

# Does a Business Loan Affect Personal Credit?

Venturing into the startup culture has been a dream come true for many. A lot of ambition and a whole lot of hard work goes into the upbringing of the company. While starting on your own might be daunting, you need to understand the financial best practices that'll set you up for success in the long run.

Here's a piece of information for the ones who are new to the business world. A credit score is an important factor in determining your eligibility for loans. It's the numbers that showcase your potential to pay off debts and also mentions your worth. This way the bankers can have their satisfaction levels running high. These days, the majority of financial institutions use the FICO model. If your credit score is clean, there's nothing you need to worry about.

## Difference between personal and Business loan

The major difference is in the process. Personal loans are quicker and have minimal requirements. Personal loans can be used for anything without questions asked.

Whereas, a business loan is with a set of pre-requisites and a tough approval process. You need to have a well-written business plan and cover all the aspects of operating a business. Ideally, you'd use the business loan to invest in technology or acquire assets for the company. In very rare cases, you're allowed to pay off debts.

## What makes a good credit score?

Ranging from 300-850, the credit score is based on your credit report. This document contains all the relevant information like the debts you own, payment history and the length of your credit history.

The lenders/banks have differing requirements when it comes to credit scores. To maintain a good credit score, it's best to follow the guidelines:

- Keep checking your credit history regularly
- Pay the credit as and when required
- Keep the credit balance below limit

- Pay off overdue immediately
- In case of a violation, try and fix it as soon as possible
- Do not apply for too many credit loans at the same time

## When does a business loan affect your personal credit?

There's no doubt that your business loan will affect your credit. Especially, if you hold yourself accountable for a business account. Based on the type of business, there are various ways it could impact your personal credit.

### **Small Business loans**

These types of loans are guaranteed by an individual. When you're a sole proprietor, you're in charge of the payments even if your business fails to take off. In simple words, you're personally liable which can affect your personal credit report.

Sometimes when you're too excited and avail personal loans that are used for your business, it affects your credit report. A small tip to keep in mind, do not use your personal credit card for business.

### **Best ways to build Business credit**

Like personal credit, being able to build solid business credit is mandatory. These are a few ways you could indulge in the journey.

- Register your business with the credit report agencies
- Have a separate bank account for your business
- Check your business credit regularly and report any inaccurate information
- Refrain from using personal credit for business purposes

## How to save yourself from keeping both credits separate?

There's no need to be grieved by the information aforementioned. There are numerous ways to keep your business credit unconnected from your personal credit.

## **Choosing the right business model**

Always keep your business and personal accounts different. Business models play a vital role in the risk calculation. A sole proprietorship is the most prominent and dangerous. You're solely liable for the debts that your business has. On the other hand, LLC and corporations make the distinction clear. You are in no way responsible for the losses. Take into consideration all the factors and seek law advice is necessary.

## **Optimum use of Business credit cards**

Opt for a card that gives you prompt notifications. Keep track of everything under your business credit. A small mistake might cause you irrevocable losses.

## **Best-fit alternatives**

While business loans are deemed valuable, mixing personal loans could result in unforeseen circumstances. Choose wisely the alternative options and keep in touch with your legal advisor.

A personal credit history reflects your ability to handle and pay off the loans but in any case, a business loan is the best option to go with. Without a doubt, your personal credit will be the base for decision making. Additionally, never forget to keep the communication consistent with your lenders.