

Doron F. Eghbali Business Planning Law

How to Build and Maintain Your Business Credit

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It is a daunting and rather desperate situation for small businesses seeking capital injection. While banks have relatively hardened their lending practices and seem reluctant to ease them anytime soon, business owners lack the stringent credit credentials lenders are adamantly asking for. Hence, building your business credit is a salient task. Like building your personal credit, to a great extent, building your business credit takes time, effort, sacrifice and certainly discipline.

BASICS

1. Business Credit Should Supplant Personal Credit

Many start-ups rely on their personal credit history to seek funding for their new venture. While this may seem the only viable option when no business existed to start with, business owners are well advised to develop a business credit to:

- Keep their business and personal records and transactions totally separate.
- Form LLCs, Corporations or Limited Partnerships to limit and maintain their limited liability to their investment. And,
- Legitimize the business in the eyes of lenders.

2. Business Credit Usually Takes Relatively Less Longer Than Personal Credit to Build

The good news is business credit could be built within two years or so as opposed to seven years or so for personal credit. However, this premise is contingent on the following factors shortly delineated.

FACTORS TO IMPROVE YOUR BUSINESS CREDIT

1. Keep and Maintain Your Business Records

- **Hire an Accountant:** *After forming* an LLC, Corporation or Limited Partnership, hire a knowledgeable, vigilant and ethical accountant. Have the accountant carefully maintain your business records to bring legitimacy in the eyes of prospective lenders. Have the accountant VALIDATE your financial records.
- **Keep All Your Business Licenses Current:** The viability and credibility of your business depends on the whole business operating legitimately. As such, it is important to ensure all your business licenses are current.

2. Conduct Your Business with Credible Vendors or Suppliers

- **Ensure Your Vendor or Supplier Regularly Reports Your Credit History to Business Bureaus:** Although it might seem counter-intuitive to start up your business with vendors or suppliers who regularly report your credit history to business credit bureaus, this practice is crucial in building your business credit.
- **Register with Business Credit Bureaus:** This is a prudent and savvy business move to register with business credit bureaus such as Dan & Bradstreet, Experian and Small Business Financial Exchange. Having a proven track record, certainly, facilitates obtaining business loans.
- **Check Your Business Credit Once a Year, At Least:** You have heard of checking your personal credit at least once a year. Similarly, checking your business credit is of paramount of importance.

3. ALWAYS PRACTICE FISCAL RESPONSIBILITY

Regardless of economic conditions, a prudent business owner with business acumen practices fiscal responsibility. Fiscal responsibility means:

- **NOT SPENDING WITHOUT EARNING:** *Not* spending more than what you are earning and what you reasonably and realistically project to earn in the near future.
- **NOT EXPANDING WITHOUT UNDERSTANDING THE ACQUIRING BUSINESS:** *Not* expanding your business when you cannot trust and understand the other business you are acquiring.
- **NOT CHANGING YOUR CONFIDANTS AND PROFESSIONALS WITHOUT GOOD CAUSE:** *Not* changing your staff, vendors or professionals you are dealing with without a good cause.
- **NOT KNOWING YOUR OWN BUSINESS:** *Not* knowing how to [keep account of your business](#).
- **NOT KNOWING HOW TO HIRE:** *Not* knowing how to [hire your employees](#).

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