

Three Business Credit Myths Debunked

A lot of people don't understand the consumer credit system, and many more don't understand the business credit system. Today I'm going to cover a couple of common business credit "myths", and explain the truth that can be learned from them.

Myth #1: Business Credit is Just Like Personal Credit

This sounds like it ought to be true, but it just isn't. Sure, the credit systems are similar. However, there are some very major differences that can seriously affect your business. For starters, the consumer credit system has, both in court and in congressional testimony, been demonstrated to be fairly anti-consumer. The system works against consumers in many cases, is prone to errors, and tends to resist the correction of any errors by consumers or their advocates. (In one example, even after a credit bureau was sued and lost in court, they continued to refuse for months to remove the incorrect information from the person's credit reports.) The business credit system is quite different. It is not anti-business (or anti-consumer), it is less prone to errors, and when there are legitimate errors, they are generally easier to get corrected.

Myth #2: It Doesn't Hurt To Use Personal Credit In Place of Business Credit

This is a problematic way of thinking that can lead to big problems down the road. Using personal credit for business purposes puts your personal credit at risk for the sake of your business. By using personal credit for business, you limit the resources available to you personally and to your business, and the end result could be disastrous. Imagine when your business credit needs exceed your personal credit capacity--and when YOU need to use your personal credit and can't because it's been tied up by your business. No matter how you spin it, in the end using your personal credit for business is a bad idea.

Myth #3: Business Credit and Personal Credit Are In No Way Related

While using your personal credit for business use is a bad idea, we can't exactly separate business credit and personal credit completely. In many cases, especially when starting out with business credit, an owner of the company will be required to provide a "personal guarantee" for the business credit loan or line of credit. When providing a personal guarantee, the company extending credit will not only check your business credit, but will check your personal credit history. While the business account won't show up on your personal credit report, the personal guarantee could eventually affect your personal credit in the event that the business fails to meet its obligations. Obviously, you should aim to avoid that scenario (and certainly can) by careful planning and smart use of business credit.



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