

Smart Credit Strategies for Small Business Owners



Why Credit Matters

When it comes to growing your business, strong credit scores can give you a significant advantage. Access to credit at good terms when you need it makes it easier for your business to take advantage of an opportunity—or to weather a crisis.

Along with revenue and time in business, credit is one of the most important factors when it comes to getting approved for financing and favorable supplier terms.

Insufficient financing is the second-leading cause of business failure.

- U.S. Small Business Administration

Types of Financing Where Good Credit Often Helps

Type of Small Business Financing	Personal Credit Check Often Required	Business Credit Check Often Required
Credit cards	✓	
Term loans	✓	
Lines of credit	✓	
Bank/SBA loans	✓	✓
Microloans	✓	
Vendor/supplier credit		✓
Online loans	✓	✓
Invoice financing	✓	✓

For more details on financing requirements, read [Where's the Money? 10 Small Business Loan Types and How to Qualify](#).

Personal Credit For Entrepreneurs

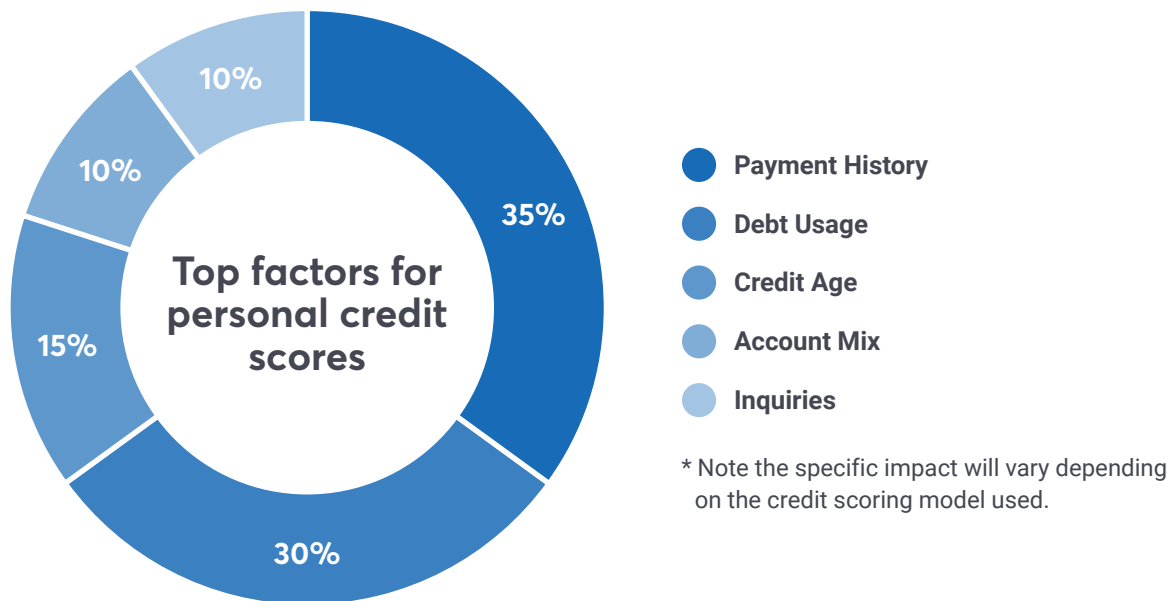
According to research by the Federal Reserve in 2014, 55% of small businesses received funding from the owners—sources like personal savings, retirement accounts, home equity loans or funds they borrowed personally.¹

Personal credit will likely play a role as you build your business. So it's important to make sure yours is as strong as possible.

Getting Started

Start by getting your credit reports from each of the three major consumer credit reporting agencies—Equifax, Experian and TransUnion — and review them to find out what's included and check for mistakes. AnnualCreditReport.com is the official government source for free consumer credit reports. Business credit reports aren't offered for free from the bureaus.

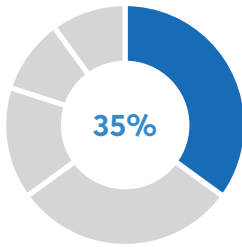
However, you can check your Experian and Dun & Bradstreet business credit scores in the Nav app on Clover for free at clover.com/dashboard. There is no single "right" credit score. Instead there are many different scoring models that may be used by lenders.



As you review your reports and scores, identify which factors are having the most impact on your credit so you can create an action plan.

¹ Report to Congress on the Availability of Small Business Credit September 2017.

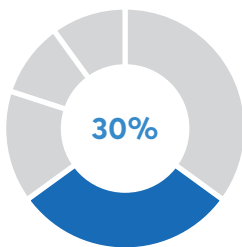
Personal Credit Checklist



Payment History

Paying on time is the single most important thing you can do to build strong credit. If your credit report lists negative information such as late payments, be patient. As negative information becomes older, it will have less impact on your scores. More tips:

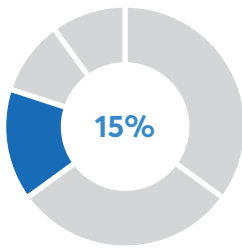
- Set up auto pay/payment reminders to ensure on-time payments going forward.
- If your credit report lists late payments, make sure they are accurate. If not, dispute them.
- If you find more than one collection account for the same debt, dispute the older one(s).
- If your credit report does not list at least two open active credit accounts, consider opening additional accounts to demonstrate an ability to pay on time. A secured credit card or credit builder account may help. (View a list of trade accounts in the [credit builder guide](#) in the Nav app on Clover.)



Debt

Most credit scores aren't that interested in the amount of debt you carry. Instead they compare the balances on your revolving accounts, such as credit cards, to your credit limits. The higher this "debt usage" ratio, the more it can negatively impact your scores.

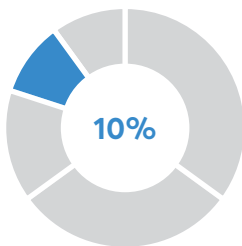
- Try to get the balance on each card below 30% initially; even lower debt usage ratios may benefit credit scores.
- If you charge a lot to your credit cards but then pay in full, keep in mind your balance will likely be reported to credit bureaus when the billing cycle closes, not after you make your payment. Pay earlier to avoid high reported balances.
- Ask for a credit limit increase.
- Consolidate credit card debt with a personal loan, small business loan, business credit card or other loans that do not report to personal credit or that are not considered in debt usage calculations.
- If you are using a personal credit card for business purchases, consider getting a business credit card that does not report regular activity to personal credit reports.



Age of Credit

Scores evaluate when your first account was opened, when your most recent account was opened, and the average age of all your accounts. Older is better! If your credit age is young:

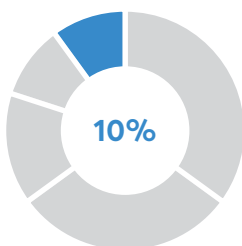
- Can your spouse or partner add you as an authorized user on one of their credit card accounts?
- Consider opening a new account (or accounts) to add a credit reference if you don't have at least two. This will not help immediately, but may over time.
- Carefully open new accounts, keeping in mind that opening many accounts at one time may affect credit age.



Account Mix

Having a mix of different types of accounts such as installment (mortgage, auto, student loan) and revolving (credit cards and lines of credit) is often helpful.

- If you don't have at least two open active revolving accounts (such as credit cards) appearing on your credit reports, consider getting a credit card to help build out your credit history. (A secured card is an option if you are having trouble qualifying.)
- If you don't already have an installment account reporting, consider a low-rate installment loan or credit builder account to help round out your credit history. View a list of trade accounts in the [credit builder guide](#) in the Nav app on Clover.



Inquiries

Inquiries are simply a record of any company that has checked your credit report or scores through a specific credit bureau in the past two years. Each one may lower your score by 3-7 points or so, however, "soft inquiries" do not affect credit scores. They include those when you check your own credit reports or scores, as well as inquiries for promotional/preapproved credit offers, account reviews by your current creditors, employers or insurance companies.

- If you have more than 6 hard inquiries in the past year, (e.g. loan or credit card applications) be careful before applying for new credit. Inquiries more than twelve months old are generally ignored by most credit scoring models.

Building Business Credit

Commercial credit reporting agencies such as Dun & Bradstreet, Equifax and Experian collect information about how businesses pay their bills. They package that information into business credit reports, and use it to create business credit scores.

Business owners who understand their business credit are 41% more likely to be approved for a business loan.

- Nav American Dream Gap Survey

Strong business credit can help in many ways, including:

Access to Cash

At some point your business may need money to grow, expand or just get through a rough patch. Building your credit profile makes sure you can qualify for funding whenever you need it.

Get More Time to Pay

Suppliers often check your business credit before extending trade credit (net 30, 60, or 90- day terms). Strong credit gives you more time to pay for your products and services, so it's easier to manage cash flow.

Lower Your Costs

Lenders and insurance companies can check your business credit when setting your rates. Building your business credit scores can help you get approved for the lowest-cost loans, credit cards and insurance.

How Business Credit Is Different

There are some important differences between business and personal credit reports.

- No federal laws require free copies of their business credit reports for business owners.
- Anyone can check a business credit report.
- Names of creditors and companies that report are not listed. Instead they are categorized by type of account.
- Payments that are just a day or two late may be reported as late.

Business Credit Checklist

Before you get started, check if your business is already listed with the major business credit reporting agencies: Dun & Bradstreet (D&B), Equifax, and Experian. Each one allows you to search for your business on their website, or you can check your Experian and Dun & Bradstreet business credit scores in the Nav app on Clover for free at clover.com/dashboard.

- Create a legal business structure.** An LLC, or C or S Corp can legally separate your business from your personal finances and credit. If you continue to operate without one, make sure you get any required business licenses and register your business name with your state.
- Get a D-U-N-S number.** This is the identifying number assigned by Dun & Bradstreet in their credit database, and is also required for business grants and contracts. [Request one for free](#) directly from them. It can take 4-6 weeks to process.
- Open accounts that report.** Establish accounts with suppliers or vendors that report payment history to business credit bureaus. You can find a list of trade accounts in the [credit builder guide](#) in the Nav app on Clover.
- Get a business credit card.** Small business credit cards generally report payment history to business credit bureaus, providing a valuable credit reference if you pay on time. Most review the owner's personal credit scores when evaluating applications. New businesses often qualify if the owner has good personal credit scores and sufficient income from all sources.
- Pay on time.** Payment history is the single most important factor in business credit scores. Set up reminders and automatic payments to ensure you don't miss a payment.

At least half of your business credit score is based on your payment history. Paying even one day late can affect your score. In the case of the D&B PAYDEX® score, you can earn an even higher score by paying your bills early!

- Monitor your business credit.** Business fraud and identity theft are growing problems. Unlike personal credit, you cannot freeze your business credit reports. Checking your business credit at least once a month can help you spot suspicious activity. You can purchase credit monitoring from individual credit bureaus, or you can monitor your Experian and Dun & Bradstreet business credit reports for free in the Nav app on Clover (clover.com/dashboard).

Nav Customer Support for Clover Merchants

Clover merchants get dedicated access to our customer support team who is ready to answer all your questions.

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