

# Tips for understanding a small business credit line



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It may be a cliché, but it's largely true: You have to spend money to make money. At some point, your small business may require funds beyond what you have in the bank. That's why planning and managing your credit history is so important.

As a qualified borrower, you could access financing through credit cards, loans, a small business credit line and other sources of capital. You may be familiar with this process if you've ever purchased property, for example, but [credit for small business owners](#) operates a little differently than personal credit. Here's what to know to become a credit-savvy small business owner.

## Why credit for small business owners matters

If you'd like to apply for a small business credit line, loan or other type of financing, lenders will check your credit history as part of the application. While you may qualify based on your personal credit history, a history of strong small business credit can help you receive better offers, including lower interest rates.

If your small business credit and financial status are strong enough, lenders could allow you to borrow under your business only. In other words, if your business struggles and can't pay back the money, the lender can't go after your personal assets.

### Benefits beyond loans

Small business credit matters for more than borrowing money. Landlords will also check your credit when you apply to lease a property. If you'd like to raise funds from investors, a strong credit score can support your pitch by showing financial stability.

Suppliers could also check your small business credit as part of negotiations. If you have good credit, you could qualify for more favorable re-payment terms.

## How to check and monitor your credit

Your small business credit report and score could matter in various situations. Keep in mind that small business credit reports and scores are publicly available. [Anyone can pay to check your report](#). Unlike with personal credit scores, your permission isn't required.

That's why checking and monitoring your credit regularly is essential—you should know what others are seeing. There are three business credit rating agencies: Dun & Bradstreet, Equifax and Experian.

Your small business credit report will likely list several pieces of information, including:

- Your small business credit score
- Your existing business loans and credit accounts
- Your company's credit utilization rate, which is determined by examining outstanding balances on your business credit cards relative to your card's spending limit
- Recent business loan or credit inquiries
- General information about your business, like location, industry, number of employees and years in business
- Legal liens or past bankruptcies

Consider checking your report from each rating agency at least once a year. That way, you can see trends, check for mistakes and think about ways you may be able to improve your business' score. There is a charge for each full report but some of the information may be visible free of charge.

Since lenders may also consider your personal credit score, you should monitor that as well. Individuals are permitted to access their personal credit report once a week for free on AnnualCreditReport.com, a website [authorized by Federal law](#) allowing access to reports from the three personal credit rating agencies: Equifax, Experian and TransUnion. You will need to request individual reports from each bureau separately.

## How to help maintain good business credit history

Building and maintaining a strong [business credit history](#) may be easier than you think if you follow these tips.

### Get an EIN if needed

An Employer Insurance Number (EIN) is a business tax identification number. It's like a Social Security Number for your small business. To build a business credit history, you should apply for loans and credit cards using your EIN. If you don't have one yet, you can apply online through the [IRS](#).

### Register with Dun & Bradstreet

Your business automatically builds credit history with Equifax and Experian. However, you will need to register with Dun & Bradstreet on your own. You can apply for a free "DUNS" number through D&B's website.

### Open a business credit card under your EIN

Opening a [business credit card](#) will gradually build your credit history and score. Eventually, you may be able to use evidence of a solid credit history to qualify for other types of small business loans or a small business lines of credit. A company should always strive to pay off the monthly balance on a credit card in full each month.

### Pay your bills on-time

Every on-time payment of a credit card or loan can help build a strong business' credit profile. On the other hand, if you miss payments, lenders and suppliers have the option of reporting the issue to the credit bureaus themselves, which can have a very negative impact to your credit. If a financial problem becomes a legal issue, it could have the potential to damage your business credit even more.

### Use vendors for trade references

Ask your suppliers and vendors whether they report payments to the business credit agencies. Some do when you set up credit to pay over time. Others do not. If you're trying to build up your history, consider using vendors that do report.

### Check your reports for errors

If your credit report includes [incorrect, incomplete or missing information](#), it could affect your score without you even knowing. If you spot an error, contact the rating agency to fix it.

## Types of small business credit and loans

You have many ways to borrow money for your business, especially as you build up your credit history.

### 1. Credit cards

Credit cards can provide a flexible spending limit that your business can use as it sees fit. Many small business credit cards earn rewards for cash back and travel. However, it's important that you pay off your card balances as quickly as possible. Small business credit cards charge much higher interest rates than other loans, meaning they can be an expensive way to borrow over time.

### 2. Term loans

Term loans provide money upfront that you can spend on your business however you want. You then agree to a fixed repayment schedule—maybe five years of payments. The lender will explain how much you must pay monthly to cover the loan.

### 3. Equipment and other secured loans

Equipment and real estate loans provide the money for you to buy a specific asset for your business. These loans use the property as collateral to back up repayment. If you fail to pay the money back, the lender could take back the equipment, property, vehicle or other assets. In exchange, these loans typically charge lower interest rates than unsecured loans.

### 4. Small business line of credit

A small business line of credit allows you to borrow money up to a limit, pay it back and then borrow again at your convenience. It's flexible like a credit card and often charges a lower interest rate than cards. On the other hand, a small business credit line can be harder to qualify for than a credit card and may charge higher interest than small business term loans.

### 5. SBA loans

The Small Business Administration (SBA) is a federal agency dedicated to supporting small business owners. Among other things, the [SBA considers eligible small business owners for loans](#). You can apply for an SBA loan through a bank or credit union, and if approved, an SBA loan may guarantee a portion of the loan's repayment on your behalf, which could improve your chances of qualifying for the extension of credit in the first place. Guarantee fees, other terms, and eligibility criteria may apply on top of the loan fees and interest.

### 6. Alternative financing

If you're having trouble qualifying for traditional small business loans, invoice factoring and merchant cash advances may be possible alternatives. With invoice factoring, a business sells customer invoices to a financing company in exchange for cash up front, though less than the total value of the invoice. The financing company then collects payments from your customers.

With a merchant cash advance, you pay off a loan with future credit and debit card sales. Both alternative financing routes may be easier to qualify for than bank loans but typically charge more interest and greater fees.

## 5 ways to use a business loan

After working to build up your credit history and score, you can start qualifying for loans and other types of financing. So, what could you do with the extra funds?

### 1. Cover cash flow swings

Small business finances can be unpredictable. A surprise downturn or surge in costs can strain your cash flow. You could use short-term loans, a small business credit loan and credit cards to help you through these swings.

### 2. Finance equipment, inventory and real estate

Small business loans allow you to finance the purchase of assets like equipment and inventory versus waiting to pay everything out of cash flow. Once your business credit is established, you could also take out a commercial mortgage to buy real estate.

### 3. Renovate your property

A small business loan could provide the money needed to expand, improve or renovate your small business location. Once again, you can make the necessary investment for growth without waiting to have enough cash to pay for everything upfront.

### 4. Invest in expansion

If you want to grow further, you can use a small business loan to hire more staff, set up a new location and launch a new marketing campaign. You could also use a small business loan to purchase another competing business through an acquisition.

### 5. Refinance existing debts

Once you are more established, you may be able to refinance previously approved loans with higher interest rates to pay off your existing debts. That step reduces future payments and can help your business get out of debt sooner.

## How to apply for business credit

A small business credit card can be the easiest way to start building credit. The application process is more straightforward than the process for a loan.

You'll need to apply with a bank or credit card company, usually online or over the phone. The specific application will depend on the issuer, but generally you can expect to provide:

- Your business name, address and contact information
- Industry
- Revenue
- Number of employees
- Years in business
- Your EIN

The bank or credit card company will review your application and determine whether you are qualified. If approved, you'll find out your spending limit, interest rate and other card benefits. The issuer will send your card in the mail, and you can start using it right away.

## How to apply for a loan

Applying for a small business loan or small business credit line involves more effort than applying for a credit card. First, you need to decide what kind of lender you want to use. You could work with a bank or a credit union if you're a member of the latter. There are also online small business lenders. These lenders may have higher approval rates and faster processing times than banks but may charge higher interest rates.

For small business loan applications, expect to provide the same information you would when applying for a credit card, as well as:

- Your business plan, including how you will use the loan funds
- Your financial statements (balance sheet, income statement, cash flow statement)
- The ownership structure of your small business, including if there are other owners
- Any collateral you'll put up for the loan
- Personal assets that you could put up to guarantee repayment

The lender will review your application to determine if you qualify. If approved, you'll see the loan amount, interest rate and any other fees.

Consider applying with multiple lenders. That may give you a better chance of qualifying and can help you determine whether one option is a better fit.

## Making the most of small business credit

Building a solid small business credit history doesn't happen overnight, but it's an important factor when applying for lines of credit of any kind.

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