify that all your accounts (State, IRS, Bank, 411 Directory, power bill, phone bill, landlord, etc.) have your business listed the same way and with your "exact legal name".

Also take the time to verify that all agencies, banks, and trade credit vendors have your business listed with the SAME Tax ID number.

3. Physical Location

Your business must be real and not just an attempt to build personal credit by using a business entity. If that is what you are doing **STOP HERE!** This process will not work for you. Your business must have a physical office space, even if it is at your home. It is at this physical location that your business should receive regular mail, not at a mailbox store or post office box.

4. Phone Service and Directory Assistance

Your business needs a separate phone line and fax line. The business phone number must be listed with directory assistance. Call 411 and make sure anyone can find your business under the exact business name. If your business is not listed in 411 directory assistance then dial 0 for your service operator and make sure that they get your business listed correctly with 411.

5. Email and Web Address

Your business should have its own email address and business web site with your business domain name. For example, if your business is "Donut Masters, Inc." you would try to register www.donutmasters.com or www.donut-masters.com. You can also use domains that end in .net, .biz, .us, etc. The domain can be as low as \$6.95 a year and hosting of your web site can cost as little as \$100 a year (ait.com).

6. Licenses

You must obtain a business license and, if applicable, a tax resale license in the State and possibly County or City where you are conducting business. Following the proper regulator guidelines for operating your business is critical to building a favorable business credit profile.

7. Financials

The business should have two years of financial statements. **Don't panic or stop here if you haven't been in business for two years.** Begin building your financial statements from the day you started the business and keep going with this process.

How do you have two years of financials with a business entity that was just set up? If you have been in business as a sole proprietor or partnership prior to forming your business entity, you can use those financials. Ideally, the financials include a balance sheet and income statement for each of the last two years. For credibility, I highly recommend that you use an accountant or CPA to prepare your financial statements.

8. Tax Returns

Your business entity must have a Tax ID number (EIN), just like you have a Social Security Number. Your Tax ID number is used to open your bank account and to build your business credit profile. Every corporate entity must file a SS-4 form with the IRS to obtain a tax identification number. This number is vital to successfully building your business credit profile.

Make sure you have properly established both your Federal and State business tax ID numbers under the exact business entity name.

9. Bank References

Your business entity must have a minimum of one bank reference. It would be great if your business bank account was at least two years old, but more importantly to place your business in a good lending position it should have an average daily balance of at least \$7,000 for the last three months.

Your business banking reflects how you manage your cash flow. Funding sources want to know that your cash flow is capable of handling the business debt and expenses on a consistent basis. Accounts that show NSF returned checks can be deal breakers!

If a funding request amount requires a \$2,000 a month payment, funding sources will want to see at least a "Low 5" bank rating. Your "Bank Rating" is based on your average daily minimum balance over the last 3 months.

Here is how "Bank Rating" works. It is based on your average daily balance over the past three (3) months, so your rating would be:

Low 4 for \$1,000 - \$3,999
Mid 4 for \$4,000 - \$6,999
High 4 for \$7,000 - \$9,999
Low 5 for \$10,000 - \$39,999
Mid 5 for \$40,000 - \$69,999
High 5 for \$70,000 - \$99,999
Low 6 for \$100,000 - \$399,999... etc., I hope you see the pattern here.

Having the \$7,000 balance gets you rated at a "High 4". Not having it will not stop the process of building a favorable business credit profile, but it will slow it down. If you don't have the \$7,000, borrow it from family or friends and don't use it, just let it act as your base line in the business account so that your balance never drops below that amount. Even better if it is \$10,000, because your rating would be a "Low 5" and that really changes things.

Make sure that your business bank account is reported exactly as your legal business entity name and at the same physical address as your business, not a Mail or P.O. Box.

10. Credit Reporting Agencies

Dun & Bradstreet (D&B) is the leading "business credit" reporting agency in the United States, Experian is the other. D&B provides businesses with a separate credit file number that is used to track and rate your business credit profile. This is called a "D&B number" or "DUNS number".

Obtaining a Dun and Bradstreet number (D-U-N-S #) begins the process of building your business credit history (profile). Getting your "number" is FREE. All we are doing here is getting your D-U-N-S "number". This number is how lenders access your business credit profile and it is used to determine the creditworthiness of your business as a stand alone entity.

Your D&B number is asked for when applying with some credit card and leasing companies. Most banks and lending companies will ask for your D&B number. Once your corporation is setup and has been issued a Federal ID tax number, you can apply for your D&B number online at <http://www.dnb.com>.

The process of obtaining a D&B number is free and takes about two weeks to receive your number. D&B also has the Express Service for \$499, where they will post your most recent financials and will call your trade references for an initial report. There is no need to pay the **\$499** that D&B wants to set up your "business credit file". The first time a vendor or lender asks for the file, D&B will set up your business credit file for **FREE**.

Potential creditors that ask for your D&B number will send a request to D&B asking for a credit profile on the corporation. If a profile is not already available, D&B will compile one from information D&B will request from your corporation. Then D&B will ask you for financial statements, tax returns, and the trade and bank references listed above.

Finally, D&B will check the status of the corporation and business licenses along with any existing credit amounts and payment histories from your trade references. All of these items will be reflected in the profile.

Experian reports are developed only from information that is provided by your trade references and retail accounts. Equifax reports are developed only from information that is provided by you business credit card and retail accounts.

11. Trade References

MAKE SURE YOU HAVE COMPLETED ALL TEN (10) STEPS ABOVE BEFORE THIS STEP.

You know have all the steps to build an excellent business credit profile, **FREE** of charge. But you must do the steps! Our goal is to relieve you of having to personally guarantee every level of your business funding. To do that you must reach a PayDex Score of at least 75.

PayDex is a "1 to 100" score calculated by using up to 875 payment "experiences" from your trade references reporting how your company pays its bills. Below is the PayDex Score Key, with a score of 75 or above being your goal.

100	Early to 30 days
90	Early to 10 days
80	Paid as agreed
75	Slow to 8 days
70	Slow to 15 days
60	Slow to 22 days
50	Slow to 30 days
40	Slow to 60 days
30	Slow to 90 days
20	Slow to 120 days

In order to reach your goal you will need to have at least five (5) trade references "reporting" to D&B that you pay no more than one week slow or better. Trade references are vendors who extend credit to your business. An example is the print shop that gives you "Net 30" day payment terms. Net 30 means you have been allowed 30 days from the date of delivery to make your payment.

Your business entity is going to need five (5) trade references that have given you a credit account and report a favorable credit history to the credit reporting agencies. This can be one of the most difficult steps in the credit building process. **Don't worry and don't stop here!**

Trade references are just vendors. Check with **all of your suppliers** and ask them to give you Net 15/30 day payment terms and report your payment history to Dun and Bradstreet.

Establishing at least five (5) favorable trade references is a major part of building your Business Credit Profile and creating a favorable PayDex score. This is not an overnight process and should be given a large amount of attention in order to succeed.

Getting your existing vendors enrolled and to actually report your business payment history the credit agencies can be a very time consuming and sometimes a fruitless process. **You must have at least five (5) reporting trade credit references or you will not be building your business credit score.**

If your current vendors will not report, start looking for companies that will. Always find out their requirement and prices for reporting your credit history. Once you have filed out their credit applications, you should pay your bills **on time** or you will not build an excellent business credit score. Don't waste your time and money if this isn't your goal.

There are services that tell you this can be done in a month, IT CAN'T. They charge up to \$2,000 to have their vendors report "excellent" payment histories on your business even though you have just started with them. THAT IS FRAUD! DON'T DO IT!

12. Retail Credit Accounts

Many retailers such as Lowes, Home Depot, Staples, Dillards, OfficeMax, ARCO, Exxon, etc. will issue you a business credit card. However, without knowing their credit issuing criteria you will be fumbling around in the dark.

BUILDING BUSINESS CREDIT AND FINDING FINANCING SOURCES

Does this all sound like a huge amount of work?

Having an excellent Business Credit Score will open up a world of new financing opportunities for your business. It will open up more funding programs to you in the future and you may not have to personally guarantee every deal.

Building good business credit is just like building good personal credit, it takes work and you need to pay your bills on time.

In the twelve (12) steps, above you were given all you need to know about building a great and separate business credit score.

If you follow the steps by yourself, it will most likely take you about 6 to 9 months to have a fairly good score and about two (2) years to have an excellent one where your business can stand alone for all it's credit needs.

The reasons businesses don't find funding are ...

- They don't know which funding sources offer what they need.
- They don't know how to pre-qualify themselves before they apply.

So how do you successfully fund your business? You must...

- Know the funding source's exact criteria for approval before you apply.

Did you search our other free business resource databases?

Business Information Centers (BIC)
The Service Corps of Retired Executives (SCORE)
Small Business Development Centers (SBDC)
Chambers of Commerce (over 7,400)
Trade Associations (over 15,000)
Economic Development Centers (over 2,000) (EDC)

We let you know that:

- There are "Business Credit Services" that charge \$2,000, **DON'T USE THEM.**
- Dun and Bradstreet charges \$499 just to set up a business credit file, **DON'T PAY IT.**
- Brokers charge up to \$5,000 to just package your deal, **DON'T WASTE YOUR MONEY.**

REMEMBER TO SAY THANK YOU TO THOSE WHO HELPED

Along your entrepreneurial journey, take the time to thank those who help you. If you will treat others the way you would like to be treated, you will find that people will go out of their way to help you. I have tried my best to give you the benefit of my knowledge and experience.

Remember to keep your priorities straight, honor your promises and most importantly that money does not buy happiness. No tombstone ever says "I wish I had worked more".

I wish you all the success in your search to find funding. I hope your business is fun too.

Food for thought:

"For what does it profit a man if he gains the whole world, yet loses his eternal soul."

Mark 8:36

Some companies that you should get to know:

Social Emporium, Inc	socialemporium.com
Crestline Specialties	crestline.com
Fetpak Packing	fetpak.com