

Author Name: Joe Lawrence
Website: www.businesscreditworkshop.me
Phone: (888) 218-6354
Best Email: info@businesscreditworkshop.com
Expertise: Business Credit Financing for new businesses

How to Get Business Credit Funding for your New Business

Brand new start-ups and well established businesses have one thing in common: they need money. So, if you have a small business or if you are just getting started in your new venture, this chapter was written for you.

My Business teacher in college taught me that businesses are created to make money. That is their top priority. Sure, you can create a company and have a great mission statement, or maybe you have the desire to make a change in the world, but at the end of the day a business exists to make a profit. And most businesses fail in their first few years because of the lack of money. So what if there was a way that businesses could access capital? Would more businesses stay alive if they knew how to access money? The answer is a resounding yes.

Businesses need startup capital to get going and they need access to capital during slow months to keep afloat. Whether your business is seasonal or not, the nature of the beast is that throughout the year; some quarters are going to make you more money than other quarters. I'd like to share with you how we use the techniques of getting business credit to help start brand-new businesses or help grow established companies.

In this market, banks are not lending like they used to. Years ago, national banks were very careless with their underwriting guidelines. They would lend to anyone with a heart that beats and that could sign their name in cursive (as many would joke). This subprime lending period led to many banks eventually going out of business and now makes it harder for small business owners to get business credit cards, business lines of credit and SBA loans.

However, many local community banks are still eager to lend to small businesses. Simply put, a lot of the local banks and credit unions were not as lackadaisical during this time period. As a result, they are still very healthy and need to lend the money of their investors back into the market. Consider how much money is in the savings accounts of banks throughout your state. It's a lot of money! And if the bank does not lend that money out, then they would not be able to offer interest rates on their savings accounts and CDs! You see, banks need to lend your business money just to stay alive themselves!

The challenge is that most business owners do not have a clue how to prepare their business for obtaining business funding from local banks and credit unions. There is a lot of information available on how to build a great (personal) credit score, but what about building your business credit score? Did you know your business has a credit score too? There are actually three main business credit bureaus that monitor and track business credit reports. They are Dun & Bradstreet, Experian Small Business and Equifax Small Business. And if you already have some form of business credit, chances are you already have a profile (business credit report) with these three bureaus. If you do not have any business credit yet, then it's time to get registered with these three companies.

With personal credit, you need to have a good credit score to be able to get credit cards, loans and other forms of credit. Similarly, with business credit, it is equally important to have a good business credit score in order to obtain business financing.

There are many advantages to getting business credit, including:

- Business Credit does not show on your personal credit report(s)
- It allows you to separate personal debts/expenses from business debts/expenses
- You can have unlimited business credit profiles (one for each entity you own) vs. being limited to just one social security number

The bottom line is when running a small business; don't use your personal credit! The more you use your personal credit, the worse your credit score becomes. For example, if you have a \$20,000 credit limit and you max out your credit card with a balance of \$19,000, then your personal credit score is going to drop significantly. This will make it difficult to procure additional financing in your life (buying a home, getting a car loan, etc.). However, with business credit, if you maxed out a business credit card temporarily due to business needs, your personal credit score will not be affected (assuming you never default)!

When getting credit in this market, it's important to bring at least one of the three legs of credit to the table. The three legs are Personal Credit Profile of applicant, Assets of the business, and Revenues of the business. In the middle of the three legs of credit is your business credit profile. We're going to show you how to build up your business credit profile, then you'll want to bring at least one of the three legs of credit with you when meeting with your local Branch Manager. Note that not all branch managers of local banks are created equal. Seek to find someone who has been at the bank for a long time, seen a lot of approvals recently and doesn't mind preparing you to help you get approved. There are some branch managers that simply tell you to apply and "see what happens", this is not the ideal banker to work with.

So, how do you prepare your company to get business credit?

We have broken the process down to 7 Steps:

1. Form your Business
2. Make your Company "Business Credit Ready"
3. Network with Local Banks and Credit Unions
4. Setup Business Credit Profiles with the three Bureaus
5. Build Small Trade Lines of Credit
6. Optimize your Business Credit Rankings
7. Get Business Credit Financing!

1. Forming your Business

You need to create a company (entity) that is separate from you personally. Create either an Limited Liability Company (LLC) or Corporation (S-Corp or C-Corp). The exact type of entity you choose is up to you and your business attorney and/or tax qualified professional (in fact, we recommend you seek such when building business credit). Any one of the three types of entities will work. Just make sure you get your EIN Number from the IRS after creating the company.

When creating the Business, try to create a neutral name. An example would be something like "Legacy Management, LLC" instead of "Legacy Real Estate, LLC". With the former, you have a company name that is neutral. This makes it easier when your application goes through the

underwriting process. A lot of banks shy away from certain industries (including real estate). The solution is to avoid any negative connotations with the name of your company. Additionally, consider having your primary line of business be neutral as well. Following our example, you could register your company as a Business Services Company (or Business Management Company) rather than a Real Estate Company.

2. Making your Company “Business Credit Ready”

Now that your company is setup, the next step is to prepare the company to be “brought to the market”. When bringing your company to business credit lenders (“the market”), you want to complete a few compliance matters to avoid getting declined for trivial reasons.

For example, make sure your company has a landline that is dedicated for business use (not a cell phone, but a landline). You want to make sure the phone number you get is local to the area you are doing business in. Then, make sure you list the phone number with the yellow pages and 411 directory.

Secondly, create a basic online presence for your company. Ideally, purchase the .com for your company name (I.E. – mycompany.com). Also, create an email account for the business. It’s much more professional this way and many lenders require such.

Lastly, have your paperwork in order. Prepare your articles/certificate of formation, EIN Letter from the IRS and an operating agreement for the company. These documents will be frequently needed when meeting with bankers and setting up your company to get business credit. If you can also create a business plan, this is helpful, but not required.

3. Network with Local Banks

Local banks have the money to lend. We spoke about this earlier. Many local banks and credit unions offer small business lending products that cater specifically to companies like yours. So start networking with local, community banks in your area. If the bank only has one or two branches, then this is usually the bank you want to build a relationship with (assuming they offer business products like business checking accounts, credit cards, loans/lines of credit). Clarify with the bank their “lending mood”. Some banks are very conservative right now and some banks are eager to lend to small businesses.

4. Setup your Business Credit Profiles

D&B is a major bureau that monitors and tracks business credit profiles. They are similar to Experian, Equifax and Transunion in the “personal credit profile world”, except they specifically monitor businesses credit profiles.

Visit Dun and Bradstreet at <https://iupdate.dnb.com> or give them a call to request a DUNS Number. A DUNS Number is a 9 digit “business social security number” assigned by D&B. They offer different packages from their free DUNS Number to hundreds of dollars. At the end of the day, pick any package that works for you. I usually just get the free version and expedite the delivery for about \$49. I have never had issue getting business credit with their free DUNS Number.

For the other two bureaus that we focus on, Experian Small Business and Equifax Small Business, a profile will be created with them later, as a result of getting trade lines.

5. Build Trade Lines of Credit

You have a business created, tax ID number, address, phone number, online presence and a DUNS Number. Now it's time to get some credit that will report to the business credit bureaus (I.E. – Dun and Bradstreet). This process will beef up your business credit score and start to put your company on the map.

What you need to do it reach out to companies that you do business with (paper/office supply companies, gas stations, computer/technology companies and other stores) and see if they can offer your business credit terms. In the beginning, you will want to start small (amounts as low as \$10, some as high as \$2,000) and ask to be billed on NET30 terms. This means if you buy paper supplies from a company like Quill, for example, you will receive the product in a few days, and you'll need to pay for it, in full, within 30 days. Essentially, you just bought something on short-term credit in your company name. And as of this writing, Quill reports positive payment history to the business credit bureaus.

6. Optimize your Business Credit Rankings

After purchasing products on NET30 terms, you will start to get some positive credit history reporting for your business. Make it a goal to establish at least 5 trade lines of credit to boost your business credit profile(s). After hitting this mark, your business credit profile will start to get ranked within a system called PAYDEX. Getting a PAYDEX Score high enough that banks and lenders are willing to lend to you is the goal. PAYDEX scores range from 0 – 100, so aim to have an 80 or higher.

Also, start getting store cards and gas cards to optimize and create profiles with Experian Small Business and Equifax Small Business. One of my favorite cards to get is the Commercial Account or Commercial Revolving account with Home Depot for Business. Go into a local store and get an account with them. Read the terms and conditions and fine print to get an idea of the requirements. Upon approval and after you use the card, Home Depot will report to all three business credit bureaus your payment experience!

7. Get Business Credit!

At this stage you are ready to get business credit. True business credit will not show on your personal credit report. There are a few banks (very small percentage) that still report payment experiences to your personal credit profile and your business credit profile. Try to stay away from these lenders.

Depending on what leg of credit you bring to the table would determine what type of business credit you may qualify for. In the beginning, apply for small business credit cards if you want a no-doc, unsecured line of credit.

Based on your needs, you can apply for SBA Loans, Business Loans and Business Lines of Credit.

You'll want to speak to the branch manager about the approval process and their requirements before applying to make sure your company is ready and will get approved. If you ever get declined, always have a human (your local branch manager) take a second look and make the recommendation to underwriting to approve the application.

There are a few different types of Business Credit Options:

- Business Credit Cards
 - Most do not require any documents other than a 2 page application.
 - They are unsecured and require the applicant to have a good business credit profile and have good personal credit.
 - They will not show on your personal credit report, provided you always pay on time
- Unsecured lines of Credit and Secured lines of credit
 - Rarely, you will find a no-doc type of application, but most require a personal financial statement and additional documents (including tax returns in some cases)
 - They can be secured or unsecured and require the applicant to have good business credit profile. When providing additional documentation to the bank (I.E. – financial statement, etc), the bank has a more complete picture of who you are as the business owner and who your company is as a business entity. As a result, personal credit scores are not as important
 - Usually will not show up on your personal credit report unless you default. Sometime a UCC filing is filed against your business which will avoid you getting too many lines of credit per company
- Small Business Loans
 - Require tax returns (business and personal), personal financial statement and possibly other documents
 - Can be secured or unsecured. Personal credit score of the applicant is checked, but a great personal credit score is not always required.
 - Does not usually show up on personal credit report (provided you pay on time)
 - If you get an SBA Loan, you can get a fair amount of money for expanding business, purchasing inventory, equipment, etc. There is a tremendous advantage of the SBA loan because the SBA actually “backs” your loan and the bank lending the money is only putting a small percentage of their money at risk (SBA guaranteeing the rest). As a result, many new businesses can get significant approvals that they normally would not be qualified for
 - The only disadvantage of the SBA Loans is that they are very paperwork “heavy”, but they are well worth it in the end due to the advantage mentioned above

We have had a lot of recent approvals at Business Credit Workshop and I'd like to share a few with you.

Our first case study is from Rob K.

Rob got \$65,000 in Business Credit in only 41 days and we did a case-study with proof of approvals on Youtube for those that would like to see it (titled: “\$65K of Biz Credit in only 41 Days - PROOF!”). The business credit is comprised of unsecured, no-doc business credit cards and includes a \$25,000 unsecured business line of credit (also no-doc). The approvals were \$15,000 business credit card from WellsFargo, \$25,000 business line of credit from Sun National Bank, \$15,000 business credit card from Provident Bank and \$10,000 from Investors Bank.

We call this phase one of business credit funding and a few months later, Rob came to us and we pre-approved him for another \$65,000 in phase two funding consisting of business credit cards through some national banks and some local banks that lend to all 50 states.

The beauty of this type of lending is that Rob now has \$65,000 in unsecured business credit that does not show on his personal credit and he can pull from the lines of credit and re-pay them at any time. In fact, by doing this; he greatly increases the odds of getting limit increases within 6 months of getting the lines.

If you are just starting out in business or prefer not to show tax returns, then business credit cards is a great way to start.

Rob uses the business credit to fund his day to day operations, expand his office space and equipment and support payroll during slow months.

Our second case study is from Jin K.

Jin received \$131,000 business line of credit collateralized by an asset. An asset can be cash, retirement savings or real estate property. In this instance, it's a non-owner occupied multifamily property used as collateral. Their income and their credit score was not as important here because they brought collateral to the table for the lender.

A big advantage of this type of line of credit is that it is not a home equity line of credit. It's a business line of credit secured by an asset. This keeps it separate from your personal credit

They use this line of credit to purchase, rehab and sell real estate property for a profit.

Our last case study is from Michelle K.

Michelle has a business that needed a fixed business loan. As with many of our clients, she applied to banks before and got turned down. One big advantage of working with us is that we introduced her to the right point of contact at the bank that has the authority and know-how to get applications approved (where other bankers may have failed).

We got Michelle \$50,000 approval (SBA Loan) within 48 hours of applying. Although, the paperwork was extensive, she was able to get approved for more than any other bank would offer with traditional business loans (advantage of the SBA "backing" the loan).

She will use this money to fund business expansion and I'm sure she will turn that small loan into a significant amount of revenue.

Before we wrap up, I want to cover one more case study... a client of ours named Aswad S. Aswad met us and was just starting out and did not have good personal credit. Fast forward a few months and we've already got approved for \$25,000 in unsecured business credit cards. Within a few weeks, we will have an additional \$50,000. With the technique we taught Aswad (and are about to share with you), there is no limit to how much money he can obtain.

If you do not have good personal credit, you can still get approved for business credit. There are three steps to take right away:

1. Pull your credit with your favorite mortgage broker or online service and ask for a credit analyzer to be performed. The credit analyzer will look at your credit report and determine what needs to be adjusted to increase your credit score dramatically. We have done analyzers that have increased scores up to 100 points (and some as little as 30 points). You then use a process of rapid rescoring. Rapid rescoring allows you to update your credit score in as little as 48 hours, instead of waiting the normal 30 days.

2. Enroll with a credit repair company. There are many companies that repair credit, simply choose your favorite or ask a friend for a good referral. We can provide referrals too and have had good results with www.vrtechcredit.com for the last 4 years (disclosure: Business Credit Workshop is an affiliate for VRTech Credit and may receive commission for referring you to their service).
3. Recruit a credit partner. More on this below.

Finding a credit partner is how Aswad got so much business credit without being concerned with his personal credit score not being high enough. The act of getting a credit partner can be simple. Reach out to someone that has good credit. Offer them an incentive for being your credit partner. Sign documents allowing you and the partner to apply for business credit.

Most credit partners can be family members or friends. The business will be applying for the business credit card, on the bottom of the application is the spot for a guarantor. The guarantor needs good personal credit, but does not have to be the business owner. If the business defaults on the credit, then the guarantor and business is liable. The business credit card will not show on their personal credit report assuming it doesn't go into default.

Aswad actually made fliers about the credit partner program and went to networking events and brought back two people with great credit. So, you could even consider this approach, as it works very well. The incentive you offer your credit partner can be money, percentage of the credit they help you get or partnership percentage in the business.

As far as agreements, have a business attorney draft a credit partner agreement, letter of understand and a CFO (Chief Financial Officer) Resolution. You could draft these documents on your own, but I usually suggest hiring competent help to get the ball rolling. The total amount of pages that Aswad used was three (so we are not talking about extremely lengthy agreements here, keep it simple).

After you get the business credit, consider paying off your personal debt. Because, you will look virtually debt free and as a result, your credit scores will dramatically improve!

Hopefully, you have an understanding of the process of obtaining business credit. Using these techniques Naturally, there is more information that we would love to share with you. If you'd like to keep in touch with us, please visit us at www.businesscreditworkshop.me

Written by:

Joe Lawrence

Website: www.businesscreditworkshop.me

Phone: (888) 218-6354

Email: info@businesscreditworkshop.com

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