

11. Build Your Credit History as You Build Your Business

As a small business owner, you know there are things that may not be fun to do (e.g., networking). Like networking, however, finance is something you need to work at and devote time to, as it's a necessary part of having your own business. If you have credit cards, loans, or any other type of credit for your company, manage it carefully so that you don't run the risk of overextending yourself and losing financial control of your company.

Which type of credit you choose and from whom you borrow depends on your business goals and your creditworthiness. For example, you may want to borrow money to acquire inventory or to invest in a piece of equipment. In this case, you may want to seek a lease or a short- or long-term loan instead of using a credit card. On the other hand, if you have immediate expenses such as business lunches or supplies, you may prefer to use a credit card. Using a credit card makes it easier for you to manage your payments and also provides you with excellent records of how you spent your money.

What's your limit?

When you apply for a credit card, you may be asked how much credit you would like. Even though it's often tempting to ask for a high credit line, choose a reasonable level that is no higher than the amount of additional debt you can safely afford to incur and pay off each month.

Credit card issuers will determine how much credit they are initially willing to give you by reviewing several factors. These include:

- **Your employment history.**
- **The percentage of credit utilized based on your income and your current debt and expenses (e.g., car loans, student loans, other credit cards, rent/mortgage, etc.).**
- **How long you have lived at your current address (generally the longer, the better, because it shows more permanence).**
- **Whether you rent or own your home.**
- **The number of times you've applied for credit in the past two years.**

If you are applying for a business credit card, the lender may also ask you for information on your business, including its history, ownership, and annual income.

If you've been using the credit card responsibly, your credit limit may be increased over time. This is most likely to happen if your payments consistently arrive on time and you always pay more than the minimum due. You may also be able to get an increase by requesting one, especially if your income has grown. Again, always make sure that whatever your credit limit is, you don't use more credit than you can easily repay.

Your credit limit is the maximum amount you can charge on your business credit card. As a business owner, you want a credit card that provides access to a credit line dedicated to your business.

You may find that you're offered a business credit limit above what you anticipated, or you may be offered less than you'd hoped for. Your credit line is based on your personal and/or business credit ratings.

There are no hard-and-fast rules about how to finance your business. Many credit counsellors stress that you should avoid borrowing long-term to cover short-term or day-to-day operating expenses. Business owners who use credit as a means of paying bills should be careful not to inadvertently add to their level of long-term debt. This is particularly true of charges placed on a credit card. Every charge – whether at a restaurant, store, or hotel – represents outstanding debt until the debt is paid in full.