

Establishing Business Credit

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The current state of the economy is affecting more than wishful home owners. New and existing business owners are faced with tighter credit restrictions and often use personal credit to secure loans and credit lines with vendors. While sometimes necessary, using personal credit can put both your business and your personal finances in jeopardy.

When starting a business it is important to establish separate credit for your business. When you use personal credit scores to secure funding for your business, you are personally liable for all your business debt. If the business fails your personal credit gets destroyed in the process.

To separate your personal credit from your business credit there are several steps you must take.

1. First you need to incorporate or form an LLC. Your business must be an entity unto itself in order to build business credit. Otherwise you are "in business", but you are not "a business". Sole proprietors and partnerships are personally liable for all business debts. Therefore it is impossible to separate personal from business credit under those forms of business ownership.
2. Next, you must have a Federal Employer Identification Number and open a separate bank account under the exact legal name of the business. You will also need to obtain all necessary business licenses, permits, etc. that are required. You should also have a separate phone line that is listed in the phone directory in the exact business legal name.
3. Establish credit with several vendors and consider getting a credit card for your business. Not only does this help protect your personal credit but businesses often get better interest rates. A word of caution: you will probably need to get your personal credit in shape before you can get business credit. Lenders will examine your personal finances and look at the amount of debt held on personal credit cards. It is imperative you know your personal score, and take the steps to fix anything driving your score down. Vendors, equipment leasing companies or credit card companies will often make you give a personal guarantee if your business doesn't have its own credit established. As with personal credit cards, be careful to use them only when necessary. Credit cards carry high interest rates and are easily abused. See what credit terms your vendors will give you before making purchases on a credit card.
4. Now, you must open a business credit file with all three business credit reporting agencies. Once you have been able to secure vendors and/or suppliers that will extend a small amount of credit to your business make sure they report your payment histories to the credit agencies.

The last step is the most important. Pay all your bills on time! If the credit term is net 30 days pay by day 30. For businesses that already have established business credit, you should verify the information the credit reporting agencies (Experian, Equifax, Transunion) has on your company. This will keep you apprised of any problems that may exist so you can get them corrected.