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# THE BUSINESS CREDIT & FINANCING GUIDE

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## I.

# Business Credibility: Make Sure Your Business Meets Lending Criteria Before You Apply

Lenders and creditors have rather specific requirements of what they want to see to approve you for credit and financing. If you meet these criteria, you often get approval. But if not, you'll get a denial. You've probably been turned down before, due to not meeting one of these criteria. But in this section we reveal the lender's secret formula for approval. So you know you'll get an approval before you apply.

The first step in building business credit is to ensure you have a business entity set up. Per Wikipedia: "A **business entity** is an entity that is formed and administered as per commercial law in order to engage in business activities, charitable work, or other activities allowable. Most often, business entities are formed to sell a product or a service."

Setting up your entity is what allows you to do business legally with your state and the Federal government. So it's an absolute necessary first step. Any entity can build business credit. But to remove personal liability, choose an entity like a **Corporation or LLC (Limited Liability Corporation)**.

After your entity is set up, next you must get your EIN number from the IRS. An **Employer Identification Number** or EIN (also known as Federal Employer Identification Number or FEIN) is the corporate equivalent to a Social Security number. But it is issued to anyone, including individuals, who must pay withholding taxes on employees. To do business legally, you must have an EIN.



Google “*how to get an EIN number*”. Look for the irs.gov link **only**. Do not use any other link other than irs.gov. Other links will try to charge you. But your EIN number is free. Don't pay a company for it!

### Your Business Name

When choosing a name, try to choose as basic and generic a name as you can that doesn't peg you into one industry. There are a lot of industries which fall into restricted lists. General consulting type names work best as nobody will deny you then. Any other industry specific name might restrict your ability to get money with some lending sources and credit issuers.

### Your Business Address

When applying for business credit ensure you use a **real physical address**. You cannot use a PO Box or UPS address. We suggest that you not use your home address. Instead, get a virtual. With a virtual address, you set up an address where you get your mail. This is a real physical address. You get the benefits and perception of being in a big office building, without needing to incur such a cost. It is a great alternative to having a real physical address.

### Your Business Phone

Don't use a personal home phone or cell phone. **Yes**, lenders **will** know! Do not even try applying for funding without a real business phone. Voiceover IP numbers are okay. You should have a toll-free number, unless you only deal with local business like a pizza shop. Your number **must** have a listing with 411. Try [www.listyourself.net](http://www.listyourself.net) for a 411 listing.

### Your Professional Website

Your website must look good and describe your products and services. Also, set up your professional email address, like [yourname@yourcompany.com](mailto:yourname@yourcompany.com).

### Your Business Licensing

Also, ensure your business has the proper licenses necessary for your industry, county, state, and Federal government. You will not get funding or credit without proper licensing. Make sure your name is exactly the same on all your documents. These include bank statements, utility statements, and corporation papers.

### Home Ownership

Being a **homeowner** increases your chances of getting approval. It shows a greater level of maturity and responsibility. Plus, it shows you can manage a higher monthly payment. Your home might even be used as collateral for some financing like SBA loans.

### Your Assets and Collateral

Lenders love assets because they love collateral. Thus, when they ask on an application about the assets you have, what the lender is looking for is what you can use as collateral for the debt. If you have more collateral, then you better your chances of getting many types of financing. SBA loans make the lender take all assets in your business as collateral. And if it is still not enough, they will take personal assets like your home.

Some lenders, e. g. advance lenders, do not need collateral. Yet it still helps them feel more secure in lending you money if you have assets to show. Many things can work as collateral like a 401(k) and stocks, real estate, inventory and equipment, purchase orders and receivables. Plus other items which are easy for a lender to sell and get their money back in case of default.

### Your Time in Business

The **longer you're in business**, the better your chances of getting approval for almost all types of financing. This is because **extensive** studies on this show the majority of businesses fail in early years. This is usually three years or fewer from opening. The longer a business is open, the more their chances of failing decline. So longer standing businesses have a much less risk of going out of business than newer ones do. Being open less than one year makes it tough to get financing.

But you can get unsecured personal and business cards with no issues. Yet advances are tougher. And loans are nearly impossible to secure.

Some business credit vendors, retailers, and cash credit sources also might not approve you if you have been open one year or less. Three years or more is what most sources prefer. This is part of the reason why SBA loans want 2 – 3 years of financials.



### Stable Revenue

Having good **stable revenue** can be one of the main reasons for approval for some funding products, like merchant or revenue advances. Having consistent revenue alone can get you approval. But almost all sources want you to have revenues coming in for approval. Some sources like personal and business cards won't need verification. Other sources of advances will verify your cash flow with bank statements.

### Your Business Tax Returns and Profits

Most lenders issuing loans and credit lines want tax returns on top of P&L statements and bank statements to verify your income. Your tax returns must show good profits. The amount you show determines the amount of money you get.

You must show **increasing profits from year to year**, not declining profits. Declining profits are a sign of trouble. Most lenders run away from any deal where the applicant has revenues or profits declining from year to year.

### Risk

There are many so-called **high risk** industries which lenders don't prefer. The list of high risk industries is different for each lender and funding type. Some lenders have been burned by one type of industry and blacklist it. Yet other lenders offering similar products are okay with that industry. Some industries are almost always seen as high risk no matter which lender you apply through. Vice businesses are

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almost always seen as high risk, like gambling and porn. Many but not all lending sources restrict other industries like financial services.

Financial services can include credit repair, lenders, accountants, insurance agents, mortgage brokers, realtors, and anyone else dealing with any type of financial transaction. Always ask up front if the lender views your industry as high risk.





## II.

# Business Credit: Everything You Should Know About Your Corporate Credit

When you apply for business financing there are three types of credit reviewed when your approval is under consideration.

### Personal Credit

No matter what you have been told, **Personal Credit always** matters, unless it isn't under review. For example, when applying for business credit you can use your EIN to get approval. Then only provide your SSN on the application for identification purposes. When you do this, your personal credit isn't even looked at, nor is it used for the lending decision. This is about the only exception in the business funding space.



All other funding types including advances look at and care about your personal credit. Yes, you can get approval for cash flow financing and merchant advances with bad credit. But your repayment terms won't be nearly as favorable as if you had good personal credit.

SBA loans, conventional loans, most other long term loans, and credit lines often demand good personal credit for approval. Collateral and asset type-based financing doesn't care about personal credit as much. This is if financing only looks at collateral for approval, not financing where collateral is necessary for approval.

### Bank Credit

With **Bank Credit**, your bank rating is mostly based on the amount of money you keep in your bank account over the last 90 days. The scores work out as follows.

- High 5: account balance of \$70,000 – 99,999
- Mid 5: account balance of \$40,000 – 69,999
- Low 5: balance of \$10,000 – 39,000
- High 4: 7,000 – 9,999
- Mid 4: 4,000 – 6,999
- Low 4: 1,000 – 3,999

### Business Credit

**Business credit** is credit in a business name which is linked to the business's EIN number. This is credit a business owner can get which is not linked to their SSN.

When you build business credit correctly, the SSN isn't even on the application. This means there is no personal credit check to get this kind of EIN credit.

When you apply for something like an auto loan, the lender pulls your personal credit. They do so using your name, address, and social security number.

This information goes to the consumer credit reporting agencies. They give the lender a credit report with all the information they have on someone with a similar name, address, and SSN.

With this type of credit, an inquiry is then put on your consumer credit report. Your report is used to make the lending decision. Plus, the credit you get is then reported to the consumer reporting agencies.

When you apply for something like a business loan, the lender pulls your **business** credit. This is done using your name, address, and EIN number.

This information is sent to the **business** credit reporting agencies. They supply to the lender a credit report with all the information they have relating to a business with a similar name, address, and EIN. With this type of credit an inquiry is put on your business credit report. Your business report is used to make the lending decision.

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Important: when applying for financing and credit using your business credit, you should not supply your Social Security number on the application, even though it is requested.

When you do this, **no** personal credit can be pulled because the lender can't pull your personal credit without your SSN.

This forces them to only pull your EIN credit as you supplied your EIN not your SSN.

This means you get approval **only** on the merits of your **business** credit report. Your personal report isn't even reviewed.

Note: for **bank loans**, you must supply your SSN (it's an anti-money laundering requirement). But you can make sure it's only used for identification purposes. Also, make certain you aren't providing a personal guarantee.



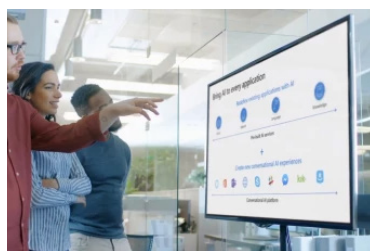
### III.

## Why Every Business Should Have Business Credit

When done right, a company can get business credit without an SSN going on the application. This means there is no credit check of the business owner for approval. This also means that anyone with bad, even horrible personal credit can still get business credit approval.

Business credit reports to business credit reporting agencies, not consumer reporting agencies. So as business credit is used it has no adverse impact on the owner's consumer credit. This means using the account, even over 30%, won't have any adverse impact on personal credit scores. And there are no inquiries on the personal credit when you apply for business credit as long as you don't supply your SSN.

**30% of your total consumer credit score** comes from utilization. So if you use your personal credit to get credit cards for your business and you use those cards, you will lower your scores. Using more than 30% of your limit results in a score decrease. So if your limit is \$1,000, having a balance above \$300 lowers your scores. This means 40% of your total score is damaged by applying and using the credit you get with your consumer scores. With true business credit, 0% of your score is affected.



**10% of your total consumer credit score** is from inquiries. So if you are using your personal credit to apply for business loans and credit, your scores will go down as a result of those inquiries. Plus, those inquiries can remain on your credit for an extended period of time, thereby affecting your ability to borrow more money. And some unsecured business lending sources won't even lend you money if you have two inquiries or more on your personal credit reports in six months.

But with business credit, the credit doesn't report to the consumer agencies. So neither inquiries nor utilization have any effect on your

consumer credit scores. This is one more reason every highly successful business has business credit.

### Business Credit Scores are Easy and Fast to Build

Business credit scores are based only on whether the business pays its bills on time. As a result, a business owner can get credit ***much faster*** using a business credit profile versus their personal credit profile

Personal credit scores are based on five factors:

1. Payment History – 35%
2. Utilization – 30%
3. Length of Credit History – 15%
4. Accumulation of New Credit – 10% and
5. Credit Mix – 10%

PAYDEX Scores are based on Payment History:

**Five factors** make up consumer credit scores. It takes years of well-disciplined borrowing before you get superior scores. Business credit scores are mostly based on **payment history only**. So as long as you pay bills as agreed you will have an excellent score.

And it only takes 2 – 3 reported accounts for you to establish a score. Most vendors have your account reported to the business reporting agencies in 30 – 90 days.

This means you can build a business credit profile and have an excellent credit score in a very short time.

### Anyone Who Wants Your Business Credit Report Can Pull It

Someone must ***have Permissible Purpose*** to pull your personal credit. That is, they must have your consent to review your reports. Only certain institutions can pull your consumer credit report. They include banks, auto dealers, mortgage brokers, and others licensed to

lend money and have approved credit pulling capabilities.

But with business credit, this information is public. This means anyone who wants your business information can easily and cheaply get it.

Think about some of the people who can see your reports whenever they want. These are customers, clients, suppliers, others who you might do business with, and competitors.

Here is some of the **information anyone can see about your business**:

- Amount of tradelines (payment experiences)
- Credit scores
- High credit limits
- Past payment performance
- Employees
- Revenues

And much more is available to **anyone** who wants it.

What does your profile say about you? Are you established?

Would you want to do business with a company with a similar profile?

How will your customers, clients, even competitors think about you with this information?

Monitor your reports regularly to see what others can see about you. And keep building your business credit. Then you will show a credible image to anyone who wants to see your credit in the future. This is especially for those who lend money or issue credit.

## Your Banks and Creditors Thank You for Volunteering Your Personal Guarantee

When you put your SSN on a credit application, you are almost always providing a personal guarantee. This means you are personally liable for your business debts. So if you default on an obligation, the creditor will pursue your business assets first. Then they'll come after your personal assets. These include your home, your cars, your stocks and

bonds, your bank accounts and any and all other assets.

Business owners don't expect to fail. But unfortunately, 90% do. It makes no sense to put you and your family's financial future in jeopardy. Don't do this when you know going in that you have a 90% possibility of ruining it.

Remember, many times the reasons a business might fail have nothing to do with you, or things you can control. This can include shifts in the economy. So don't risk it all if you don't have to.

There is no question, starting and running a business is risky. This is why most conventional banks make it so hard to get a loan. So **don't** use a personal guarantee unless you must.

With many business loans, you must. But with credit you don't need to as long as you build business credit.

### What is a Personal Guarantee? Find out From Top Sources



A personal guarantee is an agreement which makes one liable for one's own or a third party's debts or obligations. A personal guarantee signifies that the lender (obligee) can lay claim to the guarantor's assets in case of the borrower's (obligor's) default.

It is like a signed blank check without a date.

The obligee is generally not made to seek repayment first from the obligor's assets before going after guarantor's assets. The lender's actions are usually based on whose assets are easier to take control of and sell. Once signed, a personal guarantee can only be cancelled by the obligee.

According to ***Business Dictionary.com***:

*A personal guarantee is "by making a guarantee you are putting yourself – and your assets – on the hook, by acting as the loan's cosigner. If your business dissolves, you will be responsible for repayment. Creditors will go after you in the event that your business fails to repay the loan."*

According to **Inc.:**

*A personal guarantee is a promise made by a specific person, an organization or other entity; to be known as the guarantor and to accept responsibility for some other party's debt in the event the debtor fails to pay it.*

*The usual and most common purpose of a personal guarantee is typically to allow an organization or person to obtain credit when they lack a credit history, or they have one, but lack a credit rating sufficient to qualify for credit.*

According to **Wikipedia:**

*In the business world, personal guarantees are requested when the business is unestablished, and lacks credit history, a credit profile, and credit score.*

They are also sometimes necessary for larger loan amounts. They are always requested for loans guaranteed by the SBA, and conventional bank loans. And it's also necessary with some other higher loan amounts with no pledged collateral.

When you complete a loan application and provide your SSN, lenders almost always pull your personal credit to decide on lending. Often, you are providing a personal guarantee.

This might be a necessity with some conventional and higher amount loans. But it's not necessary for smaller business credit cards. With business credit cards, if the business has established business credit, you can use that credit to secure the credit card. Hence there is no need for a personal guarantee.

Keep in mind: the entity you choose can also make you liable.

For example, a sole proprietorship or partnership means you, as the owner, are liable for your business debts. It is immaterial if put your SSN on the funding application. Corporations and LLC don't make you personally liable for your business debts.



### How to Devalue Your Business

Anyone who has sold or bought a business will tell you of the importance of business credit.

All potential buyers can get extensive information about your business, just by perusing your business credit report. Anyone who wants can get it.

This means they know details about your business including:

- Credit scores
- High credit limits
- Past payment performance
- Employees
- Revenues and much more

Now that you know how easy extensive credit and financial information is to get for a company, if you were a buyer wouldn't you get it?

Based on what's on your business credit report, would you want to buy your company?

Is your company established? Does it pay its bills? Do you look like a successful company from your report?

If you could choose from two companies to buy which were the same in every way except for their business credit, which one would you buy? The one with a very limited or no credit profile, or the one with a credit profile reflecting good payment performance, and with available credit?



Business credit is essential for a good evaluation of a business. So be sure you have checked yours recently and that it represents your business as it should.

### **DOUBLE Your Borrowing Ability**

A major benefit of business credit is that it more than **doubles** borrowing ability.

You already have consumer credit. Now you can have a whole other credit profile with business credit, too.

This means it's often the only way to get multiple credit cards, and more universal credit cards.

When you have access to more retail and cash credit cards, you also have access to a lot more useable money.

Plus, per SBA business credit limits are 10 – 100 times that of consumer limits. Getting business credit radically increases your available credit as a result.

An average Staples card limit on the consumer side might be \$3,000. But in the business world it could be closer to \$30,000.

Businesses need higher limits. They get those higher limits with business credit.

This is another reason it's very hard to scale a business using personal credit only.

Plus, you can get business credit very fast. Get approval for initial vendor credit to help your business grow in one week. That credit typically reports in 30 – 90 days.

Once reported, you then have reported tradelines which in turn give you an established business credit profile and score.

Once your profile is established in 90 days or less, you can then start getting real useable revolving retail credit cards.

### **No Financials? No Problem!**

***Business credit is perfect for startups.*** Most conventional and private lenders won't lend to companies without financials and which have been open two years or less.

The most popular cash flow type of financing demands one year in

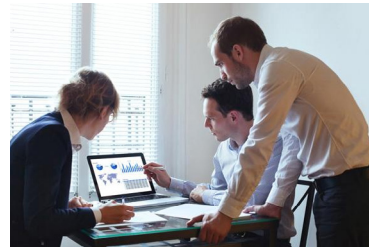
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business and steady revenue. Most consumer credit card approvals are based on personal income. But with business credit, even a startup can get loads of new credit without any of these items.

Business credit is perfect for businesses which don't have or want to show financials. Let's face it, we write off all the expenses in a business we can. This leaves a smaller net profit, which is what most lenders and investors look at most.

Business credit doesn't look at financials or bank statements. Even a business with no cash flow can get approval for high limit cards, helping them grow their cash flow. And tax returns aren't looked at either. So even if the business shows a loss they can still get approval.



Most business lending demands collateral. This is because most businesses fail. And the risk of no repayment of lent money is **very** high. This is why most conventional lenders make it so hard to get money. They aren't set up for this type of risk.

This is also why the SBA demands all business assets, and even personal assets, be used as collateral. Business credit is one of the only ways to get money without providing collateral to offset the risk.



## IV.

# Building Business Credit

**Every** highly successful business in this country has business credit. Most of these companies used their business credit to get as big as they are today.

But contrary to what many believe, business credit is not only for big companies. Any company can build business credit!

Big companies are often the ones which enjoy the benefits of business credit the most. This is because they have CFOs who know how to get and use business credit, whereas most small businesses don't.

But ***you can get your hands on the exact same credit these larger companies have***, if you know the formula to get it.

Get vendor credit immediately, starting **now**. It takes those accounts 30 – 90 days to report, giving you a profile and score.

With that profile and score you can then start getting retail credit. And in a total of about 4 – 6 months after starting the process, then you can start to get cash credit.

90% of vendors in this country do not report the credit they issue you. This is why so many business owners think they have established business credit when they do not.

So you must find vendors which report to the business credit reporting agencies.

This is the hardest and most challenging part of building business credit.



You must start a business credit profile and score with ***starter*** vendors. ***Starter*** vendors are ones which will give you initial credit even if you have no credit, no score, or no tradelines when you apply.

Most retailers like Staples will **not** give you initial starter credit. So don't even try applying.

Building business credit can as simple as finding the credit you want, applying with no SSN, and getting approval. Then start using your credit and **pay your bills early.**

If you follow the steps, you should be well on your way with establishing business credit.

### Get Vendor Accounts

When establishing business credit, there are three types of credit you can get:

- **Vendor credit**, starter accounts that often offer Net 30 terms. Sometimes revolving.
- **Retail credit**, generally revolving credit cards available in retail stores.
- **Cash credit**, often revolving credit cards like Visa and MasterCard.

You start with vendor credit or starter accounts which often offer Net 30 terms. Then you move onto retail credit. These are usually revolving credit cards available in retail stores. Finally, you get cash credit. These are more universal revolving credit cards like Visa and MasterCard.

The biggest mistake entrepreneurs make when building business credit is that they try to apply for credit which is harder to get first, and skip credit which is easier to get.

But many retailers and banks will not approve a business owner for credit until their EIN credit profile and score are established. If you try to apply for harder to get credit without an established business credit profile and score, you usually get a denial. You must get approval with credit that's easier to get. Then after you use those accounts and pay your bills, the accounts are reported to the business credit reporting agencies.

Then and only then do you have an established business credit profile and score. Once your business credit is established, you can start to

get approval for retail revolving credit next.

Seek out vendors which approve a business for credit, even if none is built yet. There are many vendor sources which are well known for this.

**Keep in mind:** all applications ask for your Social Security Number. But you do not need to provide your SSN on the application. If you supply your SSN, they will pull your personal credit. And if it's bad, you get a denial.

When you leave the SSN field blank, they'll pull your business credit. And once they see that you have business credit established and at least 3 payment experiences reporting, you start to get approval for retail credit.

### Make Sure You Monitor Your Payment Experiences

Building business credit is all about tradelines, or what are called payment experiences.

A payment experience is the reporting of an account to a business credit bureau.

To effectively build business credit you must be able to monitor your business credit reports to see these payment experiences being added. When you see this, you know when it's time to apply for more credit to build your credit profile and score.



For example, you need payment experiences before getting revolving retail credit. Monitor your credit so you know when you have accounts reporting.

You should be monitoring your credit through Experian and D&B. You can go to their sites directly to enroll for credit monitoring.

## V.

# Business Lending Decoded

There are a lot of different financing options available today. There are so many options that you might not be sure where to start. Let's dive into some of them so you can see what works best.

Most business owners try to first apply for financing at their **bank**. But according to the Department of Revenue, only about 1.1% of all business funding comes from **conventional banks**, like SBA loans. Your bank can help you with credit lines and loans. But you must have financials and good credit for approval.

Google "*SBA loan approval checklist*" to find this page <https://www.sba.gov/content/business-loan-checklist>. This list is all that you need for conventional loan approval.

Most business financing happening today comes from **alternative lenders**, not the big banks. These are lenders which have carved out niches in the business funding world.

They often focus on only one aspect of your business to make a lending decision. If that one area of your business is strong, you can get approval even if you are weak in other areas. This is very different from SBA loans that look at the whole picture.

Alternative lending is much easier to secure than conventional loans. You can usually get approval and funded much faster as well. The terms often are not as favorable as conventional financing. But you can often get approval when your bank would say no.

Alternative lending can be divided into **three categories**: credit, collateral, and cash flow.

There are several funding types available based on your credit. Some use your business credit for approval while others use your personal credit.

You can't go into your bank and get multiple business or personal cards. But there are lenders which focus on this type of financing only. They can get you **multiple high-limit business credit cards** that report to

the business reporting agencies. These cards have great incentives like low introductory rates. Remember, you must have good personal or business credit to get approval and you can get approval even if you are a startup.

**Collateral-based** lenders are also called asset-based lenders. They can approve you even if you have bad credit, and often if you just opened your business. The key is you need acceptable collateral for approval.

Acceptable collateral includes 401(k) accounts and stocks, inventory, equipment, real estate, a car lot inventory, purchase orders and account receivables (if from another business), commercial signs and graphic wraps, and other viable types of business collateral.

Vehicles are depreciating assets and often would not qualify. Rates and terms on collateral-based funding are very good. They are sometimes better than conventional loans. It is not uncommon to get rates of 5% or lower, even with bad credit. If you default, the lender just takes your collateral. So a lender's risk isn't as high as with other types of business funding.

Most advances are forms of **cash flow-based** financing. This is the fastest and easiest money you can get your hands on. Get approval with bad credit and no collateral. You must show bank statements proving you have over \$10,000 in monthly deposits and at least six monthly transactions. You can usually get as much as 12% of your annual revenues advanced to you.

These are cash advances. The rates are not great, ranging from 8 – 45% depending on risk. You usually get approval for a 6 – 18 month payback.

Once you prove yourself with your first advance, terms get much better on future advances. This is why over 70% of those who get their first advance come back and get more money ongoing.

There is a lot of money available for business owners, more now than ever. You just need to know what type of financing to go after. Once you know that, you can more easily find what you need.



## Three of the Most Popular Types of Business Funding

***Credit lines*** are what most business owners want. They are also one of the hardest types of financing to qualify for. To get approval for real credit lines, you nearly always must supply business financials.

Financials include business tax returns for 2 – 3 years. You might also need to supply P&L statements both current and projected, bank statements, a business plan, and more.



Your approval amount comes from the profits you show on your returns. Your tax returns should also show increasing profits.

Your personal and business credit will be reviewed. Both should be good for approval. Lenders like to see open credit lines with very high limits. Approval amounts might

also link to existing limits.

***Business loans*** are available at a lot of places, including SBA loans from conventional banks. Many lenders also provide business loans and some other types of collateral-based financing.

Many loans are for shorter terms, usually 3 – 5 years. Others might go as long as 20 years or longer.

Rates vary based on risk, with some being two percent over prime rate. Others are as high as 10%. To get long terms loans, you almost always need financials. Often, you also need collateral.

***Merchant and revenue advances*** are becoming increasingly common in the business funding arena. These are just like cash advances in the consumer world. They are much easier to secure than loans and credit lines. Often you can get approval with no business financials, including no tax returns.

Advances usually close very fast, within a week, when loans and credit lines take 30 – 90 days to close. The terms aren't as favorable on advances. But the scope of who qualifies is very broad..

### Business Credit Cards Available for You Now

There are a few types of **credit cards** you can secure in the business funding world. Most work exactly like consumer credit cards. But there are more benefits. These benefits depend on the type of cards you get.



Get credit cards for your business through Visa, MasterCard, AMEX, and Discover. Use them almost anywhere, for almost any purpose.

These cards are secured by you having a good business credit report and score. You usually need 10 payment experiences and a PAYDEX score of 80 or higher to get approval.

These card limits mimic your highest business credit card account limits at the time you apply. Rates are similar to consumer cards and no personal guarantee from you is necessary.

You can **use your personal credit** to get approval for real business credit cards instead of using business credit. These accounts demand you provide a personal guarantee.

To get approval you must have excellent, near flawless personal credit with fewer than two inquiries in the last six months, and utilization under 30%. But it doesn't need to be as good as for Business Unsecured cards. You might need fewer than 10 inquiries in the last 90 days and utilizations can be near 60% and you can still get approval.

You can typically get five times the amount of credit of your current highest limit reporting card. This comes in the form of five separate cards. They often only report to the business credit reporting agencies and offer introductory rates of 0% for 6 – 18 months.

### Underwriting Timeframes and Due Diligence

The higher dollar amount loan or line you secure, the longer it takes to underwrite. This is true no matter what type of financing you are seeking.

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Loans and credit lines usually take 30 – 90 days or more. Advances are very fast, usually can be secured in seven days or less. Credit cards usually take three weeks or less to secure.

All lenders perform a due diligence check on you and your application. They check if you have other outstanding loans you forgot to mention on your application. They make sure your lease or mortgage is in good standing. And they check if you are going out of business. They even check your online reputation.

The purpose of this check is to find hidden risks they couldn't find on the application. Another purpose is to see if you left information off of the application intentionally.

So make sure you disclose everything they ask for. Otherwise lenders WILL find out about it. These checks usually only take 1 – 3 days to complete.



## VI.

# Cash flow-Based Financing: Fast, Easy Money

From Wikipedia: “**Revenue based financing** or **royalty based financing (RBF)** is a type of financial capital provided to small or growing businesses in which investors inject capital into a business in return for a percentage of ongoing gross revenues. Usually the returns to the investor continue until the initial capital amount, plus a multiple (also known as a cap) is repaid.”

Revenue-based financing is often described as between two concepts. A bank loan, which often requires collateral or significant assets. And angel investment or venture capital, which involves selling equity in a business in exchange for an investment.

In an RBF investment, investors do not take an upfront ownership stake in the business. Rather, you are selling your future revenue for a fee (a discount).

Revenue-based financing goes by many names:

- RBF
- Revenue-based funding
- Revenue-based loans
- Revenue financing
- Cash flow financing
- Cash flow-based financing
- Cash flow loans
- Bank statements loans
- ACH financing
- Royalties-based financing

Here are some actual Revenue-Based Financing Advertisements:

“Cash Flow Financing... Do You Have 10K p/mo Gross Sales? Quick & Easy”, “Cash Flow Finance... Fast & Simple Online Application Need \$150K+ in Sales, Profitable”

“How to get business financing when banks turn you down”, “Bad credit business loans... 24 Hour Approval. No Startups Great Rates. Up to \$500K Quick!”

“Fast small business loans... 24Hr Approvals. Online Application. Min \$10K/Mo in Sales to Qualify!”

### Qualifying for RBF, the Most Popular Form of Alternative Lending

Revenue financing is not a loan; it's an advance off of your revenue.

It's like a cash advance in the consumer world where:

Your current pay is analyzed

You are then lent money based on the stability and amount of your pay

Then you have a short time to pay back what you borrowed

With revenue financing, the lender checks two main forms of documentation. One is your bank statements. The other is your merchant statements, if you have a merchant account.

They also want to see a driver's license. Rent, lease, or ownership information for the property is also verified.

You can qualify even if you have a home-based business.

Lenders are looking for very specific requirements when qualifying you.

The bank statement is analyzed for consistent deposits of **eight or more** per month. Lenders do not want to see only a few big deposits. Instead they want to see many smaller deposits, like a retailer would have, and not a real estate agent.

Positive ending bank balances are also important. If you don't have money left over each month at the time you apply, lenders know it will be tough for you to pay them back. Hence they are looking for positive cash flow each month.

They want to see responsible bank account management, with little to no NSF charges. They also don't want to see a lot of chargebacks which could reflect unexpected future expenses.

The longer time you have been in business, the better your chances of getting an approval.

Most lenders want you to be in business for 12 months or more. There are some lenders which only want you to have been in business for six months. But often they want to see compensating factors. Personal credit is not a big factor for approval. But it ties into the terms you will pay.



There are no credit requirements for approval. Often, lenders won't even pull your personal credit if your bank deposits and ending balances look good. Lenders are most concerned with you being in current trouble like an imminent bankruptcy or very recent liens and judgments.

If you don't have those types of issues you can get approval, even with recent collection accounts and late payments. This is one of the best types of financing to secure if you have credit issues.

### How Fees Work for Revenue-Based Financing

Revenue-based financing is not a loan. So there is no standard interest rate to pay. Instead you are selling your future revenue for a discount fee.

For example, you might get a loan for \$100,000. The lender then might charge a discount of 20% and your total payback would be \$120,000.

If the lenders were to finance the \$120,000 over 12 months, your

payback would be \$10,000 monthly.

Often, payments are withdrawn from your bank account **daily**. This is usually Monday – Friday. There are lenders accept weekly or monthly payments. But they are hard to find and you must be lower risk.

Hence you might pay back \$500 per day, Monday – Friday, until the total amount is paid back 12 months later. The \$500 would be automatically deducted each day. Often, you would not notice it was gone.

You usually have a choice to pay more of a discount and get a shorter term, or pay less of a discount and get a longer term.

Each option has a different daily payback amount. Usually the payback amount is 8 – 12% of the actual revenue.

### What You Should Know About Revenue-Based Financing

With revenue-based financing, loan amounts vary based on the current revenue of your business.

You can usually secure as much as **10 – 12%** of your annual revenue.

So if you make \$500,000 per year in revenue you could secure approximately \$50,000. Most loan amounts won't exceed \$500,000 for most small businesses.

You must have at least \$120,000 in annual revenue to qualify.

There are no upfront charges with revenue financing. You are charged a discount based on risk. This discount varies wildly. Rates commonly range from 8 – 45%. 20 – 30% rates are common and the charges are tax deductible.

Factors affecting risk include:

- Time in business
- Bank account management
- Positive cash flow

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- Industry
- Personal credit score
- If you have past successfully paid advances

Revenue financing is very fast and easy to secure. Due to limited document requirements, you can get your initial approval in 24 hours. Once you sign the term sheet, a due diligence process takes place for 24 – 48 hours.

During this process they are looking for potential issues, e. g. having outstanding advances you didn't mention, or signs you are going out of business. You must verify your renting and owing arrangements are in good standing.

If due diligence is good, you can close once this period expires. This is 24 hours to first underwrite, 24 – 48 hours for typical due diligence, 72 hours to get funding, and expect 7 days in case of unexpected delays .





## VII.

# SBA Loans and Qualifications

SBA Loans are the main types of business loan offered by most conventional banks.

These are great loans for business owners who have what it takes to qualify. Keep in mind, most business lending comes from alternative lenders which don't have these types of requirements.

Instead, conventional banks and SBA focus on offering loans with minimum risk to them. As a result, much more is necessary for approval versus a conventional loan.

The SBA has put together a checklist of what you need before applying. Here are some details.

To get approval for conventional loans you must have excellent personal credit. There can be no derogatory reported items. You need excellent bank credit keeping over \$10,000 liquid in your accounts. And you must have excellent business credit with a good PAYDEX score, often 70 or higher

You must have excellent financials showing good net profits increasing from year to year. You must show you manage cash flow well, per your business and personal bank statements. And you need substantial collateral to offset what you're borrowing, sometimes equal to 100% of the amount to be borrowed.

Other items you must provide for approval include: a profit and loss (P&L) statement current within 90 days of your application. Include supplementary schedules from the last three fiscal years. Provide current and projected financial statements. Also provide a detailed, one year projection of income and finances. And attach a written explanation of how you expect to achieve this projection.

You also need:

- Original business license or certificate of doing business
- Loan application history including records of loans you applied

for in the past

- Income tax returns that include signed personal and business federal income tax returns of your business' principals for previous three years
- Resumes for each principal
- Personal background information
- Business plan
- Business credit report

An explanation of why the SBA loan is needed and how it will help the business

Per the SBA, about your personal credit report, *"Your lender will obtain your personal credit report as part of the application process. However, you should obtain a credit report from all three major consumer credit rating agencies before submitting a loan application to the lender. Inaccuracies and blemishes on your credit report can hurt your chances of getting a loan approved. It's critical you try to clear these up before beginning the application process."*

Notice, they mention it's critical to clean up any blemishes on your credit. You truly need excellent credit for approval.

You must provide:

- Business bank statements
- Your lease
- Business licenses and registrations required for you to conduct business
- Articles of incorporation
- Copies of all contracts you have with any third parties
- and franchise agreements
- Plus proof of collateral

The SBA has great loans if you meet the requirements for approval.

But even if you don't, you can still get alternative financing. This is even if you have credit issues, no collateral, or don't have cash flow for your business.

### How to Get a Credit Line from the SBA

The SBA offers four different credit lines that fall under one umbrella known as CAPLines.

From the SBA: *"CAPLines is the umbrella program under which SBA helps business owners meet short-term and cyclical working capital needs"*. Loan amounts are available up to \$5 million. Loan qualification requirements are the same as with other SBA programs.



Here are the four CAPLines offered by the SBA:

Seasonal Line – Advances against anticipated **inventory and accounts receivables**. Designed to help seasonal businesses. Loan or revolving are available.

Contract Line – Finances the **direct labor and material cost** associated with performing assignable contracts. Loan or revolving are available.

Builders Line – Designed for **general contractors or builders** constructing or renovating commercial or residential buildings. Used to finance direct labor and material costs, where the **building project serves as the collateral**. Loan or revolving are available.

Working Capital Line – Borrowers must use the loan proceeds for **short term working capital/operating needs**. If the proceeds are used to acquire fixed assets, lender must refinance the portion of the line used to acquire the fixed asset into an appropriate term facility no later than 90 days after lender discovers the line was used to finance a fixed asset.

The SBA Express program offers access to a credit line for well-qualified borrowers

Get approval for up to \$350,000. Interest rates vary, with the SBA allowing banks to charge as much as 6.5% over their base rate. Loans over \$25,000 require collateral.

To get approval you need good personal and business credit. The SBA states you should not have any blemishes on your report. This means good bank credit. An acceptable bank score requires at least \$10,000 in your account over the last 90 days. You also need a resume showing you have industry experience. And you need a well put-together business plan. You need three years of business and personal tax returns. Your business returns should show a profit. And, you need a current balance sheet and income statement, showing you have the funds to repay the loan.

### Alternative SBA Loans and Qualifications

There are a lot of new lenders with loan options resembling the SBA. They offer longer loan terms and lower rates like SBA loans do. But they don't have ***strenuous underwriting requirements*** commonly associated with SBA loans.

You can often get loan terms of 2 – 5 years with many sources. For larger loan amounts you can even get terms of 20 years or longer. Interest rates often range from 7 – 15%, depending on your risk. Get approval and funding in 45 days or less. Underwriting time is longer for larger loan amounts of \$500,000 or more.

Get approval for many alternative SBA loans by just supplying financials. This includes **two years of business tax returns** and your most recent bank statements. Lenders often want to see you have filed taxes, you have profits increasing from year to year, and are claiming some sort of profits as well.

Some lending sources loan money equal to your net profits. Other lenders loan based on a percentage of your profits. And other lenders loan based on other factors like profit projections or cash flow going through your bank account.

Most of these types of alternative SBA lending sources want you to have good personal credit of **680 FICO scores or higher**. There are limited options of lenders which go as low as 650 scores. Some sources even provide access to credit lines as well as loans.

## VIII.

# Asset-Based Financing: The Lowest Terms of All Business Funding Options

If you have assets that can be used as collateral for business financing, you have some **amazing** options available with great terms.

Often, you can get great terms regardless of your personal credit.

Acceptable collateral for collateral-based financing include account receivables, stocks, bonds, and other securities, inventory, purchase orders, equipment, 401(k), commercial real estate, and floor plan financing.

Account receivable factoring: 80% of your receivables can be advanced in 24 hours, the other 20% when the invoice is paid. You must be in business for one year or longer. Your receivables must be from another business or the government. Interest rates are 1.25 – 5%.

You can now get a credit line based on your account receivables as well! Interest rates are as low as .5%. Get funding in 24 hours.

Securities-based credit lines: Get 70 – 90% loan-to-value of stock or bond value. Rates are as low as 2 – 3%. You get a working capital line of credit.

Inventory Loans: If you have \$300,000 in inventory you can get financing for up to 50% of your inventory value. Rates are normally 2% monthly on the outstanding loan balance. This is a great finance solution for retail stores, factories, and other businesses with large amounts of inventory.

Purchase Order Financing: Get \$5,000 – 500,000 in purchase orders paid. Get up to 95% of your existing purchase orders advanced to your suppliers through letters of credit.

401(k) financing: You can use your 401(k) or IRA as collateral for

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business financing. Rates are usually less than 5% and you can borrow as much as 100% of the current value of your 401(k).

You are investing your 401(k) into your own business, instead of buying stocks in other businesses. There are no tax ramifications. This is based on proven IRS strategies.

Commercial Real Estate Financing: Get loans of \$75,000 – 20,000,000 and get up to 55% loan-to-value for refinances of your commercial real estate. Get 20 – 30 year loans with rates of 4 – 8% if your FICO score is 650 or higher. Conventional and SBA 504 loans are available.

Commercial Vehicle Financing: Many lenders are getting into commercial vehicle lending. There have been lenders in this space for many years now. It's becoming easier to get funding than ever before. Financing is available to buy commercial vehicles.

These include emergency vehicles, work trucks, tow trucks, even long haul trucks. And there are now more options to borrow against commercial vehicles you already own free and clear as well.

These are some of many asset and collateral-based financing options we have for your business. Contact us today to learn more.



## IX.

# Credit-Based Financing: No Document Funding that is also Perfect for Startups

In the business lending arena, there are two main types of financing. Secured financing includes money requiring some type of pledged asset as collateral for the loan. Unsecured financing includes money not requiring any collateral for approval.

Unsecured financing is financing not secured by collateral pledged for the debt. If the borrower defaults, the lender can pursue the borrower and their assets in court. But they don't have a right to just take certain assets just due to the default.

**Per the Bureau of Labor and Statistics, 1 out of 5** businesses fail in their first year of operation and in five years almost 50% will have closed their doors. In **15 years, 75%** of businesses will have closed down for good. Most businesses fail, making the business lending space very risky.

In case of default, with secured financing, the lender takes back the asset pledged as collateral. This helps them quickly recoup part of their loss. Since the risk isn't as high with secured financing, borrowers can often get exceptional interest rates as low as 2 – 5%.

Unsecured financing is the riskiest type of business lending. Because if the borrower defaults, the only way the lender can get back their loss is to pursue legal action. And that can be very costly. It's not something any lender wants to pursue. This is part of why unsecured financing is so high risk. And it's why some rates are much higher than with secured financing.



Most banks offer unsecured business credit cards. Most report to the consumer credit reporting agencies. They all demand a personal

guarantee from you. Get approval usually for one card at the most as they stop approving you when you have 2 or more inquiries on your report.

### **Our Credit Line Hybrid: The Hidden Gem of Business Financing**

Often, when you apply for a credit card, you put an inquiry on your consumer report. When other lenders see these, they will not approve you for more credit. This is because they do not know how much other new credit you have recently gotten.

So, they only approve if you have fewer than two inquiries on your report in the last six months. Any more gets a decline.

With our credit line hybrid, you work with funders which specialize in securing business credit cards. This is a rare, little known program that few lending sources offer.

They can usually get you **3 – 5 times the approvals that you can get on your own**. They know the sources to apply for, and the order to apply. And they can time their applications, so the card issuers will not decline you for the other card inquiries. All funders in this space charge a 9 – 12% success-based fee. You only pay the fee off of what you secure. This is why there is a fee, the same as all other lending programs.

The result of their services is you usually get up to five cards that mimic the credit limits of your highest limit accounts at the time you apply. Multiple cards create competition. Hence you can get your limits raised, often within six months or less of initial approval.



With a credit line hybrid they get you 3 – 5 business credit cards that report only to the business credit reporting agencies. This is **huge**, something most lenders do not offer or advertise. Not only do you get money, but you also build your business credit. So, in 3 – 4 months, you can then use your newly established business credit to get even more money.

The funder can also get you low intro rates, often **0% for 6 – 18 months**.



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Then pay normal rates after that, often 5 – 21% APR with 20 – 25% APR for cash advances. They also get you the best cards for points, meaning you get the best rewards.

Plus, you can take **cash out** on these cards. So this program is like a hybrid where you get the 0% benefits for business credit. and you get the cash-out capability of credit lines, giving you the best of both worlds!

Like with anything, there are **huge** benefits to working with a source specializing in this area. The results will be much better than if you try to go at it alone.

Approval limits mimic that of your current personal cards. Approvals usually range from \$2,000 – 50,000. Get up to five times that of your highest credit limit accounts at the time of your application. **Approvals can go up to \$150,000 per entity** like a corporation.

You must have excellent personal credit when you apply; 680 + scores are best. Or have someone willing to sign as a guarantor who has that score, the same as with all business credit cards. You shouldn't have any derogatory credit reported to get approval.

You must also have open revolving credit on your consumer reports when you apply. You must have two inquiries or fewer in the last six months reported.

Get approval with a guarantor. You can even use more than one guarantor to get even more money.

There are also other cards you can get with this same program. But those cards only report to consumer reporting agencies, not business reporting agencies. They are consumer credit cards versus business credit cards.

They provide similar benefits including 0% intro APRs and five times the amount of approval of a single card. But they are much easier to qualify for.

Get approval with a 680 score and five inquiries in the last six months. You can have a bankruptcy on your credit, and other derogatory items.

These are much easier to get approval for than unsecured business cards.

## X.

# Your FICO Score: How it Works and How to Control It

FICO is a business analytic software company headquartered in San Jose, California. FICO was founded by Bill Fair and Earl Isaac in 1956 as Fair, Isaac and Company. FICO went public in 1986 and is traded on the New York Stock Exchange under the ticker symbol FICO. The company debuted its first general purpose FICO score in 1989. The company became FICO in 2009.

The FICO score has become the main credit score used to determine consumer credit risk. Scores are based on credit reports and range from 300 to 850. Lenders use the scores to gauge a potential borrower's creditworthiness.

In 1995, Fannie Mae and Freddie Mac first began using FICO scores. This was to help determine which American consumers qualified for mortgages bought and sold by those companies.

## The FICO Score: What You Should Know

The most widely used credit score is the FICO Score.

The score is a mathematical model. It is used to depict a consumer's risk of going 90 days late on an account in the next 24 months.

Lenders use the FICO Score to help them make billions of credit decisions every year.

FICO calculates its Score based solely on information in consumer credit reports from credit reporting agencies. This is a mathematical equation. It evaluates many types of information from your credit report. FICO credit scores range from 300 to 850.

The FICO Score estimates your level of future credit risk. It does so by comparing this information to patterns in hundreds of thousands of past credit reports.

You have **three FICO credit scores**, one for each of the three credit bureaus: Equifax, TransUnion, and Experian. Each FICO Score comes from information the credit bureau keeps on file about you.

The FICO Score from each credit reporting agency considers only the data in your credit reports at that agency. Your credit score may be different at each of the main credit reporting agencies. If your current scores differ, it is often because the data those agencies have on you differs. If your information is identical at all three credit reporting agencies, each FICO Score should be very close.

To calculate your FICO Score, your credit report must have enough information, and it must be recent enough. This is information with the bureau from which you want your score.

Generally, that means you must have at least one account open for six months or longer. And you need at least one account reporting to the credit reporting agency in the last six months.

### Finally!!! The Answer to Why You Have So Many Credit Scores

There are many different credit scores out there. There are credit scores consumers can pull themselves through credit monitoring. And there are mortgage scores, auto scores, and many more.

There are actually over 16 different credit scorecards existing today with FICO alone. Each reflects different credit scores. These scorecards help particular industries better gauge credit risk.

The mortgage industry, e.g., cares more about a consumer's past mortgage history than anything else. So they weight home loan history heavier than other accounts do.



mortgage accounts.

A consumer's credit monitoring score might be 660. But when they apply for a mortgage their score might be much lower. This can be due to some past negative mortgage accounts on the report. Their mortgage score might even be higher than their consumer score if they have past positive

A credit score that a consumer pulls themselves is not the same as their **Mortgage Industry Option Score**. That one is the scores lenders and brokers use to access mortgage default risk.

Their mortgage score won't be the same as their auto score which car dealers pull. This is the Auto Industry Option Score. The auto score weighs past auto history more heavily versus with consumer scores.

Due to there being so many industries offering credit, there are also just as many credit scores available. Plus, different companies offer different scores, creating even more credit scores. FICO is the biggest provider of consumer credit scores.

But now even the credit bureaus themselves are in the credit scoring game with their Vantage score.

### The Credit Bureau's Secret Credit Score

Vantage Score is the credit bureaus' own credit score, designed to compete with FICO.

The three bureaus unveiled the Vantage Score in March of 2006. All three main credit reporting agencies use the same formula to calculate it.

Vantage Score goes as high as 990 while FICO scores can only be as high as 850. A 700 FICO score reflects good consumer credit. While a 700 Vantage score reflects below average personal credit.

Here are Vantage Score 2.0 risk levels:

- "A" credit scores range from 900–990
- "B" credit scores range from 800–899
- "C" credit scores range from 700–799
- "D" credit scores range from 600–699
- "F" credit scores range from 501–599.

With scores going up to 990 versus FICO scores going up to 850, this has created an issue with lenders. This is one of the main reasons Vantage Score is not widely accepted.

The bureaus have now changed their score range with Vantage Score 3.0, released in 2013. With the new Vantage Score, scores only go as high as 850, mimicking the FICO top score.

### How Credit Scores Are Calculated-the Inside Scoop

FICO and Vantage Score hold their credit scoring formulas as a close secret. This is much like the formula for Coca-Cola or your grandma's legendary double chocolate chip cookies.

This can be very frustrating for consumers when they see remarks on the credit report like "too many revolving debt accounts". And then they don't know exactly what that means.. Fortunately, FICO and Vantage Score have issued some public information on how they calculate credit scores.

**Payment History:** The top rated factor for both models is payment history. Lenders want to know a person's payment history-past and present.

This category can be broken down into three subcategories:

- *Recency* – This is the last time a payment was late. The more time it passes, the better.
- *Frequency* – One late payment looks a lot better than a dozen.
- *Severity* – A payment 30 days late is not as serious as a payment 60 or 120 days late. Collections, tax liens, foreclosures, repossessions, charge-offs, and bankruptcies are credit score killers.

You can offset late payments on your credit by adding new positive accounts. And make sure you have a lot of accounts you are paying as agreed.

**How much is owed:** The score looks at the total amount owed on all accounts as well as how much you owe on different types of accounts (mortgage, auto, etc.). Using a higher percentage of credit limits can worry lenders and hurt credit scores. People who



max out their limits have a much greater risk of default.

**Utilization:** For revolving debt-credit cards, the formula checks the difference between the high limit and balances. For example, let's say a person has a MasterCard with a credit limit of \$10,000 and they have spent \$2,000 of it.

This is a 20% utilization ratio. The lower the ratio, then the higher the credit score. For a quick credit score boost, pay down any accounts you can.

With FICO, 30% of your credit score comes from utilization, while 35% comes from payment history. Utilization is the second-highest weighted aspect of your scores. If you are over utilizing your revolving accounts, you can damage your scores as much as if you were paying late each month.

Using anything over 30% of your limit will lower your credit scores. Adding credit cards to your report with high limits can also **significantly** and quickly raise your scores. It can be sometimes as much as 100 points or more.

One more important tidbit: closed accounts do not help and they can hurt if there is a balance remaining. A long perpetuated myth has been to close accounts not in use. But this hurts consumers in several ways.

Overall and individual account utilization plays a major role in credit scoring. If consumers close old accounts, your overall utilization rate increases. This brings scores down.

**Length of credit history / Depth of credit:** This is less important than the previous factors. It considers (1) the age of the oldest account and (2) the average age of all your accounts.

It is possible to have a good score with a short history. But often the longer, the better. Young people, students, and others can have high credit scores if the other factors are positive. With FICO, this is the third-largest aspect of the score calculation.

If a person is new to credit then there is little they can do to improve a credit score. No newly-added accounts can be backdated to improve this score aspect. But you can be added as an authorized user to a family member's longstanding account. That can improve this aspect

of your score.

Average age of accounts is another important reason to keep all accounts open. If a consumer has older accounts they don't use, they are still benefiting from the average age of the accounts open in their credit file. Also make sure to use each of your accounts at least once every six months.

Credit issuers must reserve the money offered in credit limits for their clients' use. They don't like having accounts sitting dormant, not making them money. If an account sits dormant for a long enough time, many creditors nowadays will cancel the account due to inactivity.

Also, a credit reporting agency calculates an account as inactive if there has been no activity in the most recent six months. An inactive account does not benefit your score as much as an active account.

**New Credit / Recent Credit:** New credit is not always a bad thing. But opening new accounts can hurt a credit score. This is particularly if a consumer applies for lots of credit in a short time and doesn't have a long credit history. The score factors in: how many accounts the consumer applied for recently, how many new accounts the consumer has opened, how much time has passed since the consumer applied for credit, and how much time has passed since the consumer opened an account.

The model looks for rate shopping. Shopping for a mortgage or an auto loan may cause multiple lenders to request your credit report many times each. This can happen even though a person is only looking for one loan. Auto dealers are notorious for running 3 – 15 credit reports. This is called *shot gunning* the credit.

Luckily, to compensate for this, the score counts multiple auto and mortgage specific inquiries in any 30 day period as just one inquiry. The specific calculation for cutoff dates and types can be confusing.

For most people, a credit inquiry generally will not have an impact on credit scores. Groupings of inquiries **will** adversely affect scores. But inquiries can have a greater impact if you have few accounts or a short credit history.

Large numbers of inquiries also mean greater risk. According to MyFico.com, people with six inquiries or more on their credit reports

are eight times more likely to declare bankruptcy than people with no inquiries on their reports.

**Types of credit you use / depth of credit:** Both models want to see a healthy mix of credit. But they are vague on what this means. They recommend a balance of revolving debts like credit cards and installment loans like auto loans or a mortgage.

The preferred number of credit cards reporting is three. You shouldn't have more than two mortgages reporting. More than two auto loans are too much. Installment loans also score better if you have two or fewer.

Here again is how your FICO score breaks down:

- **35%** of your score comes from payment history
- **30%** of your score comes from utilization
- **15%** of your score comes from length of credit history
- **10%** of your score comes from new credit or inquiries
- **10%** of your score is credit mix

## FICO 9: What You Should Know

FICO's newest credit score is the **FICO 9**. This new score has many changes from prior models.

Now, medical collections are no longer scored the same as regular collections. Now they are weighted much less. FICO anticipates a consumer with the median credit score of 711 whose only negative collection issue is medical-related will see their score increase by 25 points.

Other changes to the model will better gauge the ability of a consumer with a limited credit history, to repay a prospective debt. This is known in the business as a *thin file*. These people might not have a score in the past, but will with the new version.

Nontraditional credit, like residential rental





history, is taken into consideration. This means consumers with little to no credit history but pay rent on time can get a boost.

FICO 9 ignores paid-off and settled collections. Under the old FICO model, if you let an account go into collection, your credit score would take a hit. And that was for as long as that collection was on your credit report (seven years).

As long as the collection has a zero balance, it is ignored. Paying off collections used to prolong how long the account stayed on your reports and resulted in more damage.

### 5 Quick Tips to Raise Your FICO Score

1. Pay your bills on time and beg for forgiveness if you pay late.
2. Have lots of positive credit on your report. Make sure you are using it at least every six months, and don't forget a good credit mix.
3. Have open credit cards, three preferably. Keep your balances very, very low. Also, get the highest credit limit accounts you can.
4. If your credit file is new, get added as an authorized user but only on a FAMILY MEMBER's account.
5. Do not apply for too much credit all at once unless buying a car or home. Then you must do your shopping within 30 days.



## XI.

# How Your Commercial Credit Scores Work

*Your business has its own credit profile and score linked to your business EIN number.* Three main business reporting agencies provide your business credit profile and score. They are: Dun & Bradstreet, Experian, and Equifax Commercial. A business credit score is a mathematical model. It depicts a business's risk of going 90 days late on an account in the next 12 months. While consumer scores depict risk over a 24 month time frame.

A business credit score reflects the business's likelihood of defaulting on an obligation, not the business owner's. The business credit score comes from how business obligations are paid. It is not from how the business owners pays personal obligations.

Each reporting agency provides access to **multiple business credit scores** evaluating different forms of risk. **FICO** has its own business credit score to assess business risk. Banks have their own internal bank credit score, to determine business loan approvals. Credit issuers, lenders, suppliers, vendors and others which extend credit to businesses use these scores.

Your business credit scores are used **every time** you apply for credit and financing for your business. But lenders and credit issuers will not tell you this. And they will not tell you which scores they use to assess your business. There is no Fair Credit Reporting Act in the business world requiring them to, like there is in the consumer credit world.

Important: your business credit profile and scores are available to anyone who wants them. In the consumer world someone needs your permission to pull your consumer reports. This is what the FCRA calls "permissible purpose". But with **no FCRA in the business world**, *anyone* who wants your reports can easily and cheaply get them. This includes competitors, prospects, clients, lenders, and more.

### Dun & Bradstreet Business Credit Scores

Dun & Bradstreet provides two Performance Credit Scores. These scores reflect a company's past performance using only information in the D&B database. D&B's two core Performance Scores are PAYDEX Score and D&B Rating.

- The **PAYDEX Score** – Shows how a company has paid its bills over the last 24 months.
- The **D&B Rating** – Indicates a company's net worth range based on company financial statements. It also shows a company's overall condition.



The most popular credit score used in the business world is the PAYDEX score, from Dun and Bradstreet. From D&B: *“The D&B PAYDEX® Score is D&B’s unique dollar-weighted numerical indicator of how a firm paid its bills over the past year, based on trade experiences reported to D&B by various vendors”.*

*various vendors”.*

“Dollar-weighted” means D&B gives more weight to accounts with higher limits than ones with lower limits. PAYDEX gives more weight to trade accounts reporting higher amounts of credit extended. And it gives less weight to trade accounts reporting lower dollar amounts of credit.

“How a firm paid its bills over the past year”, means this score comes from past performance as the main driver. It’s simply based on how you paid your bills. The score ranges from 1 – 100. Higher scores are lower risk as they predict better payment performance.

Any score of **70 and higher** D&B defines as a **good score**. An 80 score reflects prompt payment.

D&B’s definition: *“D&B Rating is a performance score based on a company’s net worth from its financial statements as well as an overall credit assessment using information in D&B’s database.”*

The D&B Rating indicates a company's net worth range. This comes from company financial statements, as well as a company's overall

financial condition. If a company's financial statements are not provided, the score comes from company size, industry, or other related factors. D&B Rating is a performance score based on a company's net worth and overall credit assessment. The D&B Rating is broken into **three distinct categories**. Category is assigned based on the amount of information available on a company.

### D&B Rating's Three Categories:

- **Category 1** – Traditional D&B Rating
- **Category 2** – Expanded Credit Appraisal
- **Category 3** – Alternative Ratings

**Category 1** – The Traditional D&B Rating reflects net worth or equity. D&B calculates this from the company's financial statements and payment experiences. Both must be in the report to qualify for the Traditional D&B Rating.

Even if you have payment experiences, if no financials are present there is no Traditional D&B Rating.

This score also includes the **Composite Credit Appraisal Score**. Composite Credit Appraisal Score assesses creditworthiness based on company payments and financial stability.

If financials are **not available**, the company falls into the Expanded Credit Appraisal Category. This is per the total number of employees for the business.

If neither financials nor company size is available, D&B gives a score in the third category. This is the **Alternative Ratings Category**. It is per on the amount of information in the company's report.

D&B's **Predictive Scores** predict a company's expected performance over the next year, or 12 month period. D&B provides three predictive scores. They are: D&B Delinquency Predictor Score, Financial Stress Score and Supplier Evaluation Risk Rating.

**D&B Delinquency Predictor Score** – Predicts if a business will pay its bills on time.

**Financial Stress Score** – Predicts the chance a business will experience

financial distress.

**Supplier Evaluation Risk Rating** – Predicts if a business will stop delivering goods and services.

### Experian's Business Credit Scores

The second most popular credit score in the business world is the Experian **Intelliscore**. Experian's most recent score system is Intelliscore Plus. They boast of it as the next level in credit scoring. Intelliscore Plus takes into account hundreds of variables to offer a business score between **0 – 100**.

Intelliscore predicts a business's risk of going seriously delinquent, or over 91 days late. Or having a major financial issue like bankruptcy in the next 12 months.

The new Intelliscore Plus has over **800** aggregates or factors affecting the score. Experian looks at business data segments like firmographics, public records, collections, and trade information. It then places each business in one of three different models.

Intelliscore is one of the only business scores offering a blended score. The **Blended/ Owner Model**, blends commercial data and the owner's consumer information. Because this score blends with consumer data, it is one of the only scores where someone needs your permission to pull.

A study showed that when trouble hit a business, blended scores dropped an average of **30%** over the four quarters leading up to the bad event. Their consumer scores of the owner showed no statistically significant decline over the same period. The score evaluates personal information on the owner as it relates to business performance.



Experian says their research data shows **53%** of business problems first showed up as credit problems on business credit reports. **46%** of problems first showed up on the owner's personal report. Blended scores outperform consumer or business alone by **10 – 20%**.

Intelliscore Plus, like FICO, has multiple facets to the entire

score makeup. There are **five** different components comprising the Intelliscore:

### Experian's Intelliscore Breakdown

- Historical Behavior 5 – 10%
- Age, Industry, Size 5 – 10%
- Credit Utilization 10 – 15%
- Derogatory items 10 – 15%
- Payments, Balances 50 – 60%

Scores are based on many factors in your business credit report. These are: Number of trade experiences, Outstanding balances, Payment habits, Credit utilization, and Trends over time. And they also include Public record recency, frequency and dollar amount and demographics like years on file. Further, they include Standard Industrial Classification codes and business size.

The Intelliscore is “calculated by a statistically derived algorithm, designed to determine risk based on multiple factors”.

- **Credit:** Number of trade experiences, balances outstanding, payment habits, credit utilization and trends over time.
- **Public Records:** Recency, frequency and dollar amounts associated with liens, judgments or bankruptcies.
- **Demographic Information:** Years on file, Standard Industrial Classification (SIC) code and business size.

Experian also offers a Financial Stability Risk Score. This score predicts the potential of a business going bankrupt or defaulting on its obligations. FSR scores range from **1 – 100** and they break down into five Risk Classes with Class 1 being the lower risk.

### Equifax's Business Credit Scores

Equifax's main business credit scoring model is the **Credit Risk Score**. Equifax created this score to predict the probability of a business customer becoming seriously delinquent. A lower score indicates a higher risk of serious delinquency (90 days late) in a 12 month period.

Credit scores range from **1 – 100**.

Like the D&B PAYDEX score, the Credit Risk Score comes from **payment history**. All that's necessary for a good score is to pay business obligations **as agreed**. The earlier payments are made, the higher the score is.

### Equifax's Credit Risk Score

- Paid as Agreed 90 +
- 1 – 30 days overdue 80 - 89
- 31 – 60 days overdue 60 – 79
- 61 – 90 days overdue 40 – 59
- 91 – 120 days overdue 20 – 39
- 120+ overdue 1 – 19

Equifax also provides a business credit score for suppliers, the **Small Business Credit Risk Score for Suppliers**. This model is designed to help credit grantors improve their risk assessment. And it is to reduce delinquency rates while helping improve profitability.

The score uses unique bank loans, lease information, credit card data, and supplier, Telco and utility credit history. It also uses public records and firmographic data from their own Equifax Commercial database. These scores range from **101 – 816**.

Experian offers several other popular scores used by suppliers, lenders, vendors, and credit issuers. The **Credit Risk Score** predicts the likelihood of a business incurring a 90 days severe delinquency or charge-off over the next 12 months.

The **Business Failure Score** predicts the likelihood of a business failure through formal or informal bankruptcy over the next 12 months. The **Payment Index** provides a dollar weighted index of a business's current and past payment performance. It is based on all payment experiences in the Equifax Commercial database.

Equifax also offers a **Business Failure Risk Score** with many reports. This score predicts the likelihood the business will fail or

file for bankruptcy in the next 12 months. This model helps identify businesses that pose a greater risk for failure. This way, suppliers and credit grantors can take appropriate actions.

The FICO **SBSS** score is a measure of your small business's creditworthiness. This score is becoming very popular with lenders. This score has also become widely used by SBA to qualify business loans. It comes from both personal and business credit history.

The SBSS was launched in 1993 when the SBA started using it to evaluate all 7 (a) loans under \$350,000. In 2014, it became even more popular. Scores reflect the likelihood of the applicant paying their bills timely.

SBSS scores range from **0 – 300**. Higher scores are better and mean lower risk. Personal **and** business credit history, plus financial data figure into the total score.

As of 2014, all SBA 7(a) loans must go through a business credit score prescreen. For SBA loans, you won't get approval with a score below 140. But they often set the cutoff as high as 160.

Below that, you'll probably get a denial because of being too high a risk. And chances are good the SBA lender won't even submit your application to the SBA if your score does not meet this threshold.

Many factors are taken into account to calculate the FICO SBSS score. Some include the owner or co-owner's personal credit information. They can include business credit history, age of business, years in business, and financial data like assets.

Other score factors include cash flow, revenue, the last 12 months of PAYDEX scores from D&B, liens, judgments and any other known financial data.

If you have no business credit history **and** limited time in business, the highest possible FICO SBSS score you can get is 140. But to get a score as high as that, you must have pristine personal credit if no business credit is established .

SBSS models are validated for term loans, lines of credit, and commercial cards all the way up to \$1 million. This helps credit issuers making evaluations for larger transactions. If you are applying for



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bank financing of \$1 million or less, chances are good your SBSS score is being evaluated.

SBSS gives small business credit issuers different combinations of data to check the risk of a business. For example, a credit issuer can choose to only consider the application data of the principle owner. Or they can choose to also include data from one or more business bureaus. Or they can choose to weight one aspect higher than another.

This is a highly intelligent score. It automatically goes from one business bureau to another in whatever order or priority the credit issuer chooses, to generate a score. So if a lender prefers the D&B PAYDEX score as the default, the SBSS pulls that data set.

If there isn't enough info to generate a score, it automatically checks another business score like the Experian Intelliscore. Or it can even move onto Equifax commercial data.

