The Many Facets of Business Credit

by Rick Wehner, Brewery Finance

When applying for business credit, most commercial lenders are going to require a personal guaranty from all owners of the business that have 20% or more ownership (some lenders are starting to require the guaranty of all 15% or greater owners as a matter of fact). This being the case, it is wise to have a frank discussion with your partners about their credit before you go in to business together and certainly before you decide to apply for financing.

Over the years, I have seen many relationships tested because one or more partner in a brewery was struggling to keep their credit scores up. This doesn't necessarily mean that your financing won't be approved, but it will most likely mean that you'll be paying a premium for your financing.

Surprisingly, not all credit reporting agencies report the same information on your bureau every time and there are a number of factors that lenders will review when it comes to personal credit. Some important areas to keep your eyes on:

- Credit score: The higher the better.
- Depth of credit: Not all scores are created equally! There is a big difference between a 785 FICO score for someone with 3 credit cards, no term debt, and 4 years of credit history than someone with a 785 FICO score with a mortgage, 20 years of history, term debt that has been paid in full (cars, etc..)
- Revolving debt: Lenders will look at both the amount of revolving debt (total credit card debt), as well as the revolving debt "burden" (percentage of total available credit card debt that is currently utilized).
- Inquiries: It usually pays to shop around, but remember that each lender that you supply an application to is going to pull a credit report. Having a few recent finance inquiries on your bureau is not a big deal, but having sustained inquiries over a period of time can look like you are desperate for money or that you have been turned down multiple times and can be cause for concern to a lender.
- Public Records: Open Suits, Liens, Judgments will all be reflected on your credit and, at minimum, you'll be expected to explain any derogatory items that are of public record. In most cases, you'll be required to provide proof of satisfaction of any liens or judgements. Having open public records on your credit will really hurt the score.
- Bankruptcy: Bankruptcies typically reflect themselves on your personal credit for 7-10 years after they have been dismissed. If you have filed BK, it is important that you start rebuilding your credit as quickly as you are able. Being a startup and having a bankruptcy on your bureau, even if it is dismissed, will make it very challenging to get approved without providing additional collateral.
- Slow Payments: Slow payments, especially recent ones, can really derail a credit score and it can take months to get it back up after it goes down

It's always a good idea to keep tabs on your personal credit and you can request one bureau per year from each credit reporting agency (Trans Union, Equifax, Experian). However, keep in mind that the

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credit scores that you'll see on the bureau provided to you by the reporting agency is not always going to be the same as the score a bank or other lender will be looking at.

The good news is that not all lenders will base a decision on JUST a credit score. While there are a number of lenders that will feed all of your information into a scoring model and it will pop out an approval or a decline based on that model, there are plenty of "story lenders" that will use your scores as just a portion of the total underwriting criteria. All is not lost if you don't have the highest score on your block, but it will pay dividends to keep an eye on your credit and understand what factors drive the score up or down.

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Rick Wehner founded Brewery Finance in 2005 and has since provided nearly 1500 startup and established brewers with vital equipment funding to help them launch, grow and flourish.