

A man with glasses and a woman with curly hair are sitting at a desk, looking at each other and talking. The man is on the left, wearing a grey jacket over a blue plaid shirt. The woman is on the right, wearing a tan blazer over a white shirt. They appear to be in a professional setting, possibly a meeting or a collaborative work environment. The background is slightly blurred, showing what looks like a whiteboard or a wall with some papers.

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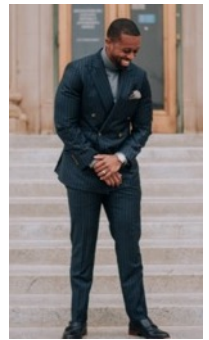
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# A STEP BY STEP GUIDE ON ESTABLISHING BUSINESS CREDIT

## 2021



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## THE AUTHOR

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**Some small business owners find the subject of business credit intimidating or overwhelming.**

**If you take a step-by-step approach like the one outlined in this eBook, it'll be easier to build your business credit with confidence.**

**You can do it!**

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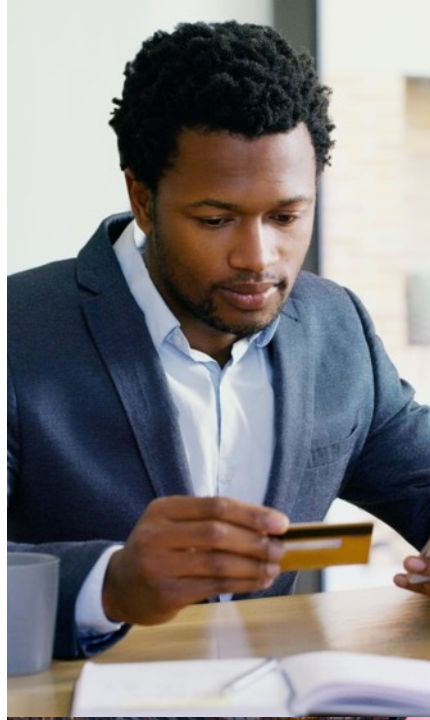


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Whether you own a new or existing small business, obtaining business credit is a considerable addition to the likelihood of your business success. It enables you to access the type of capital needed for daily expenses, personnel, inventory, and scaling up for expansion.

Unlike many aspects of entrepreneurship that are somewhat nuanced, the steps to leveraging business credit are more cut and dry. When executed, your business becomes more available for financial opportunities.

Banks, lenders and suppliers rely on business credit reports to assess the creditworthiness of a company. Having strong business credit creates space for your business to have less trouble accessing the funds needed to execute against your short- and long-term goals.



## STEP ONE

# Choose Your Company Structure

To acquire business credit, you should select a business structure to form your business entity through. It's important to understand that each different type of entity has its own respective implications that impact ownership of assets, taxes, etc., so choose wisely.

Here are some common types of entities (you can get details about each of them [here](#)):

- **Sole Proprietorship**
- **Partnership**
- **LLC (Limited Liability Company)**
- **Corporation**





## STEP TWO

# Register Your Business

Once you've formed your business entity, it's time to legally register the business. It's a step that depends on the location of your small business, as well as the type of company structure you've selected. Be prepared to properly research distinct instructions for your location.

- **Decide on a business name (or you can use your name if you chose a Sole Proprietorship).**
- **Check your state to see if that name is currently being used or has already been claimed.**
- **If you're filing for an LLC, you will have different instructions based on your state.**
- **If you're starting with a Sole Proprietorship, you can register for a Doing Business As (DBA) (optional). This will help you open a business bank account and do more business under your business name vs. your name.**





## STEP THREE

# Get Your Employer Identification Number (EIN)

An **Employer Identification Number (EIN)** is also known as a **Federal Tax Identification Number** and is used to identify a business entity. You'll know if you need an EIN number depending on your answer to the following questions:

- **Do you have employees?**
- **Do you operate your business as a corporation or a partnership?**
- **Do you file any of these tax returns: Employment, Excise, or Alcohol, Tobacco and Firearms?**
- **Do you withhold taxes on income, other than wages, paid to a non-resident alien?**
- **Do you have a Keogh plan?**

If you answered yes to any of the above, you can apply for an EIN online at the IRS website [here](#).



## STEP THREE

# Get Your Employer Identification Number (EIN)

Are you involved with any of the following types of organizations?

- Trusts, with some exceptions; consult your tax professional
- Estates
- Real estate mortgage investment conduits
- Non-profit organizations
- Farmers' cooperatives
- Plan administrators

If you answered yes to any of the above, you can apply for an EIN online at the IRS website [here](#).



## STEP THREE

# Get Your Employer Identification Number (EIN)

You can apply for an EIN online at the IRS website [here](#).



- You'll select what type of entity you are (if you start as a Sole Proprietor, you will have to get a new one when you want to start an LLC).
- You'll answer questions about what type of business you have (Retail, Consulting, Real Estate, etc.)
- Input when you started your business activities (it's okay if your business is brand new, just get it done!)

You may or may not receive your EIN the same day you apply for it. It can take a few days to receive it. Make sure you save the whole document to your computer as a PDF! You will need this when you first open a business bank account.

## STEP FOUR

# Open Your Business Bank Account

When your business is registered, meaning you have either an LLC, or you have registered your DBA for your Sole Proprietorship, you can apply for a business bank account.

**\*\*PRO-TIP:** Have your business email, website and phone number ready. This strengthens your application.

For an LLC you'll need to provide your Articles of Confederation, your LLC certificate, and your EIN #

For a Sole Proprietorship you'll need your business registration in your state, (this can be your DBA) and your EIN #

For some banks you can apply and submit everything online; with other banks, you may need to go to the branch

### Examples of Online Business Bank Accounts:

- BlueVine
- Novo
- NBKC

### Examples of Traditional Business Bank Accounts:

- Chase
- Bank of America
- US Bank

## STEP FIVE

# Keeping a Good Rating

After establishing your business account, you must make it a point to keep a good bank rating. Lenders will use information about your checking, savings, and assets to determine whether you have the capacity to take on more debt. Even if your business has been up and running for a considerable amount of time, something like inconsistent or low cash flow can prevent credit approval.

- **Your bank rating is based on how much you keep in your account and your activity in that account over the past 3 months.**
- **Make it your goal to have \$10k or more in cash flow sitting in your account at all times. (Start with what you can and build up to this).**
- **Ensure you have more deposits coming in than withdrawals.**
- **The better your bank rating, the higher likelihood you will get approved when you apply for a loan or business credit card with that bank.**

Bank Rating	Account Balance
Low 4	\$1,000-\$3,999
Mid 4	\$4,000-\$6,999
High 4	\$7,000-\$9,999
Low 5	\$10,000-\$39,999
Mid 5	\$40,000-\$69,000
High 5	\$70,000-\$99,999

## STEP SIX

# Establish records with credit reporting agencies



Establishing a business credit profile is an important step for any small business owner. Maintaining a credit report specifically for your business helps protect your own personal credit rating and reduce your personal liability by keeping your business accounts and transactions separate.

Demonstrating a solid credit history for your business through a third-party source like a credit bureau gives you a better chance of qualifying for more credit, scoring lower interest rates and better terms for loans, getting better insurance rates, and showing the health of your business to potential investors.

Although there are more than two dozen business credit agencies, the U.S. Small Business Association suggests focusing on three major bureaus: Dun & Bradstreet, Experian Commercial, and Equifax Small Business.

# Establish records with credit reporting agencies

## Dun & Bradstreet

- **A DUNS number reports to the #1 business creditor, Dun & Bradstreet. A DUNS Number is a unique nine-digit identifier for your business. It identifies your company as being distinct from any other in the Dun & Bradstreet Data Cloud. DUNS Numbers are often referenced by lenders and potential business partners to help predict the reliability and/or financial stability of the company in question.**
- **You can get a DUNS number for free by going to the Dun & Bradstreet website and requesting one.**
- **You will fill out the requested information such as your business name, address and phone number.**
- **You will also provide the year you started your business, the number of employees, and the nature of your business.**
- **It typically takes about 10 business days to receive it. You will get a phone call from their customer service line to verify your identity.**

**\*\*PRO-TIP:** If you are located outside of the US you can still register for your DUNS number online. You can leave the EIN field blank if you don't have one.



# Establish records with credit reporting agencies

## Experian Commercial

- **This record is created when you have lines of credit reported on your business name and EIN. Experian recommends you have your business registered in your state and establish a dedicated business phone line with a publicly listed number.**
- **Choose vendors that report to Equifax (more on this later). To verify, simply ask them!**

## Equifax Small Business

- **Similar to Experian, you need to get tradelines with accounts that report to Equifax, like banks and leasing companies.**
- **Look for companies that are part of the SBFE (Small Business Financial Exchange, Inc.)**

## Nav.com

- **A great way to help establish your business credit is through Nav, a credit monitoring and financing platform for businesses. When you sign up for a paid account with Nav, it will report to D&B, Experian, and Equifax every month. Do this for at least 2-3 months to see results. And you can use Nav's services to find the best financing options for your company.**

## STEP SEVEN

# Establish your business credibility so you increase your odds of approval

Now that you've learned how to register your business, get your EIN, and start the reporting of your business score to D&B, Experian, and Equifax, it's important to make sure that you have your business credibility checklist in order before you start applying for loans.

- **Business Name:** Full Legal Name including DBAs must match what's listed in public records.
- **EIN Number:** Make sure it matches what the IRS gave you; accuracy matters.
- **Business Address:** Needs to be a physical address, not a P.O. Box or UPS.
- **Business Website:** This should properly reflect your brand.
- **Business Email:** Use your domain name in your email address.
- **Business License:** Make sure you have any required license for your industry or state.
- **Business Phone:** You should have your own business phone number under the business name.
- **Public Records:** Make sure you don't have any delinquencies. Pay everything on time.

## STEP EIGHT

# Getting your first lines of credit

A business line of credit (LOC) is a revolving loan that allows access to a fixed amount of capital, which can be used when needed to meet short-term business needs.

**Secured Business Line of Credit:** This type of LOC requires the business to pledge specific assets as collateral to secure the line. Since a line of credit is a short-term liability, lenders typically ask for short-term assets, such as accounts receivable and inventory. Lenders don't often require capital assets, such as real property or equipment, to secure a LOC. If the borrower is unable to repay the line, the lender will assume the ownership of any collateral and liquidate it to pay off the balance.

**Unsecured Business Line of Credit:** This type of LOC does not require specified assets as collateral; however, a general lien and personal guarantee will likely be required. Because there is no specified collateral associated with this type of credit line, the business will likely need a stronger credit profile along with a positive business track record to qualify. Additionally, interest rates may be slightly higher, and unsecured credit lines are often smaller.

## STEP EIGHT

# Getting your first lines of credit

**Vendor Credit:** These are the easiest lines of credit to get at the beginning of your business credit building journey. Most vendor credit companies report to all three of the major business credit bureaus, so make sure you pay bills early and on time.

- **You will not need to supply your SSN in order to secure these accounts**
- **Typically, you will have to place a few orders that you pay yourself; start with orders of \$50 - \$75. Then you can apply for credit (which is a NET 30) account.**
- **This gives you 30 days to pay back the invoice. The earlier you pay, the better!**

### Examples of common Vendor Credit lines:

- **Uline**
- **Quill**
- **Grainger**
- **Summa Office Supplies**
- **Crown Office Supplies**



## STEP EIGHT

# Getting your first lines of credit

**Retail Credit:** Using retail credit, you can start getting approved for store accounts with Amazon, Target, Walmart and many others using your EIN, not your SSN .

- **Make sure you have at least 2-3 months of credit reporting from your vendor tradelines before you apply.**
- **You can apply over the phone or online.**
- **With these, you can use them to purchase supplies, etc., but make sure you are paying early and in full when possible! This is great for increasing your business credit worthiness.**

### Examples of Retail Credit Options:

- **Walmart Business Store Card**
- **Amazon Rewards Card**
- **Target Business Account**
- **Best Buy**
- **Staples**



## STEP EIGHT

# Getting your first lines of credit

**Credit Cards:** You might consider applying for business credit cards. Unless they are store cards like the ones I mentioned earlier, most of these will require you to add your SSN and will check your personal credit.

- **Before you apply for business credit cards it's a good idea to ensure that your vendor tradelines and retail tradelines have reported for at least 4 months to all bureaus.**
- **You also want to make sure your personal credit is at least at 680.**
- **Consider adding a tradeline to your own credit so that you can show you already have a \$10k line in your name.**

### Examples of Business Credit Cards:

- **Chase Business Card**
- **Bank of America Business**
- **US Bank Business Card**
- **American Express Business**
- **Discover Business Card**



**\*\*PRO-TIP:** Call & Apply over the phone for higher approval odds. Ask to speak with the Business Lending Department.

## STEP EIGHT

# Getting your first lines of credit

**Secured Business Cards to start:** If you are still building your personal credit and unable to get approved for an unsecured Business Credit Card, you may be able to start with a secured one so you can continue building a positive payment history.

### Examples of Secured Business Credit Cards:

- Wells Fargo secured business credit card
- Metro Credit Union Secured Business Card
- BBVA Compass Secured Visa Business Credit Card





## STEP EIGHT

# Getting your first lines of credit

## Obtaining a Business Loan (Secured)

- Obtaining a business loan from a bank may provide a powerful boost to your business credibility and to your business score.
- Rather than risk denial time after time, you can guarantee your own business loan by securing a certificate of deposit (CD account) at the bank in exchange for an extension of the loan.
- What you are doing is giving them collateral. This is ultimately making them more comfortable and confident with giving you the loan because you've essentially funded it yourself with the CD.
- This makes you very low risk, so the bank feels they have nothing to lose.



## STEP EIGHT

# Getting your first lines of credit

**Benefits of starting secured:** There are several benefits to starting with a secured business loan or credit card. This method is an effective way to maximize your chances of being approved for actual unsecured loans and lines of credit in the future, as long as you maintain a good payment history.

- **These will report every month just like any other account.**
- **You are building a positive relationship with the lending institutions.**
- **When you apply for your next loan, you will have a historical advantage and you may be more likely to get approved.**



## STEP EIGHT

# Getting your first lines of credit

## Other ways to build business credit

- **Kabbage:** Create an account and utilize their merchant services to start building business credit.
- **Secured Savings Loan:** Similar to CD business savings loan, but you can use your business account.
- **Paypal:** Setup a business account and send invoices to your customers.
- **Gas Cards:** Cards like Chevron or Texaco are relatively easy to get approved for after you have 3-4 months of good reporting history.





# THANK YOU

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