

How to build a business credit line

Many successful business owners have reached the top because of following proper business practices, and one of them is building a business credit line.

Once you have established a business of your own, it will likely undergo many challenges. You have to do many things to keep it running smoothly.

Your ultimate goal for your business is to make it last as long as it can, earn enough money, and become successful. One way to reach it is to establish a strong business credit profile. It will indicate the ability of your business to handle its purchasing power, finances, and debt.

What is business credit?

Similarly to people, businesses can have business credit scores and reports, which business credit bureaus keep records of their credit information and debt payments.

These business credit reports will be used by suppliers, lenders, creditors, insurance companies, and other establishments to assess an insurance application, credit, or business deal.

How does a business credit work?

Business credit reports are made when lenders, suppliers, or creditors report an account and activity of a particular business to a business credit bureau.

This activity and account assist in generating information contributing to the business credit scores.

Some regard information from the credit file and repositories of the business owner like the SBFE or Small Business Financial Exchange, which is a nonprofit trade organization that gathers payment data. These data are accessed by authorized bureaus and agencies that utilize them to make credit scores and reports for small businesses.

Who will need business credit?

Any business will gain in building and establishing beneficial business credit. It will come into play whenever you borrow on behalf of your business to pay suppliers and vendors. Included are the terms and conditions, like paying in thirty days after getting an invoice.

What is the difference between business and personal credit?

Even though they work almost the same way, personal and business credit are not the same. Your personal credit is linked to your Social Security Number, while your business credit is connected to your EIN (will be further explained below).

Can you use your personal credit for your business?

Even though many small business owners utilize their personal credit for business purposes, it can still put you and your business at risk.

But if you are the sole proprietor of your business, the banks and creditors will view your business and personal credit as the same and would not incur problems.

How do you build a business credit line?

- Establish your business- Opening a business does not automatically allow you to gain a credit line. You have to establish it first. Getting established means you have to get a business phone number and have it listed in directory assistance. You also need to open a business bank account under your business name and utilize it for bill payments.
- Maintain a relationship with top-tier industry suppliers and vendors- In the business world, having a good relationship with preeminent industry suppliers and vendors is substantial to the longevity and success of your business. The more secure and better your relationship with them, the more probable you can avoid paying in advance for goods and services. If you can assure payment terms with a few vendors or suppliers, you can start establishing a beneficial credit history.

However, vendors do not need to report to credit bureaus, so you have to ensure they will do it to you by opening accounts with them.

- Get an EIN or Employer Identification Number- It is essentially your business' social security number and serves as its identifier for tax reporting reasons. You will need it for opening a bank account in your business name, to upgrade it to become a corporation or acquire business contracts.

Yet it is not utilized the same way concerning business credit as personal credit is with a Social Security Number.

- Always pay on time- If you are in a situation where you are borrowing money, you always have to be stringent about paying on time. It will create a good reputation that you can pay your debts on time and efficient in managing it.

If your payment history shows a lot of delinquent or late payments, it will lower your business credit rating and have a damaging effect on your business credit profile.

- Obtain a business credit card- Another outstanding way in establishing business credit is to open at least one business credit card, which reports to significant commercial credit agencies.

You also have to practice caution and do not overextend your finances. Even though you can get credit through a business credit card, it does not mean you should use all of it.

- Form a corporation or LLC or Limited Liability Company- By creating a corporation, it will enable you to separate your personal and business credit finances and profiles.

If you would not do this, your personal and business credit history will be connected legally, and your personal assets may be in danger if you get sued.

- Open a business credit file and business phone number- Establish a business credit file with the business reporting agencies in your area and get a separate contract number under your business name.
- Make a clear separation between your personal and business expenses- It has already been mentioned above, but it still needs to be reiterated. Once you open lines of credits, bank accounts, and credit cards under the legal name of your business, you will be separating your personal and business dealings. You will be only using money from your business checking account to spend for your business and would not use it for personal expenses. This way, you can manage and pay your taxes.
- Diligent monitoring of your credit- As a business owner, you have to be mindful in keeping tabs on your credit history. It will enable you to discern anything inaccurate, and once you do, you can dispute it with the reporting agency.

Conclusion

Enabling an outstanding credit score will allow your business to be financially feasible and thrive. It will create an impression to the banks, lenders, and other businesses that you have healthy finances and can make significant payments.

It will allow you to borrow more money to make your business bigger and earn more without fearing any negative consequences.