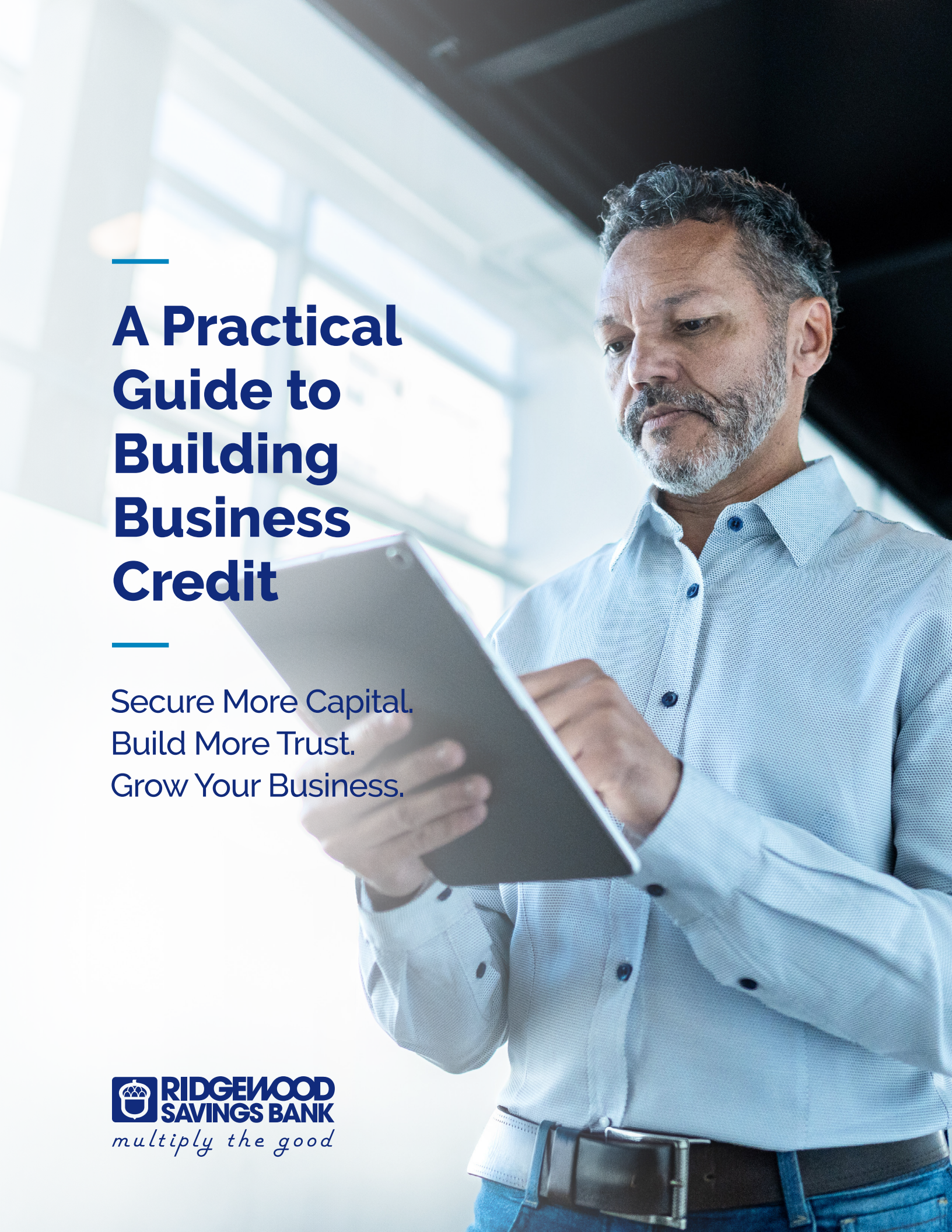
A Practical Guide to Building Business Credit

Secure More Capital.
Build More Trust.
Grow Your Business.



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Introduction

Learn why business credit matters – and how to start building it the right way.

If you're like many small business owners, you started with your savings, a personal credit card, and a lot of determination. But as your business grows, so do your financial needs. That's where business credit comes in.

Strong business credit opens doors. It helps you qualify for financing, negotiate better terms with suppliers, secure insurance more efficiently, and separate your personal finances from your company's. It also adds credibility. When lenders and vendors see that your business pays on time and manages credit responsibly, they will likely say "yes."

But business credit doesn't build itself. It takes some planning, smart decisions, and consistent follow-through. This guide can help you create a strong credit foundation and avoid common mistakes that could slow you down.

You'll find this guide organized into short, easy-to-navigate sections. Each section is structured with two columns:

- **Tips to Follow:** Practical, proactive steps you can take now
- **Mistakes to Avoid:** Common missteps that could hurt your credit profile

Whether you're reading cover to cover or jumping to the section that fits your current stage, this guide is designed to help you move forward with confidence.

Contents

Laying the Foundation

Set up your business correctly to build credit.

Building strong business credit doesn't start with a credit card or a loan. It begins with how your business is structured and represented. Lenders and credit bureaus rely on a consistent, credible paper trail to evaluate your business. That means your setup matters. Before you apply for anything, make sure your foundation is solid – and consider consulting with an accountant experienced in supporting small businesses to ensure you're making the right structural decisions from the start.

Tips to Follow	Mistakes to Avoid
Register Your Business as a Legal Entity Choose an LLC or S corporation structure to separate your business and personal finances. (Sole proprietorships don't establish separate business credit.) Consult with your accountant or attorney to determine the best option for your situation.	**Mixing Personal and Business Finances** Using your bank account or credit card for business expenses can damage your credit and limit your growth options.
Apply for an Employer Identification Number (EIN) From the IRS Think of your EIN as your business's Social Security number. It's required for tax reporting, credit applications, and opening bank accounts.	**Using a Personal Phone Number or Home Address** These raise red flags for lenders and may confuse credit applications.
Open a Dedicated Business Checking Account This signals financial separation and helps you build relationships with your financial institution.	**Skipping Formal Registration** An unregistered business may not qualify for credit and can't build an independent credit history.
Use a Business Phone Number, Website Domain, and Physical Address These details make your business look legitimate and help with credit applications and vendor relationships.	**Leaving Your Records Inconsistent** Mismatched addresses or business names across different documents can delay or derail your applications.

Tips to Follow	Mistakes to Avoid
Apply for a D-U-N-S® Number This free identifier from Dun & Bradstreet allows you to begin building your business credit file. Large companies that supply goods and services to small businesses will likely reference and report credit history to Dun & Bradstreet.	**Neglecting to Get a D-U-N-S® Number** Without it, your business might not even appear in credit bureau systems. You can get a D-U-N-S® Number by contacting Dun & Bradstreet.
Keep Your Business Info Consistent Everywhere Make sure the name, address, phone number, and structure match your EIN, bank account, licensing documents, and applications.	**Thinking You Can Build Credit Later** Good credit habits start on day one – even before you apply for your first account.

Credit Bureaus Love Consistency.

One of the most common reasons credit applications are delayed – or denied – is inconsistent information. Make sure your business name, address, phone number, and structure are the same across:

- ✓ Your EIN registration
- ✓ Your D-U-N-S® profile
- ✓ Your business checking account
- ✓ Your Licenses, permits, and vendor applications

Even a minor mismatch, such as omitting "LLC" in your name, can create confusion and lead to delays.

Opening Credit Accounts the Right Way

Start small but make every account count.

Once your business is set up properly, it's time to build your credit profile. This doesn't mean you need to take out a loan right away. One of the best ways to build credit is by starting with small, manageable accounts and then using them wisely and consistently.

Tips to Follow	Mistakes to Avoid
Consider the 5-3-2 Rule Start with five trade credit accounts (vendors), one to three forms of revolving credit (business credit card or line of credit), and two installment loans that you pay off (equipment loan, small term loan).[1]	**Applying for Too Many Accounts at Once** Multiple credit inquiries in a short time can hurt your credit and make you look desperate for funding. Building business credit is often a multiyear undertaking.
Choose Vendors and Lenders That Report to Credit Bureaus Not all do. Look for companies that report to bureaus like Dun & Bradstreet, Experian Business, or Equifax Business.	**Using Only Vendors That Don't Report** If the account isn't reported, it won't help your credit.
Apply for a Business Credit Card – Even With a Personal Guarantee If you're starting out, this is often the easiest way to build credit.[2]	**Letting Credit Lines Go Unused** Inactive accounts may be closed or won't strengthen your credit profile.
Start With Net Terms Accounts Many office supply companies, wholesalers, and vendors offer Net 30 or Net 60 terms. Make a small purchase and pay it off early.	**Relying Only on Personal Credit Cards** This won't build your business's credit and blurs the line between personal and business finances.

1. The 5-3-2 rule is a general recommendation rather than a rigid requirement. Use vendor credit and financing wisely. Start slow and do not get overextended.
2. Be aware that personal guarantees mean you are personally liable for business debt.

Tips to Follow	Mistakes to Avoid
Actively Use Accounts Regular use (with timely payment) builds your profile faster than idle accounts.	**Taking on More Credit Than You Need** Opening large lines of credit too early – or with no repayment plan – can create risk and reduce flexibility later.
Pay Early When Possible Some bureaus, like Dun & Bradstreet, reward early payments, not just on-time ones.	**Using Retail Credit Accounts With High Fees or Limited Value** Not all accounts are created equal. Choose those that help your operations and report reliably.

What Is the 5-3-2 Rule for Building Credit?

- 5 vendor accounts (e.g., suppliers offering Net 30 terms)
- 3 revolving credit accounts (e.g., business credit card, store cards, line of credit)
- 2 loans (paid in full to demonstrate repayment history)

This balanced mix shows credit bureaus and lenders you're a responsible borrower with various accounts.

Managing Your Credit Profile Over Time

Consistency matters more than size or speed.

Once you've opened accounts, the key to strong business credit is managing them well over time. Business credit scores are mainly based on payment history, credit utilization, and the age of your accounts. Minor missteps – like a missed payment or a dormant account – can slow your progress. The good news is that it doesn't take much volume, just steady, responsible habits.

Tips to Follow	Mistakes to Avoid
Always Pay on Time (or Early) This is the most critical factor in building credit. Set calendar reminders or use automation to stay current.	**Missing a Single Payment** Even one late payment can significantly lower your business credit score.
Keep Credit Utilization Below 30% That means using less than 30% of your available credit. Lower is better, especially if you're planning to apply for financing.	**Letting Accounts Sit Unused** Inactivity can hurt your profile or lead to account closure without notice.
Monitor Your Business Credit Reports Check with Dun & Bradstreet, Experian Business, and Equifax Business at least once a year.	**Overusing Available Credit** High utilization makes you look overextended and can lower your score.
Dispute Errors Promptly Mistakes happen. If you spot inaccurate data, file a dispute with the bureau to have it corrected.	**Relying on One Credit Source** A narrow credit profile may be seen as a higher risk.

Tips to Follow	Mistakes to Avoid
Keep Older Accounts Active Longevity helps your credit score. Use your longest-standing accounts occasionally – even for small purchases.	**Ignoring Your Credit Reports** Errors or outdated info can hold your score back if you don't catch and fix them.
Diversify Your Credit Mix Over Time As your business grows, consider adding different types of credit (cards, vendor terms, loans).	**Closing Old Accounts Too Soon** Long credit histories build credibility. Keep old accounts open and in good standing.

Consistency Builds Trust – and Trust Builds Credit.

Business credit isn't about how much money you borrow, but how responsibly you manage it. Even small actions, repeated over time, make a big difference:

- Pay early or on time – every time.
- Keep accounts active (even with modest use).
- Monitor your reports to protect your progress.

Using Credit Strategically to Grow

Good credit is a tool, not a backup plan.

When used wisely, credit can help you invest in growth, expand operations, and strengthen your business during seasonal fluctuations or slow periods. The key is to use it intentionally, not as a crutch for poor cash flow. Strong credit gives you options. How and when you use them makes all the difference.

Tips to Follow	Mistakes to Avoid
Use Credit to Invest in Revenue-Generating Opportunities Financing equipment, inventory, or marketing that leads to growth is a smart use of credit.	**Using Credit to Plug Long-Term Cash Flow Gaps** This creates a debt spiral. Fix the underlying problem first.
Explore Different Types of Credit Understand how business credit cards, lines of credit, and term loans work – and which are right for different needs.	**Taking on Debt Without a Repayment Plan** Know exactly how the loan will be paid back and when.
Maintain Relationships With Lenders and Vendors Consistent communication can improve your terms and give you more flexibility over time.	**Waiting Until You're Desperate to Apply for Credit** You may not qualify or get worse terms if you wait too long.
Renew or Expand Credit Lines Before You Need Them Lenders are more willing when your finances are strong, not when you're in a crunch.	**Using Just One Type of Credit** A diverse credit profile is stronger and more flexible.

Tips to Follow	Mistakes to Avoid
Prepare for Funding Conversations Know the "6 Cs of Credit": Character, Capacity, Capital, Collateral, Conditions, and Communication. Be ready to talk about how you'll use the funds – and how you'll repay them.	**Overlooking the Cost of Credit** Interest and fees add up. If the credit doesn't help generate more value than it costs, it's not strategic.
Be Prepared When Applying for Financing Know how much you need, how you'll use the funds, and how you'll repay the loan. Bring financials, clarify your goals, and be ready to show how credit will help, not hurt your business.	**Failing to Build Your Lender Relationships** Lenders are more likely to extend credit – or be flexible – if they know and trust you.

The Best Time to Apply for Credit Is Before You Need It.

Lenders are more likely to approve – and offer better terms – when your finances are healthy and your plans are clear. Use credit to:

- ✓ Take on more significant contracts
- ✓ Invest in equipment or marketing
- ✓ Smooth out seasonal swings
- ✓ Build relationships with vendors and lenders

In Conclusion

Build credit with intention, and let it work for your business.

Business credit isn't just a score. It reflects how your business manages responsibility, communicates with lenders and vendors, and prepares for the future. Building and maintaining strong credit takes time, but the payoff is long-lasting flexibility, credibility, and opportunity.

As you move forward, keep these takeaways in mind:

Start with structure. Set up your business correctly, and separate your personal and business finances from the beginning.

Build gradually. Aim for a healthy mix of credit accounts, including vendors offering Net 30 accounts, a business credit card, a business line of credit, and a small term loan. Demonstrate responsible borrowing.

Pay on time. Always. Payment history is the most critical factor in your credit profile.

Stay informed. Monitor your reports and dispute errors, and keep your credit active and healthy.

Use credit to grow, not to patch holes. Be intentional about how and when you borrow

You don't have to do everything at once. Just focus on your next step: opening your first vendor account, checking your D&B profile, or making sure your next payment is on time.

And remember, you don't have to do it alone. Your financial institution can be a valuable partner in helping you access the tools, resources, and guidance you need to grow your business correctly.

Let's continue the conversation.

Connect with your local Business Banking Relationship Manager at **ridgewoodbank.com/home/business/team**.

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