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“Building Credit for Your Business”

One of the most common questions I hear from a prospective or new business owner is, “why and how should I begin to build a solid credit background for my business?” Most businesses rely heavily on the backing of an owner’s personal credit performance when looking to initiate early credit, vendor, and trade relationships. Newer, less seasoned businesses will see value in working hard to establish and grow credit relationships during the early stages of their operation. The business and principle owner(s) will benefit greatly by reaching a point where the business itself is able to garner credit based partnerships. Personal credit performance will always be important to any relationship a business establishes, however a well established business with a seasoned credit background will advance quicker into the future stages of their life cycle. The quicker a business owner is able to make this transition, the better. The following information will outline various ways of moving in that direction.

My answer to “why should I build a solid credit background for my business” is related to how any lending institution evaluates their ability to extend financing terms to a business. Specifically, a lending institution is going to evaluate a company based on four main criteria: Character, Capacity, Capital, and Collateral. Each of these areas of concern is directly affected by the level of credit history a business has been able to create. Although personal credit is a strong indicator of how a business will perform, the reliance on personal credit is lessened greatly when evaluating character if the business is able to provide a solid credit background. A business that has a credit rich background is most often able to illustrate their capacity for meeting their obligations. Credit ratings increase as these obligations are met making future credit needs that much more obtainable. Businesses that are successful in building credit history also have success in generating capital resources quicker. The more capital a company is able to achieve the easier it becomes to secure additional credit. As businesses grow and improve their credit rating, they will improve their ability to rely solely on the assets of the business to help collateralize relationships. The more history a business has to offer, the greater the influence they will have when being evaluated by a potential business partner.

There are a number of ways to answer the question of “how do I build a solid credit background for my business?” The simple process of starting and maintaining a business checking and/or saving account may help establish a record of good performance. Discontinue using a personal account to manage business expenses. Businesses are better off managing business related activity within a dedicated operating account. This is a great way to show a consistent operational pattern. Suppliers may also help a business gain ground when looking to grow payment history. Businesses should always pay their suppliers within the terms extended and partner with companies who provide detailed and timely payment reporting. Trade credits offer yet another way for businesses to prove their ability to meet obligations. These relationships may be used as potential credit references when the need for future financing arises. A business credit card is also a great way to prove positive credit performance. Business owners should always obtain a credit card to be used only for business related transactions. Regardless of how large or small the credit line may be, businesses should use the card in a disciplined fashion to begin recording their payment history. These tips may be put in place rather quickly and will yield solid results when looking to build a strong credit background.

Please contact me by email at bhessing@p-s-b.com or by phone at 309-693-9494 as I would like to talk with you about any questions you might have.



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