Special Report:
How to Build Your Business Credit Profile

Why You Should ALWAYS Separate Your Personal Credit From Your Business Credit

Having credit established for a business is key to its success. Throughout the history of a company the need for credit will most likely arise. Establishing the business's credit should be started before the company needs it. No lending institution wants to lend money to a business in need of cash flow. The business can start out using the owner's or officer's credit to gain approvals under the business name, but as the business gets grows it should start to establish it's own credit history and credit profile in order to take on business credit of it's own. This is possible with a Corporation or Limited Liability Company (LLC) using the corporation tax identification number.

What are the Two Reasons Business Owners Should Try NOT to use their Personal Guarantee on Business Credit?

When officers and owners use their own personal credit profiles to obtain credit for the business, they risk the chance of lowering their own personal credit scores. There are two reasons business owners should try not to use their personal guarantee on business credit. First, the individual signer is liable if the business cannot make the payments and second the credit obtained for the business can affect the persons personal credit score.

Keep in mind, your personal credit score is based on several factors, including: available credit, the amount of available credit used, late payments, and much more.

Business Credit Can Accomplish the Following Lines of Credit for Your Business

- Major Hardware Store Line of Credit - $15,000
- Electronics Store Credit Card - $7,500
- Cadillac Escalade Lease - $45,000
- Major Department Store Credit Card - $5,000
- Business Gas Card - $1,000
- Printing Company Line of Credit - $2,000
- Computer Equipment Line of Credit $25,000
- Business Equipment Lease - $75,000

All without a personal guarantee or the need for personal credit checks!

Obtaining credit for a business is a process that should be established over time. The older the business the more options the business will have to build credit and obtain loans and leases without the use of personal guarantees. It is not easy to do this, but yet it is not impossible. The first step is to start building the business credit today.

An Effective Corporate Credit Builder Process can Compress the Normal 3-4 Years of Building Corporate Credit Down to ONLY 3-6 Months!

Nevada Corporate Planners can provide your business the next logical step in separating you from your business. Our Corporate Credit Builder process can compress the normal 3-4 years of building corporate credit down to only 3-6 months!

It all starts with the Corporate Credit Builder Program, which will establish a clean credit profile and business credit score. The goal is to establish a credit score of 75 or better. In comparison a business credit score of 80 is like having a personal credit score of 700, that's excellent credit.

A credit score is built by having lines of credit, credit accounts and trade references that report to the business credit bureaus. For most businesses it's very difficult to find a business willing to grant credit with no personal guarantee and without any previous credit history. If you have your own trade references, we will work with them to build the score. However most businesses need additional trade references that will grant credit and report to the credit agencies.

If Your Business Credit File is "Red Marked" by a Major Business Credit Reporting Company…Your Business has REAL Problems!

Part of the program is providing this list of businesses that will grant credit to your corporation solely based on your business credit information and are willing to report payment experiences to the credit bureaus all without a personal guarantee or the need for personal credit checks.

These companies are willing to issue the credit because their clients are not considered "high risk". The reason they are not considered "high risk" is because of business owners desire to build their business credit by investing in a business credit-building program.

Will Having a Great Business Credit Rating Help me with a Bank Loan?

The best analogy is to think of your corporate credit to that of a house …. first, build a solid foundation, then you can build the house. This philosophy is the same for building corporate credit, it is a time-based accomplishment.

The most common mistake in this obtaining business credit is thinking a great credit score will qualify the corporation for a loan. A great corporate credit score is only one piece of the pie. The credit score is one of many items a bank might look at to make a loan.

Just because your corporation has a 75-80 corporate credit score certainly does not demonstrate the corporation's "financial capacity" to repay a large loan. Nor does the our Corporate Credit Builder Program shortcut all the information a bank would need to make a business loan.

Bank financing, loans, equipment leasing, and large ticket items will most always require the corporation to produce financials that evidence the corporation's ability to repay the loan. If your corporation has the cash flow and profit, then certainly bank loans, equipment loans, and real estate acquisition are achievable without personal credit.

However, if the corporation is two months old and has just achieved a great business credit score, the score alone would not qualify your company for a loan. The financials, and other items will be required for the bank to consider the loan.

In the young stages of business credit, realistic expectations are to purchase tangible items on credit, obtain leases, and open credit lines with companies that provide products and services for the client's business, like the examples shown below.

The analogy is also similar to personal credit. Just because you may have a personal credit score of 720 does not necessarily qualify you to purchase an $850,000 home. You must have the "financial capacity" to repay the loan as well.

Biggest Advantage of Having Business Credit

The biggest advantage of having a good business credit profile is saving money. By improving your credit score you will <u>lower the interest you pay on loans and leases</u>.

For example:	Average Credit	Good Credit
Loan Amount	$50,000	$50,000
Length of Loan	10 years	10 years
Interest Rate	12%	8%
Payment	$717.35	$606.64
Total Paid	$86,082	$72,796

Savings for having good credit = $13,285

The Business Credit Builder Goal is to:

1. Develop the all-important **Business Credit Profile** using your ***Business Tax ID number*** instead of your ***Social Security Number***.
2. Obtain a Business Credit Score for your business. Without a ***business credit score***, your business <u>will never qualify</u> for credit.
3. Obtain open lines of credit for your business with no personal credit checks and without personal guarantees.
4. Improves your businesses ability to obtain vehicle leases, lines of credit, or loans under the company's name.
5. To keep your business out of the dreaded **high-risk, no-credit status**.

Here is a List of Benefits for Your Company when You Properly Establish Business Credit!

- Stop using your PERSONAL CREDIT to support your business. A clean credit profile and a Business Credit Score of 75 (that is like a personal score of 750) will allow your business access to key lines of credit to help your business prosper during those times when cash is tight!
- Plus your Business Credit Score will be established within 3-6 months, not the typical **<u>(3 to 4)</u>** year process it would typically take!
- You will have a Business Credit Coach to walk you through the credit process step-by-step!
- The first thing your coach will do is to build a **<u>clean credit profile</u>** for your company so the credit reporting agencies don't put your business on the No-Credit list. If you were on this list, your business would NEVER get any business credit again!
- Finally, stop your business from being turned down for loans.
- Obtain business credit **without** the need for personal credit checks or personal guarantees!
- Remember, business credit scores range from 0-100, so a score of 75 is excellent and will help your business obtain loans with lower interest rates!
- Your business will he given a list of vendors and companies that will gladly grant your company credit! In fact, we have over a 1,000 companies willing to do that. Typically, this is very difficult because NO company wants to be the FIRST to grant your company a line of credit!

- Imagine, in a short period of time, your company will have THOUSANDS of DOLLARS open in lines of credit under your business name across a half a dozen companies or more.

- In fact, once your Corporation becomes Credit Worthy and has other companies issuing it credit, over the next couple of months, you can use the work that we have done together to spring board to apply for all other types of Business Credit, equipment leases, auto loans, and other types of business credit, <u>many times without a personal guarantee or a personal credit check</u>!

In Summary, what we do is assign you to our coaching staff and together you build your profiles and business credit in a step-by-step fashion.

Our coaching course is similar to a college course that is taught by professional instructors and you will be dealing with several different people on several different business subjects as we go through the program.

The program is designed to take about 28 weeks to complete and of course it is adjusted for your each clients particular needs.

Most clients complete the Credit Builder portion of the program in about 3 to 5 months and then continue on to all the other financial building blocks to complete the success tools for your business success!

Call FastBusinessCredit.com at 1-(888) 313-6333 for a business evaluation for business credit at no cost or obligation to you!

Business Credit Secrets!

(This interview is a portion of the transcripts from our well know audio cassette-Business Credit Secrets!)

By Scott Letourneau, CEO of NCP

Scott: **I'm Scott Letourneau, CEO of Nevada Corporate Planners. Our firm specializes in helping people protect their assets and their business by structuring the proper entity in their situation.'**

We have over 2,500 clients worldwide. Many of the top attorneys in the United States, including Sandy Botkin and Dr. Arnold Goldstein, use our services. Our goal is to bring you the highest level of services that will impact your business. Whether it's in the area of taxation, financial planning, legal or marketing, we can support you in all of these areas.

Today, you'll read fascinating details on the number one overlooked aspect in asset protection. That is separating your business credit from your personal credit. Here's a problem you may have. If you've taken the first step to protect your personal assets by setting up an entity, you only have 50% protection. You've done the right thing, but that is only the first step. Now, what you want to consider is the second element, by eliminating the risk of commingling assets, your personal assets and your business assets, by separating your personal and business credit. Here's why that is so important.

If you give a personal guarantee on leases for office space, vehicles, equipment, you've burned down your effective buying power on a personal level. This can only negatively effect your personal credit. And anytime you give a personal guarantee, this will not help your business credit score with the credit bureaus.

Today, you will learn what is involved in the process and how NCP can help you fix this major problem.

Mike: **Hi, this is Mike Foresta. Today, we're going to be talking about how to build business credit and the need for building business credit in this series of tapes. Today, we have with us David Gas, Dave Von Holton and Ron Colquitt, experts in the arena of corporations and building business credit.**

Dave, tell me why there's really a need for building business credit.

Dave: **Business credit is needed to avoid carrying cash, in its most simplest form, to conduct every transaction. In the absence of credit, you have to have cash. Whether you go to Office Depot, Office Max, to the store, whatever it is, employees, yourself will always have to have cash.**

It also hampers cash flow if the business credit does not exist. And it's very, very inconvenient.

Mike: **David, what is business credit? What's the definition of business credit?**

David: **The definition of business credit is very similar to that of a personal credit profile; that a business will have a separate credit profile that is completely different than that of the personal credit profile of the officers and owners.**

Mike: **Are these standard reports?**

David: **Absolutely. They're standard reports that will happen with any type of business, as long as the business is registered with the proper business credit bureaus.**

Mike: **How does this enhance the company image?**

David: **Company images are enhanced greatly by having a business credit profile. Number one, businesses don't want to provide credit to another business that can't show that it can pay back its bills. So your image is enhanced right away by saying, "I've got a credit profile" or "I've got a credit score of" whatever it is.**

Mike: **Dave, you mentioned something about cash flow and things like that. How does that affect interest rates and that type of thing for a business owner, versus a personal loan?**

Dave: **Businesses are very similar to individuals in that if there is a checkered history on their credit profile, the lender will typically charge a higher interest rate than if you came in and you were golden.**

The same is true with a business. If you have a high business profile that shows a strong credit history, payments made on time, that business is going to be able to enjoy lower interest rates, and thus an edge over their competition.

Mike: **You mentioned the word "personal" credit. How does personal credit have an effect on business credit?**

Dave: **Actually, the business credit profile will stand on its own, separate and apart from a personal credit profile. However, there will be times in the life of the business where the individual owners will be required, at some point in time, to guarantee a debt of the business.**

So the personal credit profile does, at some point, have interplay with the business profile.

Mike: **Now, Ron, you mentioned a little earlier in our discussion something about lowering personal credit scores by utilizing your business mixed in with your personal credit. Can you enhance that, please?**

Ron: **Unfortunately, just as much as you can be burdened by the failure of a business, you can also be a victim of your own success.**

If you were to have your business credit and your personal credit tied together, as your business gets stronger and stronger and you start taking on more and more obligations on behalf of the company, it's going to drag down your personal scoring and personal ability to go out and do things like purchase your own automobile, buy a house, buy any kind of investments, or whatever it is that you're trying to do.

Mike: **What do you mean by having your personal credit and your business credit tied together? Aren't they always tied together?**

Ron: **No, they're not always tied together. You have your individual profile for the business.**

Mike: **So there is a way to truly separate personal credit and business credit through this process of building business credit profiles? Is that correct?**

Ron: **Absolutely. You're building up credit in your business.**

Mike: **David, tell me some of the difficulties new businesses and existing businesses face with building and obtaining business credit.**

David: **It's just like when you're a 16-year-old going out there, starting out, trying to establish credit for yourself. The businesses face the same reality, which is if you have no credit, how do you get credit? And nobody's out there willing to establish the credit for you. And that's the problem, is that you end up having businesses go out and say, "Yeah, I want this particular type of loan," and the response from the lender is, "Show me what credit you have right now." And as a new business, the only chance you have is to say, "Here's my personal credit, and use my personal credit for that."**

And the idea is, at some point, you've got to start somewhere, just as you are when you're 16 years old. Start with little bits of credit, start with little stores, little companies that will issue credit because they want to.

Mike: **And Dave, I've also heard you say the expression that "You can't start at the finish line."**

Dave: **Yes. Whenever a business or an individual starts to build credit, the key word there is build. You start small and you continue to grow. Maybe have $50 credit balances, maybe $100 credit balances. And, in a short period of time, those will start to have zeroes on the end and your credit profile is on its way.**

Mike: **Ron, can you tell me what types of personal credit will migrate into a business credit profile?**

Ron: **Certainly. When you sign a personal guarantee on behalf of your business. Whether you're a sole proprietor, corporation, LLC, whatever your entity is, you're standing behind that loan personally. So you've migrated there, by your own signature.**

In addition, if you are conducting business as a sole proprietor, then anything that is done in the business name will also reflect on yourself personally, as well.

Mike: **How is that?**

Ron: **Typically, the credit bureaus refer to a number in order to pull a report. In the event of a sole proprietor, it may very well be the social security number of the owner as opposed to the tax ID of the corporation.**

Mike: **Okay. How about things like bankruptcies, foreclosures, tax liens, those types of items that are on an individual's credit report?**

Ron: **Once again, if they are a sole proprietor, the credit bureaus will pull a report, typically, under the social security number of the individual proprietor. When that is done, they will find his individual history and the business history.**

On the other hand, if they're conducting business as a corporation, the corporation has its own EIN number, under which the credit bureaus pull a report. And the entity, at that point in time, will reflect a separate and distinct profile apart from the owner.

Mike: **I see. David, can you tell me what a personal guarantee means?**

David: **A personal guarantee is when a business owner, officer, manager of the company – and it could be any individual within the company – guarantees that if the business cannot pay the debt, that they are liable for paying that debt.**

Mike: **Aren't all business owners required to sign personal guarantees?**

David: **Absolutely not. It's completely up to that individual as to determining whether or not they want to provide that personal guarantee. Some creditor grantors will request it, some won't. Some will demand it, some won't.**

Mike: **How does one begin that process of separating the need for having personal guarantees on everything they do? Is that part of the credit-builder program?**

David: **Absolutely. What you want to do is you want to start creating a credit profile for the business that is separate from that of the individual. By creating that, what you're doing is you're allowing the business to stand on its own and not have to have an individual guarantee the debt.**

Mike: **Why wouldn't anybody just simply want to sign a personal guarantee? What's wrong with that?**

David: **There's really nothing wrong with signing a personal guarantee, if you do not care that you are liable for the debts of the company. If, on the other hand, you do not want to mix corporate debt or business debt with your own individual debt, you should never sign a personal guarantee.**

That's one of the objectives of the credit builder program is to free up the individual business owner from having to sign so many personal guarantees that are typically asked for by the credit grantor market.

Mike: **Ron, does this mean that I should never give a personal guarantee, ever?**

Ron: **Absolutely not. There are going to be times, in the beginning of your business, where you're going to have no alternative but to sign a personal guarantee to get you the funds that you need to make your business survive. But your goal should be to get to a point where you are doing business without signing those personal guarantees so that you're not putting your personal assets at risk.**

Mike: **David, should I limit the number of times a personal guarantee is required? How do you go about judging when to do it and when not to sign a personal guarantee?**

David: **The personal guarantee and whether or not you want to sign it or not is really dependent upon the success that you want for your business. If you need the money that you're trying to obtain a loan for, and there's no other opportunity to do it without personally guaranteeing it, personally guarantee it because it's going to help you succeed in business so that later on you'll have a lot more cash flow and a stronger balance sheet that will allow you to get another loan or lease, or whatever it is that you're trying to get, without personally guaranteeing it.**

Mike: **Creating a separate business credit profile and a separate business credit score, is this legal? Aren't we committing fraud?**

David: **Absolutely, it is legal. And no, it is not committing fraud. A business is a corporate citizen, if they're incorporated, and has its own set of records, its own history, and it's reported on by credit bureaus that specialize in business reporting. As a matter of fact, there are two major credit bureaus that focus strictly on that aspect of business credit reports. Mike, that's what every business owner should aspire to, is having their business habit's own excellent credit profile.**

Mike: **So this is an industry standard, is what you're saying?**

David: **It should be the goal of every business owner to have its own excellent business profile. And yes, it's a standard that should be aspired to.**

Mike: **Now, David, you mentioned something about businesses and their success. How does business credit assist the young stages of business, and what are some of the statistics of businesses?**

David: **Most people know that businesses have a stat that eight out of every ten businesses will fail in the first two years. And of those remaining, five out of ten will fail within the next three years.**

So the idea is to make sure that if your business does fail, that you do not have those obligations to go out and pay for all the debts of the business personally; meaning that if you had the business for three or four years, it failed because stats showed the majority of them will fail even though we, as business owners, are not going to go out there and try to make sure that our business does fail. That's not our intent. Our intent is to go out and make a profit.

But the stats show that businesses will fail at times. So what we need to do is make sure that we are protected personally. We, as a business owner, don't want to go out there and have $80,000, $90,000, $100,000 in debt, let's say, in your company and it fails. You personally guaranteed it. And by doing that, now they go back to you personally and go after your home, your cars, your retirement fund. Whatever the assets are that you have, they're going to want to go after and try to get. Sometimes, they might not legally be able to get them, like certain retirement accounts, but sometimes they'll try to anyway. Those are things that we need to protect ourselves from.

Mike: **Dave, wouldn't banks, lenders and finance companies who perceive that an owner is beginning to separate their personal credit and their business credit a risk factor or a benefit?**

Dave: **A bank or a high-quality lender will typically respect a business operator more if they're operating under a corporate entity and if they've taken the time and effort to build a credit profile of that corporate entity.**

Business owners who operate as sole proprietors are typically not viewed to have the level of expertise and sophistication as corporate business owners have.

Mike: **I think in another section in this series, we're talking about entities, aren't we?**

Dave: **I believe we are.**

Mike: **Good. We'll certainly look forward in going into that. Before applying for credit under the company's name, what should one consider?**

Dave: **Before applying for credit, clearly, you've got to have a goal in mind. Figure out what it is you're trying to accomplish and don't put on blinders and say that there's only one way to accomplish your goal.**

If you're trying to secure equipment, that doesn't necessarily mean you need to get a loan. You might be able to get an equipment lease.

If you're trying to secure money for short-term capital need, you may not need a fixed-term loan. You may be better suited by getting a line of credit.

Then, at that point, you just look at the dollar amounts and what your business needs.

Mike: **David, can you tell me how the personal credit score, how that all folds into the beginning stages of building one's business credit?**

David: **Your personal credit will, in some instances, come into play. Some instances, it might not. And it's all dependent upon you, as a business owner, to go out there and be savvy enough to find businesses and other companies that are willing to grant credit without that personal credit score.**

We, as a company here, have not had the need for our own personal credit to be out there. But we have a lot of clients of ours that have horrible credit, and they don't seem to have any problems going out there – in terms of what we told them to do – to be able to go out and establish business credit.

Now, if they are out there trying to obtain these different types of loans of a million dollars or things like that, yes, their personal credit will come into play because they want to see your personal credit on that side. But they also want to see your business credit.

Mike: **And that's because the credit that they're requesting exceeds the capacity of the company? Is that correct?**

David: **Absolutely. The whole idea of any lender is going to look at the capacity and the ability for your business to be able to pay back the loan. If your business cannot – based on the balance sheets and the income statements – show that it can pay back the loan, then why would any lenders issue it to you?**

Mike: **Dave, I understand that the credit building process that we have here helps clients out, develops credit worthiness for their business. Can you kind of give us an idea who the credit bureaus are and what their level of importance is in a business credit profile and report?**

Dave: **Yes. There are four major credit bureaus. Dunn & Bradstreet, Experian, Equifax and TransUnion.**

Equifax is a credit bureau that specializes on individual reports and banks dealing with business loans.

Experian specializes in both business and individuals. And Dunn & Bradstreet only deals with businesses. And there are additional credit bureaus as well, but they play a lesser role. Dunn & Bradstreet is the key player when it comes to credit grantors seeking a credit report on the business.

Mike: **How easy it is for somebody to obtain a business credit report?**

Dave: **Actually, a business credit report from Dunn & Bradstreet, for instance, can be purchased online. One can become a subscriber to their service with certain monthly minimums, and buy them that way. It's very easy to become a subscriber. And as you may know, you can go on the internet, on Equifax, Experian or TransUnion and pay a few dollars and get an individual report at any time.**

Mike: **David, does that mean that anybody can print out my business credit report?**

David: **Absolutely, without your permission. A business credit report is very different than that of the personal credit reports. There's no laws, there's no legalities protecting you, as a business owner, business operator, that there are with the individual credit reports.**

Mike: **This would then imply that when companies or businesses are doing business with other companies or businesses, they could easily check out the company by just going to a computer.**

David: **Absolutely. And that's what many of them do. Here's the interesting point, too. Dunn & Bradstreet doesn't just make their money necessarily by selling credit reports. They sell information for marketing. So all of that information that's on your credit report, the whole idea is that Dunn & Bradstreet can sell it.**

So many, many, many companies out there, all they do – in terms of their marketing efforts – is to get Dunn & Bradstreet lists that have all of your credit information on it.

Mike: **So that's why we've heard from some clients that say they want to be doing government contracts or they want to do city or county contracts, and they're being rejected because they don't have their business credit profile.**

David: **Yes. Some of these governmental entities that you referred to require you to be in business for a certain amount of time and to have a score or presence with the major credit bureaus. And if you have a presence or a profile with the major credit bureaus and perhaps not a score, you may be denied the contract because of the criteria of the contract grantor.**

On the other hand, if the contract grantor requires a score, Paydeck score or an Intelliscore with Experian for your business before letting out that contract, that's something that you have to get done.

Mike: **So anybody can pull your business credit report without your permission. And probably, large companies do. To what extend does somebody not even care about your business credit report? You're going to go lease an office space or something like that. Is that important?**

David: **Yes. Your business score is commonly pulled to lease an office space, just as your personal credit report is pulled when you lease an apartment or a house.**

Mike: **You mentioned the word "Paydeck" score. Can you explain what a Paydeck score?**

David: **A Paydeck score is the term given to Dunn & Bradstreet's scoring model, to determine how creditworthy the business is. Experian calls their score the "Intelliscore," and it's similar to the Paydeck score of Dunn & Bradstreet in that it's a model that tries to anticipate the ability of the business to pay back the debts.**

Mike: **Now David, tell me a little bit about how our process helps the client build their scores and their profiles.**

David: **The idea of our process that's put together is to help the businesses build a profile that is completely separate from them as business owners. The things that we do are to assist and educate our clients, so that they understand that they can go out and do the things that we're talking about; which is be able to build a credit profile with Experian, with Dunn & Bradstreet, and be able to do that such that their business score is not reflective of what their personal score is. It's something completely different.**

Mike: **What should be the first thing a client does to prepare their business for business credit?**

David: **What we do is, in our processes, we actually walk people through the steps of what they need to do to build their business credit. In terms of the very first stages, suggest people do and recommend that people do, number one, is that they need to set themselves up properly with a business structure. If you're going to go out there and you're going to build business credit, the whole idea is to separate you from the business.**

So the first thing you should do, and we're going to talk about this later, is incorporate your business. You don't want to have a sole proprietorship, or partnership even, where all of the debt of the business ends up on you anyway, even if you have a separate credit profile.

Mike: **Ron, you mentioned something about that a little bit earlier, about sole proprietorships. Can you expand on what David said about a sole proprietorship perhaps not being the best business structure? And at what point in time should a client consider being a corporation?**

Ron: **The sole proprietor means that you are your business, which means that your personal credit is your business credit.**

Now, as far as who qualifies for a corporation – and understand that the term corporation can refer to any number of legal entities – when we say who qualifies for a corporation? Everybody that's in business qualifies. There are no dollar requirements for getting the status and taking advantage of the laws that exist in every single state in the United States today.

Mike: **Dave, you mentioned, a little earlier, about personal credit translating into business credit. And Ron just mentioned that the personal credit is the business credit if you're a sole proprietorship. Isn't there a way to actually build a business credit profile as a sole proprietorship? And what are the pros and cons of that?**

Dave: **Yes, you can build a business profile as the sole proprietorship. But then again, it goes back to your individual credit and you absorbing all of the liabilities of the business.**

Dunn & Bradstreet and Experian will take your sole proprietorship and report on it as if it were a corporation. And, as a matter of fact, there are many businesses within those two credit bureaus that are structured as a sole proprietor. But it simply does not make sense to do it and expose yourself to the risks that are involved with the sole proprietor.

Mike: **Let's take the example where a client has a low-risk business, like a small, internet, home-based business and the client is a sole proprietor. Can you build a completely separate business profile for the business owner?**

Dave: **It can be done as a sole proprietor. But understand that as a sole proprietor, there will be histories of the individual intertwined with the sole proprietorship. So the sole proprietor's business can be separate and apart, but there will be pieces of the individual history intermingled with that.**

Mike: **I see. So Ron, as you were saying, certain things begin to migrate from the personal credit report to the business credit report, unless you're a separate legal entity.**

Ron: **Absolutely.**

Mike: **What are some of those items?**

Ron: **We were discussing, earlier, things like the charge-offs, the tax liens, all those things that are on your personal credit are going to be bleeding together with your business credit. So if you are trying to create the totally separate structure, you're going to be shooting yourself in the foot because you're bringing in all the bad stuff from your personal past – if, indeed, it exists.**

Mike: **In cases where a client has public record items, like bankruptcies, foreclosures, repo's, that type of thing, he would be best structuring himself in some sort of a legal entity that's separate from himself. Is that correct?**

Ron: **Absolutely. Leave all the personal stuff behind.**

Mike: **Great. And in the case where the client had very good business credit and a low liability-type company, you would be comfortable with having that client remain as a sole proprietorship?**

Ron: **I would still tell them that aside from the fact that the program itself is going to work better, you're going to be taking advantage of all the tax laws that have been created for these favored business entities. And you're also going to be taking advantage of the protection of your personal assets, so that your personal estate is not at risk for your business.**

Mike: **So the answer is get incorporated first, start business second?**

Ron: **Whether it's a corporation, an LLC, a limited liability partnership, there's all kinds of new entities that are being formed across the country. But whatever the form is, absolutely, take advantage of the laws. They exist. They're there for you. There's no requirement, other than you be in business.**

Mike: **Good. We look forward to this section in our series discussing corporate structures and entities.**

Mike: **David, you mentioned some of the things clients do to begin the process of building their business credit. Can you give us the list of things that are involved in building business credit?**

David: **There's a long list of items that are needed in order to build business credit. What we have done is we've developed a proprietary system to go through each one of those steps with our clients.**

What it comes down to is that you're a real business. Are you a real business that's really out there and functioning as a real business, collecting income from other people, and trying to generate a profit? If you are doing that, then we can work with you to create a system by going through our steps to make sure that you can operate and build a credit profile.

Mike: **Can't I just call the credit reporting agencies and find out from them what's required to build my business credit profile?**

David: **The credit reporting agencies are not involved in educating the public or the business owner. They're merely involved in gathering data and doing investigations to determine if that data is accurate.**

So the answer is no, they will not assist you in helping build business credit.

Mike: **Will they hurt me?**

David: **They can. What they do is they do their investigations; they do it without emotion, they do without educating their clients, and they don't really care what comes up. They will show and they will publish what they find. If what they find is not in their model, you will be hurt and damaged by what they have found.**

Mike: **So you're saying that their model is also proprietary?**

David: **Yes.**

Mike: **How can a business be damaged by trying to build business credit and not really understanding how to do it? What are the consequences?**

David: **If you're unaware of the pitfalls that exist in trying to build business credit, then the ignorance of not knowing what the steps are could greatly damage you into the future. If you have one of these negative comments on your credit report, whether it be Experian or Dunn & Bradstreet, it typically stays for years, if not forever.**

Mike: **Isn't there a way to fix it?**

David: **Mike, we have found it very, very difficult to fix and correct or change negative comments.**

And there are no federal laws that are going to step in to protect that business owner, as there are in your personal credit where, when you find a mistake, you notify them, they do an investigation. They have 30 days to justify it or back it off. In this case, there's nothing to protect you. They can investigate your business indefinitely.

Mike: **So you're telling me, as an individual, with a social security number and a credit report, I have rights – which we all kind of know about. But you're telling me if I'm a business owner I have no fair credit reporting rights?**

David: **Absolutely. It's frightening. Isn't it?**

Mike: **We're just out on our own?**

David: **Yes. And that's what makes this process all the more necessary for your business, if you will, because there are so many pitfalls out there and because there are so few remedies.**

Mike: **So you've got pitfalls, you've got proprietary processes, and no rights. It sounds challenging.**

David: **It's very challenging.**

Mike: **David, tell me what has happened to the credit market and how it affects business owners since September of 2001.**

David: **The whole credit market has really shifted quite dramatically. And it comes down to looking at the things that have happened since them. And that's some of the big corporations that are filing bankruptcies, all of the other little businesses that are starting to fail because of markets and the way the business cycle goes. There will be business cycles that are very successful, and then there will be a downturn where they're not so successful.**

What happens to the lenders, they're going to tighten up their criteria in order to obtain a loan or a lease and to obtain credit.

The whole idea, what's happening now, is that the credit grantors are looking more and more at your credit profiles being your personal and your business. And they want to see higher and higher scores all the time.

Mike: **So this is basically reemphasizing the dramatic need for a client to follow a structured program, to intelligently build their business credit profile, and not just in a sloppy manner.**

David: **Absolutely. If you're out there trying to do this and you're not following the correct processes and going through the proper system and doing all of the steps in the order that they're intended to be in, you can really damage the company and put yourself in the position that all of these credit grantors out there are not going to issue credit just based on the fact that you're not doing the steps that you should be doing.**

Mike: **Dave, tell me a little bit, as David mentioned things about banks and that type of thing, the importance of financial statements prepared for the business.**
Dave: **Financial statements show income, they show expenses, they show profits. And in the final analysis, the company must be able to repay its debt. And if the financial statements indicate that the cash is not there or the profits not there to repay that debt, then it would be very unlikely to get a loan or a lease.**

Mike: **I understand that as part of the process of a client building their business credit, you will also look at their financial statements and balance sheets and consult with them. Is that correct?**

Dave: **That is correct . We try and train them on the basics of an income statement and in the basics of a balance sheet, so they can discuss some of the various terms that are out there, such as payables, accruals and various accounting terms that are relevant to a financial statement.**

Also, the financial statements gain extraordinary credibility when they're audited. When there's a CPA that signs off on them in an audited financial statement, those are considered by the credit granting community to have much higher quality than those prepared by the company themselves.

Mike: **How often do you see financial statements or balance sheets submitted to the credit reporting agencies that are obviously incorrect?**

Dave: **It happens very frequently. And a very, very disappointing example that comes across my desk frequently is a balance sheet that, in fact, does not balance. If you submit that to a credit bureau, they instantly know, number one, that it was not prepared by a CPA. Number two, they know it was prepared by someone who does not know what they're doing. And number three, because they do not know what they're doing, the financial statement has no value.**

The best-case scenario, in an event like that, is that the credit bureaus will return it and ask for a new one. The worst-case scenario is they will put your company into a high-risk category because you're submitting financial statements that, number one, are inaccurate and, two, may be fraudulent.

Mike: **As David mentioned, there's a long list of items you could do to damage your business credit permanently.**

Dave: **Yes, yes, there is.**

David: **And a very short list of things you can do to repair it.**

Mike: **So basically, you can't just submit a new financial statement and say, "Oops, I'm sorry, I gave you an incorrect one?"**

Dave: **You can do that. And if you're very, very lucky, you may be allowed to do that.**

What will probably happen is that the credit bureau will state that a financial statement was submitted in error, and this is a new statement submitted to replace the one in error.

Mike: **Again, another possible blemish on your business credit report that you can't really afford to have at all.**

Dave: **That is correct.**

Mike: **So you really provide an overall service to a wide variety of different clients. Don't you?**

Dave: **Yes, we do. We like to think that we take a corporation in the beginning stages of building corporate credit – and by the way, Mike, that could be a corporation that's one month old or five or ten years old – we take them from the beginning stages of building the corporate profile to the point where they're able to launch their efforts to obtain leases and loans.**

Mike: **David, you said that the process takes several months. But I've also heard that this can be accomplished in just a few weeks. And I've also heard from other sources that there's a way to put credit on there that actually shows it's been on there for two years.**

David: **There's a lot of misnomers out there. One of which is that you can go out there and buy trade references, for instance. Go out there and pay a company a couple hundred dollars and let them post up a million-dollar credit line.**
There are people that say that they can build a credit profile for a business within 30 days.

And the reality is if you want to do this legally, in the right way and ethically, there's no way in which you can do that.

The whole idea is if you are actually obtaining credit from somebody, they report it. If you actually pay on time, they report it. You don't out there and buy trade references to get people to put it on there. That's illegal. And those companies that have done that have been shut down. They're no longer in existence. However, others still pop up.

So you've got to be careful as to how you do and build the business credit, and who you do it with.

Mike: **Dave, does the association of a company who's been involved with other companies who allege they can build business credit, will that damage somebody's credit profile or can it?**

Dave: **Yes, it can. If a trade reference from a company that reports fraudulently to the credit bureaus shows up on a third-party's credit report, the credit bureaus recognize instantly that the source of that trade reference is fraudulent and they will note that on the credit report of that company.**

That fraudulent trade reference may stay on that company's record for years, if not forever.

Mike: **So basically, they've permanently destroyed the company's ability to ever have credit.**

Dave: **That's very possible. There's actually a broker who has access to many different lenders. The big advantage there, rather than going to one basic lender and perhaps being denied, a broker can take your application to a number of different lenders without pulling a number of different credit reports – each of which, by the way, reduces your individual credit score – and shop that and see the lender that fits best for your application.**

Scott: **Just listen to why it's so important to separate your personal and business credit. Here's the question I want to ask you. How much longer can you afford to continue to risk your personal assets by not separating your personal and business credit?**

Do you realize that if you do not separate your personal and business credit, your personal assets are 100% at risk? You may be thinking you've already established some type of business credit, and that is where you may be wrong.

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Don't make that mistake. And take advantage of this opportunity to separate yourself from your liabilities of your business and your personal assets.
The next step is to call our offices at 1-(888) 313-6333. Again, that is 1-(888) 313-6333. I look forward to hearing from you.

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