Twenty Business Credit & Finance Closings

Many times you will be confronted with closing opportunities, challenges from potential clients on what business credit is about, or your knowledge of business financing in general.

These twenty closing items are designed to demonstrate your knowledge of the facts surrounding business and personal financing to the people who initiate those confrontations.

I. Business to Business Credit

There are over 500,000 companies in the United States extending business to business net 30 or 60 day credit payment terms and that it equates to over 90% of all business credit extended in this country. This includes banks, SBA loans, credit cards, leasing and all other forms of business credit. There are less than 5,000 businesses that are extending credit who currently report payment histories to the business credit reporting agencies.

II. Importance of a Bank Rating

Unlike personal credit, every business has a bank rating that lenders use to determine their ability to debt service. A bank rating is the average daily balance over the last three months. If your business has a "Low 3" it means that you only have $100, $200, or $300 in your account available to service debt at any given time. Lenders see that you do not have the ability to pay, and so you will be declined. A Low 5 rating or above is optimal when trying to acquire business loans or leases.

III. Viewed as a High Risk of Default

Just like in personal lending, business lenders develop methods to determine which businesses are high risks of default. They do this based on defaults from their own portfolios and from the portfolios of other lenders who share data. Businesses that operate as a sole proprietors, operate from home, use free email accounts, have a cell phone as their primary business line, do not have a website, or have a two or less stars on the most common review platforms all have a higher rate of default in the eyes of the lender. Lenders use whatever trend data is available to try and lower their risk of default so that their portfolios have a higher value on the secondary market.

IV. About Corp Only Financing

When trying to secure corporation only financing, that is not of the business-to-business vendor type, lenders will look at comparable credit, business credit scores, reporting trade lines, bank rating, revenue, time in business, debt to income, and balance to limit ratios. They want to see if anyone has already loaned a comparable amount, business scores of 70 or above, at least 10 reporting trade lines, Low 5 or above bank rating, $35,000 or higher monthly revenue, 3 years in business, less than 45% debt-to-income, and less than 45% balance-to-limit.

V. Business Credit in Contracts

If a business is seeking to do contract work, be it government or commercial, likely their business credit will be checked during the award process. Those contractors with no credit history or poor history will be viewed as not having the ability or resources to complete the job. On the other hand, companies with excellent business credit history will be seen as much more professional, and likely to complete the job on time.

VI. Valuable Comparable Credit

If your business has already received a loan in the amount equal to or greater than the amount you are requesting from another lender then you have comparable credit. If you want to borrow $50,000, has your business ever had a $50,000 loan before, and if so how did you pay on it? That is comparable credit. Once your business has a reporting comparable credit trade line, other lenders will notice and start extending similar amounts. A great way to get your first comparable credit reporting trade line is open a CD at a business lending bank and use it to secure a dollar for dollar reporting business loan. If it is $10,000 or higher it puts you on other lender's radar and offers will start coming.

VII. Business Credit is a Myth

Over 90% of the business lending in the United States is done business-to-business and not bank-to-business. Businesses that extend credit lines for their products and services to other business exclusively use business credit scores to determine the approval, amount, and term. For business-to-business, having at least 10 currently reporting business credit trade lines and business credit scores above 70 makes the difference of having to personally guarantee each of these credit lines or not.

VIII. Lender Compliance Items

There are twenty items of compliance which lenders use to quickly determine if a business is a higher risk of default. This is similar to personal lender red lining practices. Business lenders use known default data analytics to profile groups of businesses with a history of higher default rates. These are sole proprietors, home based businesses, certain industries, businesses operating from cell phones, businesses with only free email accounts, and fifteen more items. Lender compliance is easy to get checked off if you know what to do. If you have these items complete at least your business is not immediately viewed as a high risk of default.

IX. Owner's Personal Credit

We hear a lot of talk about how business credit can replace personal credit when it comes to business loans. It is true that business credit is required for business-to-business lending and that can be done without the personal credit of the owners. The owner's personal credit is vital for any type of bank business lending such as term loans, credit lines, and credit cards. For bank lending, the owners should maintain 720 or higher fico scores, less than 45% debt-to-income, and less than 45% balance-to-limit on all revolving credit accounts. Personal guarantee does not mean personal reporting when it comes to business loans.

X. Approvals, Amounts, Rates, & Terms

Most business owners do not realize that when they apply for a business loan, lease, or credit card that many lenders are checking their business credit to help determine their risk of default. This risk analysis can lead to either an approval or decline. In the case of most commercial lending business credit plays a factor in the amount approved, interest rate charged and length of the repayment term offered. Not having excellent business credit profiles can lead to not getting contract awards, having to personally guarantee equipment and office leases, having to personally sign for utilities, security systems, vendor supplies, and more. Having business credit scores of 70 or higher with at least 10 reporting trade lines can eliminate personal guarantees, increase approval amounts, lower interest rates, and provide more favorable repayment terms.

XI. Importance of Debt to Income

Business lenders will be looking at the businesses debt-to- income to be no more than 45% with verifying primarily being the last three months of bank statements. If the business is a startup than business lenders will be looking at the same 45% debt-to-income for the business owners with a business owner being anyone owning 20% or more of the business.

XII. Critical Balance to Limit

Business lenders care most about how the owners of a business have been using their personal unsecured revolving debt. These lenders want to see that business owners have had a good history of revolving debt usage of preferably three or more years with account amounts of 5 to 10 thousand dollars or higher and that balance-to-limits have been maintained at 45% or lower. At the time of business loan applications if even one personal revolving account has a higher than 45% balance-to-limit it can get the deal declined or significantly lower the amount of the approval.

XIII. Credit Cards on Your Own

We often hear, "I can apply for credit cards on my own, I don't need you to do that for me". Well of course you can, but let me tell you why you shouldn't. There are hundreds of personal and business credit cards where applying for the wrong one or applying in the wrong order will get you declined for other cards or get you approved for far less amounts with others. There are different types of business credit card providers. Some are prime providers that offer credit cards as a service for the customers but credit cards are not their main source of income. These prime providers normally have only a few cards to select from. Others are sub-prime providers, which generally means credit cards are their main source of income and they typically have twenty to thirty cards to select from. Applying with sub-prime card providers before you apply with prime providers will be damaging.

XIV. Importance of Having Personal Cards

Many business owners will say "I don't want or need any personal credit cards". What they don't realize is that most credit card providers want to have a personal relationship with their card holders. This means that while they will approve your business for a credit card, the amount approved may be much lower if there is no personal relationship in place. In some cases applying first for personal credit cards and then business cards, business owners can achieve business credit approval amounts of two to three times higher. It is also true that these card providers may approve two or more personal cards in addition to the singular approval for the business credit card.

XV. Three Inquiries & You're Done

Unlike personal credit, applying for business credit on your own can be extremely damaging. The reason is that once you have three credit inquiries for business credit, normally other business lenders will then automatically decline you. The reason is that these business lenders will assume that you are credit or loan stacking and they will wait about six months to see if these other inquiries were approved. Lenders do not want their loans to be behind a series of stacked other loans and because business loans only report when you begin to use them, lenders will now wait about six months to see what you were approved for and what you are using.

XVI. Business Credit Only Reports When You Use It

Most business owners do not realize that business credit only reports when it is used, unlike personal credit where all your trade lines will report each month whether you have used them that month or not. That is why you can get a business line of credit in one month and not use it for three or four months and it will not show up until a reporting cycle after you have used it, creating gaps in your reporting.

XVII. Lenders Do Not Portfolio Loans

Business owners believe that they are qualifying for business loans when that is actually not the case. Business lenders do not hold or portfolio the loans they make. Instead they sell their loan paper into the secondary market, and to do this they make what are called "conforming" loans. This means that each loan they make conforms to a preset number of criteria and therefore that loan can be grouped with other conforming loans and sold as a package or group at a standard rate and does not have to be rated individually. Business owners seeking business loans must therefore conform to be approved. Knowing a lender's preset conforming criteria is critical to your getting approved and there are just too many for you to guess and get it wrong.

XVIII. Being Found on the Internet

In the age of the internet having your business be found on what is called NAP validation can be critical to getting approved for business loans and lines of credit. NAP validation simply means "Name, Address, Phone" and is the measure of whether or not the lender's computer business validation system can find your business when they look up its Name, Address, and Phone number. If they can't find the business name, or if the address comes back as residential, or the phone comes back as mobile then most likely your business will be declined. Knowing how to check your NAP validation before your apply will be critical for getting approved.

XIX. Business Credit Is Not Like Personal Credit

With your personal credit you can pay every debt you have 29 days late with absolutely no impact on your credit ratings or scores. Of course you will incur late fees, but no creditor will report you as even being one day late. This is not the case in business credit reporting. Business credit reports to the day. This means if you pay 5 days early or 15 days late that is exactly how it gets reported. This has a huge impact on your business credit scores. Business credit scores of 70 indicate your business pays all its creditors on time as agreed. Paying 10 days early will result in scores in the 80 range while paying an average of 10 days late will land your business scores in the 60 range. To optimize your business loan opportunities you want to be in the 80 range which is equivalent to 800 personal scores.

XX. What Can Happen If You Trademark Infringe

When you file for a business name with any secretary of state they only do a name availability search in that state alone. This means there may be many other potential businesses nationally with that same name or very similar names that are close enough to cause confusion or even trademark infringement. You could be two or more years into building a successful business with very strong business credit scores only to one day receive a cease and desist letter in the mail for trademark infringement that you had no clue existed. Now all your hard work in building success under that name is for nothing and you are forced to do a name change and start over. All this when a simple business finance pre-qualification audit would have discovered this and much more before you potentially wasted a large amount of time, effort, and money.