CREDIBLY BUSINESS JOURNAL

Volume 2

Business Credit Scores

Experian | CREDIBLY

HOW TO BUILD CREDIT

HOW TO PROTECT YOUR CREDIT

WHAT LENDERS LOOK FOR

ALSO INSIDE

The 5 C's of Credit

*Q&A with **Tina Chan Reich***

Credibly's Chief Data Scientist and Chief Risk Officer

CREDIBLY BUSINESS JOURNAL: BUSINESS CREDIT SCORES - VOLUME 2

INSIDE

Business Credit Scores

An Overview Presented by Credibly & Experian

Tell me if you've been in this situation before:

You need money for your small business, so you apply for capital from a bank or an online lender. Then you wait, unsure of what will happen next. Will you be approved or declined? If you're approved, will you be able to get the amount of capital your business needs, at a rate you can afford?

For many business owners, lending decisions can seem mysterious—but they don't have to be. There are specific actions you can take to understand and improve your ability to borrow, and you can leverage that knowledge the next time you **apply for capital**.

That's where **business credit** comes in. Just like personal credit or consumer credit, business credit reflects the likelihood that you'll meet your payment obligations. The difference is, business credit strictly measures the

creditworthiness of your business, not you as an individual.

In this installment of the **Credibly Business Journal**, we've teamed up with our friends at **Experian** to present a start-to-finish guide for building your business credit: Why it's important, how it's calculated, and the steps you can take to impact your score and increase your borrowing power.

If you're currently seeking capital for your business, there's something else you should know: Every Credibly customer is entitled to a Business Health Report, with data provided by Experian. The report, delivered every quarter, provides a real-time snapshot of your Credibly account performance, your overall credit strength, and the macroeconomic factors affecting your industry and geography.

At Credibly, we believe that regularly monitoring your business credit gives you a better sense of your creditworthiness compared to other business owners, and helps keep you protected, as explained in the pages that follow.

We hope this Journal shines a light on business credit and removes some of the mystery.

Thanks for reading.

Glenn Goldman
CEO, Credibly

What's business credit and why is it important?

Business credit is an objective snapshot of your business's ability to manage its payment obligations, and is a key indicator of your business's financial health. Since a business credit score can define your company's financial reputation, understanding and managing your score is essential for success.

For many people, building personal credit is something that happens automatically — but you have to do a little bit more work to build your business credit. Before we explain how to do that, let's discuss why it's important.

Business Credit and Borrowing

In the life cycle of any small business, there's a moment when they need a little help to survive, sustain, and thrive. In most cases, that comes in the form of a cash infusion.

Let's say you are ending a year and you just need to get to the next season to survive, because the next season is when you do the most business. Perhaps you have a payment coming up on a bill and you have not received payment for a service you provided, so you're looking for a cash infusion to sustain yourself temporarily. Or you're thriving, and you want to develop a new product or service so you can grow even more.

In all of these cases, you're probably going to be connecting with a lender. Lenders come in different forms, but they'll all want to look at your business credit to ensure that you are worthy of getting that cash infusion. Instead of waiting for that time of need, be proactive so that you're ahead of the game.

The way to start doing that is by **establishing your personal credit separately from your business credit.** (We call this creating a "prenuptial agreement" for your business.) In short, you need to start opening accounts in your business's name. It's critically important because it can help you reduce risk.

Separate Your Credit, Or Else

We recently heard from a contractor who learned this lesson the hard way. He needed to buy some new tools to complete some custom work on a house, so he went to the hardware store and purchased them using his personal credit card. He began doing the job, but the homeowner stopped paying midway through, so he was unable to pay his personal credit card. A couple years later, the contractor was applying for a home loan, but because his personal credit had been so damaged, he was unable to purchase the home.[1]

If the contractor had made that "prenuptial agreement" to start off with, he might have used a business credit card to purchase those tools instead of his personal credit card, or perhaps he would have created a line of credit with the hardware store. His business credit would have still been damaged from the missed payments, but his personal credit wouldn't be damaged because the two are completely separate — one doesn't affect the other.

We call this creating a **"prenuptial agreement"** for your business.

In other words, **building strong business credit reduces risk by ensuring that your business setbacks don't negatively affect your personal finances.** Borrowing in the name of your business helps you shift away from risky personal guarantees, so your personal credit isn't always on the hook.

Having a strong business credit score helps you get better terms from lenders when you're looking to borrow funds, and can also help you improve your cash flow by getting you better terms with your suppliers. The earlier you start establishing credit in your company's name, the better off you'll be. Don't risk missing out on a big opportunity because your business can't get funding or financing when you need it.

[1] It doesn't take a financial setback this dramatic to hurt your personal credit. Even if you simply max out your personal credit cards while running your business, your personal credit will be negatively affected.

How is business credit determined?

Your business credit score is determined by trade activity, the amount of debt you carry, whether you pay your bills on time, and the overall financial condition of your business.

Most business credit scores are expressed on a scale from 1-100; the higher the score, the lower the risk you are for the lender. A score of 76-100 is considered "low risk." Keep in mind that every lender is different and they all use different methodologies for determining what they consider to be low risk versus high.

Experian

Experian collects data from a wide range of sources, including state filings, public records, credit card companies, collection agencies, corporate financial information, and marketing databases. The information is used to develop a business credit score and a profile to help give us a view of your business. There are over **100 individual factors** that could influence your business credit score positively or negatively, but the primary ones include:

- Demographic data, including industry type, business size, and years in business.
- The number of trade experiences, payment habits, outstanding credit balances, credit utilization, and trends over time.
- Number of credit inquiries or applications generated by the business or owner.
- The presence of derogatory public records on the business profile, such as collections, liens, judgments, and bankruptcies.

Once you know what these factors are, you can use them to impact your business credit score in a positive way. Keep in mind, it is not uncommon for a business credit score to fluctuate slightly, and there are factors beyond what is displayed on the business credit report that can cause a score to slightly change or shift.

UNDERSTANDING THE SCORE:

A score of **75** means that **74%** of businesses have a higher likelihood of severe delinquency. The *national average for business credit scores* is **56.8**.

Why are trade relationships so important?

Experian collects credit obligation information from thousands of business suppliers and lenders nationwide, and relies on these select data contributors to provide trade credit transaction information to Experian's business credit database.

The key to building a business credit report and score, particularly for small businesses just starting out, is to find companies that will establish credit for your business and then report the company's payment experience to the business credit bureaus, such as Experian.

Q&A

with Tina Chan Reich, Credibly's Chief Data Scientist and Chief Risk Officer

CREDIBLY BUSINESS JOURNAL:

How does business credit information from Experian help Credibly make lending decisions?

TINA CHAN REICH: Credibly has its own proprietary score that we use for lending decisions, and it's made up of a lot of different pieces. One of those pieces is the business credit report from Experian, which we find to be very useful in several ways. It gives us insight into a business's credit history, but it's also a great fraud detection tool, as it helps us verify the business. If you've had a business for 30 years and you've never established business credit with anyone, that's a little suspicious.

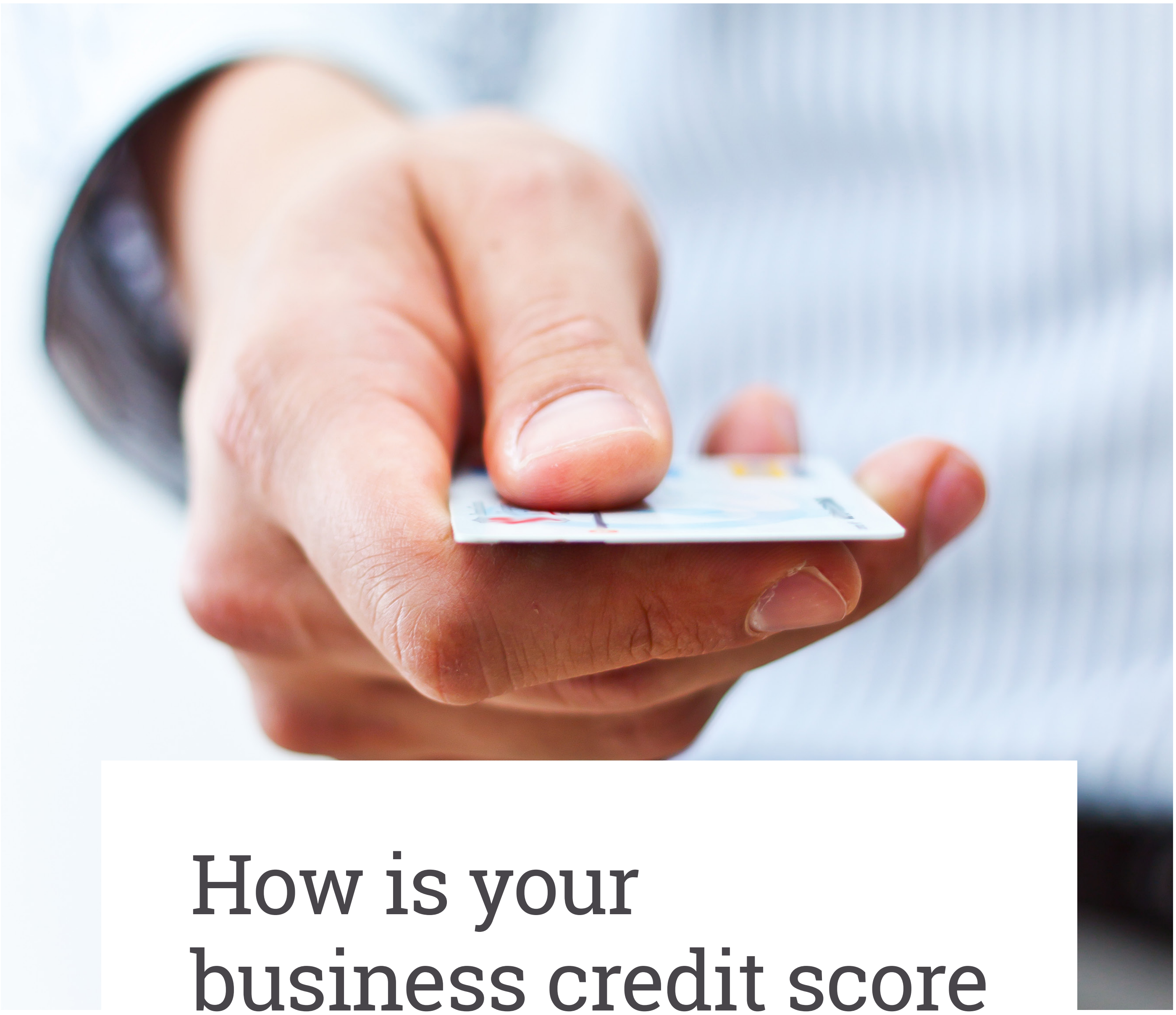
How does Credibly's relationship with Experian benefit small business borrowers?

We now offer pre-qualification as a no-cost, quick and easy way for small business owners to get real-time feedback on their potential for accessing business capital. Pre-qualification is not a loan approval or a guarantee of funding. However, it can provide the business owner important guidance on how much business capital may be available.

Our pre-qualification service is unique in that it is the only one which includes credit data reported to Experian that are specifically relevant to the small business owner. This gives business owners some valuable reference points, as they can see where they are on the spectrum, relative to the greater pool of merchants looking for credit. After all, awareness is a key step to building business credit. Where do you stand? How do you look compared to your competition?

Are there any other ways that accessing funding through Credibly can help a business owner build their business credit?

Meeting your payment obligations has a direct impact on building up your business credit score and borrowing power — as long as your vendors and business relationships are reporting your payment activity back to credit bureaus like Experian. Not everyone provides that service for their customers, but Credibly does. We want to make sure that business owners are rewarded for demonstrating financial responsibility.



How is your business credit score different from your personal credit score?

There are a few significant differences between business credit and personal credit that you need to keep in mind.

1. Anyone can view your business credit.

Unlike personal credit where only you have the ability to view your own consumer credit report or provide it to another person to view it, anyone can view your business credit report. That means a consumer could look at your business credit report, or another business could decide to view it. The fact that your business credit score is publicly available to competitors and potential partners should be enough motivation to keep it well maintained.

Of course, that also means you can view other business's credit scores whenever you want. If you're thinking about adding a vendor to your supply chain, you'll probably want to know if that vendor is in good financial health so that they don't lapse in providing you with the materials you need. Having access to other business credit reports is something you can, and should, take advantage of.

2. The scales are different.

Personal credit scores are not on the same scale as business credit scores. Personal credit is typically expressed in a range from 300 to 850. (Generally, 700-749 is considered "good" credit, and 750 and above is considered "excellent.")

As we learned in the previous chapter, business credit is generally on a scale of 1 to 100. The closer you are to 100, the lower risk you are, so you want to be as close to 100 as possible.

3. They have no impact on each other.

Your consumer credit score has no impact on your business credit score, and vice versa. If your business credit score goes up, it doesn't mean that your consumer score will go up, and if your consumer score goes down, it doesn't mean that your business score will go down. In reality, the two scores have no interaction with one another. That's why it's important to build both separately.

4. Late payments (and early payments) are weighted differently.

With personal credit, late payments generally don't affect your credit report until you're 30 days late, and early payments have no effect on your score whatsoever. By contrast, business credit takes "days beyond term" (DBT) into account: the date your invoice was due and the exact number of days that it's past due. That makes paying invoices as close as possible to the due date very important when you're trying to build your business credit. The good news is, you can improve your business credit score by consistently making payments before the due date.

	Business Credit vs.	Personal Credit
WHO HAS ACCESS?	PUBLIC	REPORT HOLDER
SCORE RANGE	1 - 100	300 - 850
GOOD CREDIT RANGE	75+	680+

HOW CAN **YOU** BUILD YOUR BUSINESS CREDIT SCORE?

Now, the moment you've been waiting for — what are the steps you can take to build your business credit?

1. **Act like a business.**

   A good first step is to get a **tax ID number** (also known as an EIN) for your business. Then, start keeping good records of your income and expenses, which will be required by lenders when you look to borrow.

   You'll also have to start separating your personal and business expenses: Open up utility and phone accounts in your business name, rent your office space in your business name — and make sure you're using the exact same name that you use for your tax ID so that it can be properly reported back to the credit bureau. (Separating your business and personal expenses will also make your life a whole lot easier at tax time.)

2. **Be visible.**

   Whenever you engage in a business relationship with a vendor, a supplier, or a bank, make sure that they are reporting your trade activity to Experian. Reach out to the vendors you already have relationships with and begin to request that they report to Experian, if they're not doing so already. (You can use the request letter template **here**, or let Experian know and they'll be happy to reach out on your behalf.) Of course, if you haven't established any trade accounts with suppliers yet, now would be a good time to start.

3. **Borrow and pay on time.**

   There's nothing wrong with borrowing as long as you can make your payments on time and keep your balances down. Paying off financial obligations according to the agreed-upon terms shows payment responsibility, and is an important step in establishing a good business credit score.

   If a business repays a **small business loan** in a timely fashion, it can strengthen its business credit profile by showing that it can manage its payment obligations responsibly — and thereby position itself as a better credit risk for future lenders. On the other hand, late or missed payments will drag down your business credit score in a hurry, so be extra diligent about staying current with your payment obligations when you're trying to build your business credit.

Tip: If you own a newer business without much credit history, try to build relationships with vendors/suppliers that report to credit bureaus and will let you buy things on terms (i.e., 30/60/90 days). This is a great way to increase your trade activity and begin showing payment responsibility.

Check your business health with the **Credibly Business Health Report**

4. Keep an eye on your credit/debt ratio.

You don't want your utilization ratio (i.e., your total debt balance divided by your total available credit) to balloon out of control. Although keeping your personal credit/debt ratio below 10% is ideal, a range of 20-30% for your business credit is perfectly acceptable. If it begins to creep much higher than that, you'll want to pay off some debt before taking out any more financing.

When seeking credit for your business, be realistic about how much your business actually needs. Keeping your debt at a manageable level is always wiser than using all the credit that's available to you.

5. Monitor your company's profile.

We recommend that small businesses regularly monitor their business credit score for risk changes, and proactively manage it to maintain the lowest risk potential. Small business owners can do so easily by visiting www.smartbusinessreports.com and subscribing to Experian's Business Credit Advantage℠ monitoring service.

Monitoring keeps you abreast of what's happening with your credit profile and your credit score, ensuring there are no inaccuracies or other unpleasant surprises when you seek funding for your business. Just like you want to monitor your consumer credit report, you'll also want to monitor your business credit so that somebody doesn't harm it along the way through identity theft and fraud.

In addition, Experian's Score Planner™ tool is a great resource for getting an estimated business credit score and learning more about what you can do to grow it.

If you spot incorrect information on your business credit report, click here to submit a request for updates. Depending on the nature of the request, approval of the requested update can take up to 30 or 60 days.

Good to know: Checking your business credit report multiple times does not affect your business credit score. Pulling your own business credit report is considered a "soft inquiry," and is not revealed to potential lenders or creditors.

How business credit fits into lending decisions

According to a 2015 report by Nav, small business owners who understand their business credit score are **41% more likely to be accepted when they apply for a business loan**.[2]

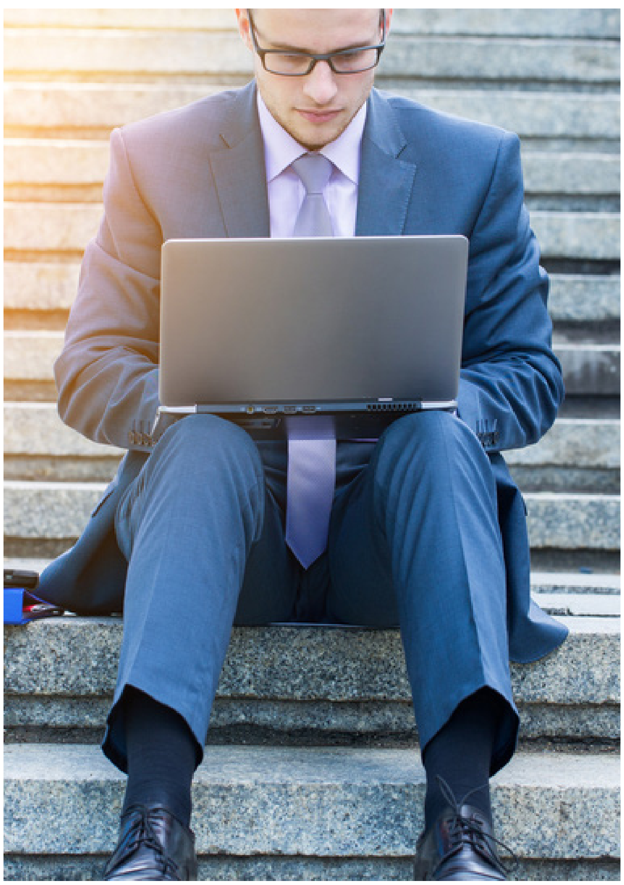
When you apply for financing for your business, lenders review your credit history to determine whether or not to fund a loan or line of credit, as well as the interest rates and repayment terms if a loan is extended. Consumers and businesses with good credit often qualify for loans with lower interest rates and better payment terms than those with poor credit.[3]

Strong business credit won't guarantee that you'll be approved for a loan, but it does improve your chances. So what are lenders looking for, specifically?

[2] The same report revealed that 45% of small business owners don't even know they *have* a business credit score, and 23% of small business owners who were turned down for financing didn't know why their application was declined - further highlighting the need for greater education around business credit decisions.

[3] Businesses with "thin" credit reports - showing little or no credit activity - are also less attractive to lenders.

Knowing the *five C's of credit* will help you be better prepared when you're looking for a business loan.



1. **Character**
   This refers to measures of stability: How long have you lived at your current address? How long have you been in your current job or been in business for yourself? Do you have a good record of paying your bills? Your business credit score is very important when lenders look at how trustworthy you are to repay the debt.

2. **Capacity**
   Do you have the capacity to take on additional debt at this time? Lenders evaluate your debt-to-income ratio, looking at how much you owe compared to how much you earn. The lower your ratio, the more confident creditors will be in their ability to lend you the money and for you to be able to pay it back.

3. **Capital**
   This is your net worth — the value of your assets minus your liabilities, or how much you own versus how much you owe. Any institution that is looking to lend money wants those ratios to be healthy.

4. **Collateral**
   Any asset you have that could be used to secure a loan is considered collateral. So if you're working with a lender that doesn't offer unsecured loans or might be looking for a secondary source of repayment if they need it, then having assets available to use as collateral is an advantage.

5. **Conditions**
   These are the outside circumstances that might affect your ability to repay. Some of the conditions lenders will look at will be what's happening in the local economy, government regulations that could affect your industry, and the competition in your market.

Note: While some lenders use all five of the aspects of the five C's of credit, some may not. Many lenders develop their own loan decision scorecards. Still, most lenders will use some variation of the five C's, so understanding them is very important as you continue to build your business credit.

About Experian's Business Information Services

Experian's Business Information Services is a leader in providing data and predictive insights to organizations, helping them mitigate risk and improve profitability. The company's business database provides comprehensive, third-party-verified information on virtually all U.S. companies, with the industry's most extensive data on the broad spectrum of small and midsize businesses.

By leveraging state-of-the-art technology and superior data-compilation techniques, Experian provides market-leading tools that proactively support the entire credit life cycle, enabling our clients to find new customers, process new applications, manage customer relationships and collect on delinquent accounts.

Visit businesscreditfacts.com for frequently asked questions about how to monitor and build business credit.

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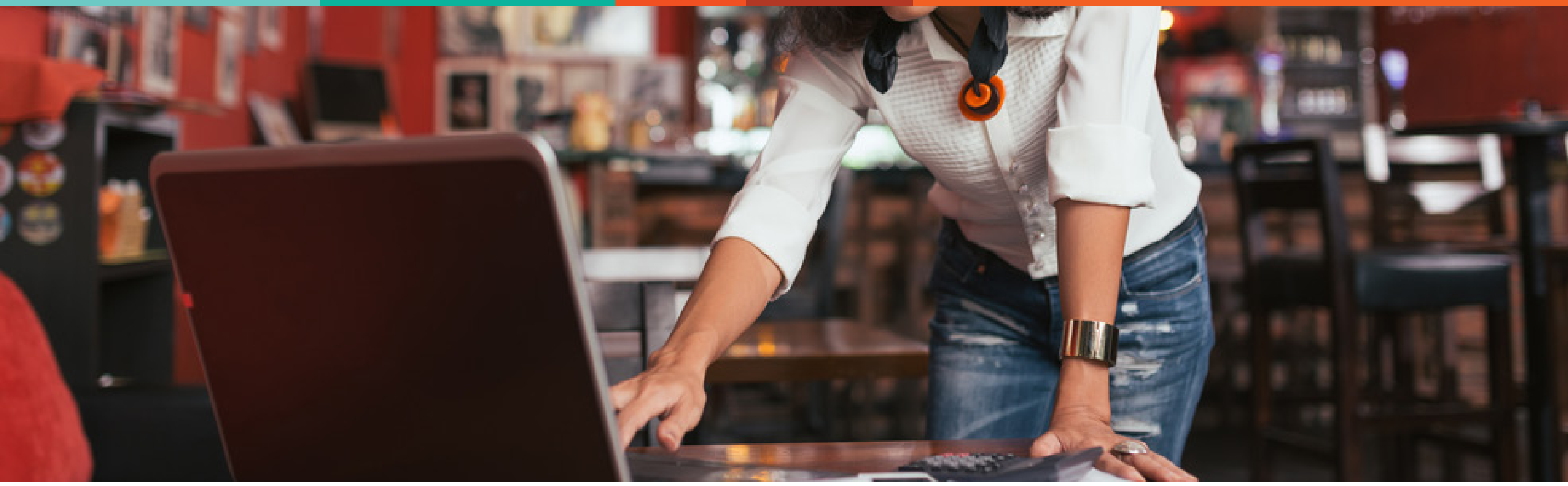

Credibly makes it simple and intuitive for all small and medium-sized businesses to access capital, delivering a set of financing products that serve the entire credit spectrum.

Since 2010, Credibly has been helping small businesses grow through access to affordable financing, personalized support, and high quality educational content. Whether your business needs short-term funding to seize a new opportunity, or long-term investment for growth and expansion, our team is here to provide access to right-sized capital, with a level of speed and transparency that has made us an industry leader.

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Short-term funding for companies with immediate needs and opportunities.

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Longer-term funding for businesses investing in growth.

To see what you qualify for call us at 888-607-4477 or

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