Personal Credit History Versus Business Credit History

Personal credit history, also called consumer credit history, is a record of your use of credit, now and in the past, that is reported to consumer credit reporting agencies. Business credit history, also called commercial credit history, refers to your business's record of handling debts and financial obligations that are reported to business credit reporting agencies, including supplier accounts that provide trade credit.

Entrepreneurs often have to assume the responsibility of financing their business, particularly during the start-up phase. Therefore, personal credit history is extremely important. Lenders view personal credit history as an indicator of how the business owner will likely manage their business finances. If an entrepreneur needs financing to start a business, lenders will review their personal credit history as they decide the terms of financing because they have limited business history and credit performance to valuate. It is common for entrepreneurs to be required to personally guarantee and/or cosign business loans.

Business owners should aspire to establish a positive business credit history as they grow so that they can bolster their financing and other opportunities over time. Establishing a credit history under the name of your business can be done through trade relationships with your suppliers and/or through a business credit card. Keep in mind that it does take time for a business to build a credit history. As the business becomes more mature, business credit history becomes more meaningful. Underwriters may place greater weight on business credit history for larger, more experienced, and well-resourced businesses. However, a business owner's personal credit history remains relevant for most small business financing.

Lenders use different approaches to assess creditworthiness, including personal and business credit histories. When you apply for financing, financial institutions and suppliers will review your personal credit history and may review your business credit history. Credit history helps creditors decide whether to extend financing and, if granted, on what terms.

- How the personal and business credit reporting landscape relates to your business
- How to identify personal and business credit reports and scores
- How to establish and build strong personal and business credit histories
- How lenders and others may use your personal and business credit information
- How credit reporting services may benefit small businesses
- How to leverage strong personal and business credit histories
- How to recognize when your business and personal credit history may become a bigger factor in accessing financing for your business

Personal Credit Scores and Reports

Personal credit scores rank creditworthiness of individuals and can range from 300 to 850. Generally credit scores from 580 to 669 are considered fair; 670 to 739 are considered good; 740 to 799 are considered very good; and 800 and up are considered excellent. A personal credit report (also called a consumer credit report) is a record of how you have managed personal credit accounts in the past. It tells lenders the following:

- Who you are
- How much debt you have and how long you've had it
- How frequently you have applied for credit
- How much credit is available to you and how much you are using
- Whether you have made timely payments for credit accounts
- Whether there is negative information about you in public records, such as bankruptcies and foreclosures

There are three major consumer credit reporting agencies:

- Equifax
- Experian
- TransUnion

These companies receive information from creditors, usually monthly, about whether you are making loan, credit card, and other debt payments on time. They also collect information from public records (e.g., bankruptcy filings, etc.). Many consumers use online credit education websites to access credit report information and credit scores, but these companies should not be confused with consumer credit reporting agencies.

Business Credit Score and Reports

Business credit scores rank creditworthiness of the business and can differ between business credit reporting agencies. A business credit report (also called a commercial credit report) is a record of how well the business has managed business credit accounts in the past. The following factors may be used to calculate business credit scores:

- Payment history
- Age of credit history
- Debt and debt usage
- Industry risk
- Company size

Each scoring model is different, so some of these factors may not carry much weight, or may not be used at all. By far, the most important factor when it comes to business credit scores is payment history. In fact, some credit scores are almost exclusively calculated based on payment history. A higher score indicates lower risk, so as a business owner, you want to aim for a higher score.

There are four major business credit reporting agencies:

- Dun & Bradstreet PAYDEX – Business credit score ranges between 0 and 100
- Intelliscore℠ Plus from Experian – Business credit score ranges between 0 and 100
- FICO® LiquidCredit® Small Business Scoring Service℠ – Business credit score ranges between 0 and 300
- Equifax Business Delinquency Risk Score– Business credit score ranges between 224 and 580

Lenders and other creditors need a means of determining how well your business repays debts before they will approve you for financing. This is where business credit scores can come in. Higher scores indicate to creditors that your business is more likely to pay bills on time, thereby improving the odds that you can obtain financing. Lenders can check your company's business credit reports to get more detailed information about your business's financial history, and business credit scores serve as shorthand evaluations. Here are three other ways your business credit scores may be used:

- Determine your borrowing power. Your business credit report and score can determine how much financing you are able to secure.
- Determine your rates on business insurance. Some insurance providers evaluate a business owner's credit as well as the business's credit to determine rates on commercial insurance.
- Get more time to pay. Vendors and suppliers may look at a business's credit reports or scores to decide how long to give the business before payment is due for goods and services. Net-30" terms would mean your business has 30 days to pay, while net-60 terms gives you 60 days to pay. Securing longer terms on your terms with suppliers is a great way to improve cash flow.