

Checking and Monitoring Your Credit

What Do Credit Scores Mean to My Business?

“I started my business in college. I had some personal credit from my personal credit card, but really had no business credit established. So how this played out was when we needed a business loan, the bank wouldn’t give it to us. So we explored two options. First, my family member set up an account at the bank to serve as collateral (because we had none) and that guaranteed our loan at the bank. Next, we looked into an SBA-backed loan. They would guarantee our loan. Now, we have all sorts of bills to the business we pay, we have an EIN (Employer Identification Number), and we have a business credit card. It’s been a learning experience. Going back, I would have set up a business credit card from the get-go, or even a phone, to begin establishing credit. I hope our trial and error helps another entrepreneur out there.”

—U.S.-Based Entrepreneur

Methods for Tracking Your Credit

Credit scores are used by lenders to assess whether you are likely to repay your loan, based on your past history with using credit. For example, a lender will look at both your personal financial information and your business financial statements to evaluate your request for an SBA small business loan.¹ Over the course of your time as a small business owner, you may have already checked your personal or business credit score.

- **Personal credit scores**—Your personal credit score is a three-digit number (usually between 300 and 850)² that uses your credit reports to predict how likely you are to pay back a loan on time.³ A credit score is based on your past record of behaviors, such as your bill payment history, your unpaid debt, the length of your credit history, the percent of your available credit you have used, the type of debt you have (and when it started) and your new applications for credit.⁴

- **Business credit scores**—Another similar kind of credit score is a business credit score (usually ranges from 0 to 100), which estimates your business’s creditworthiness.⁵ A business’s credit score is calculated based on the data collected in a company’s business credit report, such as outstanding balances, invoice activity, bankruptcies or legal filings.⁶ It can have an impact on things like the amount of business credit you can get from a supplier, your interest rates and insurance premiums and even customers’ view of your business.⁷

THINK ABOUT BUSINESS CREDIT

Today, many financial institutions are moving away from using a personal credit score on its own to determine small business risk.⁸ So, you may want to build up a business credit history. A business credit profile can show lenders, vendors and suppliers your company’s ability to meet its financial obligations.⁹ When growing your business, there are many benefits to having a separate business credit profile:

- 1 It can increase your credit capacity—the amount of credit you can get—by 10 to 100 times.¹⁰
- 2 It can raise the value of your company because financing ability can be attractive to a buyer or investor. The more you grow your business credit, the greater return you will get if at some point you decide to sell the business.¹¹
- 3 It can protect your personal credit by reducing your number of personal credit checks (which can bring down your credit score). With business credit, none of those checks would go toward your personal credit.¹²

To start accumulating business credit, you’ll need to open a business credit file with a business credit reporting agency. You can be ahead of the game by becoming familiar with your business credit.

GET YOUR PERSONAL CREDIT REPORT

If you’re looking to get a loan, getting your personal credit report can give you important insights into your likelihood of receiving one. In addition to your business credit report, your potential lender will use your personal credit report to help them decide whether they will approve your loan, and to determine your interest rate.¹³ Thanks to the **Fair Credit Reporting Act** (FCRA), you can regularly get a free copy of your personal credit report through Equifax, Experian and TransUnion, the three national credit reporting agencies, from [annualcreditreport.com](https://www.annualcreditreport.com). Equifax, Experian and TransUnion are required by the FCRA to offer your personal credit report to you through this site at no cost every 12 months.¹⁴ It’s your choice whether to get them all at once from the three companies or to space them out through the year.¹⁵

Tip: The only website authorized to give free personal credit reports is [annualcreditreport.com](https://www.annualcreditreport.com)¹⁶, so beware of other websites that make similar offers.

ACCESS YOUR PERSONAL CREDIT SCORE

Getting your hands on a free personal credit report from Equifax, Experian and TransUnion through annualcreditreport.com is useful, but it won't include your credit score unless you pay an additional fee.¹⁷ Many times seeing your credit history on your credit report is enough to infer whether your credit score is good or not, because you will be able to see whether or not you paid your bills on time.¹⁸ But if you do want to see the number itself, there are still plenty of free ways to get your credit score. These can include your credit card company, companies whose financial products and services you use (e.g., deposit or checking accounts, loans or mortgages), nonprofit organizations that provide credit counseling and financial counseling, or companies that offer free credit scores to the public.¹⁹ [This resource](#) can provide you with names of institutions that may offer free credit scores to their customers.

Why is my credit score always changing?—Actually, you have more than just one credit score. The online credit score your credit card company provides will likely be different from the one your auto lender uses to evaluate your application for a loan.²⁰ You may also see different scores at different times.²¹ This fluctuation is outside your control—it's based on when data is updated at a credit reporting company, which specific credit report data the company can access, and how they use the data.²²

MONITOR YOUR PERSONAL AND BUSINESS CREDIT

Once you've accessed your credit reports and credit score, it will be important to keep an eye on your credit on a regular basis. Your lenders and creditors will continuously re-evaluate whether your business is creditworthy, so it's a good practice if you do too. If your credit goes down, this can change or put a halt to the terms you decided upon.²³

When monitoring your credit, consider credit inquiries: when “legitimate businesses” check your credit report through a credit reporting agency.²⁴

What are hard pulls and soft pulls?—There are two types of credit inquiries: hard pulls and soft pulls. A hard pull happens when you apply for something that needs a credit check (e.g., cell phone service, renting an apartment).²⁵ They can bring your credit score down by about five points for a short time, so it's best to avoid requesting a lot of hard pulls at once.²⁶ A soft pull, on the other hand, is when another party like a lender or a creditor does a credit check without you asking for it (for example, a preapproved offer for credit that you get in the mail).²⁷ These inquiries have no effect on your credit score.²⁸

How about when you personally check your credit report? You can check your credit report at any time without harming your credit score.²⁹ Keep tabs on your credit to make sure that the information potential lenders see is current and error-free.³⁰ Using a credit monitoring service is one way to stay informed on any changes that are made to your credit reports.³¹

Tip: If you see any signs of errors or fraud in your credit report, contact the credit reporting agency and information provider (such as a bank or credit card company) so they can correct errors and investigate fraud.³²

Start Tracking Your Credit

Knowledge is power. Whether it's personal or business credit, by gathering information on your credit score, you can figure out next steps you should take to maintain or improve it. Explore the following action items to start making a plan to track your credit score and that of your business:

PERSONAL CREDIT

1 Request your free personal credit report. You can get it from up to three credit reporting agencies with one of these three options:

- Visit annualcreditreport.com.
- Call the toll-free number 1-877-322-8228.
- Complete the Annual Credit Report Request Form and mail it to: Annual Credit Report Request Service, P.O. Box 105281, Atlanta, GA 30348-5281.³³

2 Check your personal credit score. Personal credit scores are not listed on your free credit report from Equifax, Experian or TransUnion unless you pay an additional fee.³⁴ Other alternatives for accessing your credit score are:

- Your credit card company
- Your banks or another financial company where you have an account
- A nonprofit financial counseling company
- A company that provides free credit scores to the public

This resource can provide you with names of institutions that may offer free credit scores to their customers.

3 Think about ways to improve your personal credit score. Some strategies might be:

- Check your credit report for errors or fraud.
- Strive to pay bills on time. Consider setting up automatic payments that are taken straight from your bank account, but to prevent overdraft fees, make sure you first have enough money in your account.³⁵
- Don't get close to your credit limit.³⁶
- A long credit history will help your score; don't open and close accounts unnecessarily.³⁷
- Avoid applying for a lot of new accounts at once.³⁸

Learn more about credit scores [here](#).

BUSINESS CREDIT

- 1 Set up a business credit file.** If you haven't already set one up, you can use these steps:
 - Establish your business as its own legal entity.
 - Get a Federal Taxpayer Identification Number (TIN) or **Employer Identification Number** (EIN).
 - Get a Data Universal Numbering System (DUNS) number through <https://www.dnb.com/>.³⁹
- 2 Order your business credit report.** Subscribe to a reporting service from one or more of the major credit reporting agencies that aligns with the needs and budget of your business.⁴⁰
- 3 Check your business credit score.** Even though personal credit scores do not usually appear on credit reports, your business credit score will be listed on your business credit report.⁴¹
- 4 Think about ways to improve your business credit score.** Some strategies you might try are:
 - Apply for credit in your business's name, such as vendor credit, supplier credit, retail credit, service credit or a business credit card.⁴²
 - Wherever possible, do your best to avoid closing credit card accounts, as this lowers your credit score. While there's no need to put a lot of expenses on your credit card, it's best to use it for something, even if it's small. When you do use it, just remember to pay it off in full every billing cycle.
 - Ensure that your business can make its payments promptly (even the number of days can make a difference).⁴³
 - List trade references, or positive experiences your business has had with vendors, suppliers and business partners, on your business credit file.⁴⁴
 - Try to keep your credit utilization, or the ratio of your credit card balance to your available credit ⁴⁵, low—under 30 percent is best.⁴⁶ Raise your credit to make this easier (you can do this six months after opening your account).⁴⁷
 - You know your company best—remember to update your business profile with current information like the number of years you've been in business and the gross annual sales.⁴⁸



DID YOU KNOW?

*Ninety percent of women-owned firms used the business owner's personal credit score (or both her personal credit score and business credit score) to get financing.*⁴⁹

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- ⁸ *Business vs. Personal Credit: Why You Should Separate Business Credit From Personal Credit*, Experian, <http://www.experian.com/small-business/business-personal-credit.jsp> (accessed March 11, 2019).
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- ¹⁴ *Free Credit Report*, Federal Trade Commission Consumer Information (March 26, 2013), <https://www.consumer.ftc.gov/articles/0155-free-credit-reports> (accessed March 5, 2019).
- ¹⁵ *Credit Reports and Scores*, USA.Gov (Feb. 26, 2019), <https://www.usa.gov/credit-reports> (accessed March 5, 2019).
- ¹⁶ *Get My Free Credit Report*, Federal Trade Commission (June 25, 2013), <https://www.ftc.gov/faq/consumer-protection/get-my-free-credit-report> (accessed March 5, 2019).
- ¹⁷ *Your Credit History*, Consumer.gov (Aug. 9, 2012), <https://www.consumer.gov/articles/1009-your-credit-history> (accessed March 22, 2019).
- ¹⁸ *Ibid.*
- ¹⁹ *Where to Find Free Access to One of Your Credit Scores*, Bureau of Consumer Financial Protection (May 14, 2018), https://s3.amazonaws.com/files.consumerfinance.gov/f/documents/bcfc_find-free-access-to-credit-score_05-2018.pdf (accessed March 5, 2019).
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⁴⁶ Ibid.

⁴⁷ Ibid.

⁴⁸ Ibid.

⁴⁹ Federal Reserve Banks of New York and Kansas City, *Small Business Credit Survey—Report on Women-Owned Firms* (November 2017), <https://www.newyorkfed.org/medialibrary/media/smallbusiness/2016/SBCS-Report-WomenOwnedFirms-2016.pdf> (accessed March 27, 2019).