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Your business takes your personal credit score very personally

Some private business owners are not aware of how important their personal credit score is to the approval of their business loan. But in fact, the credit scores of the owners often play an instrumental role in the outcome, and few things kill a request sooner than the borrower's principals reporting shoddy personal finances.

Your personal credit score goes a long way towards establishing your credibility with nearly any business creditor you approach. Walk in to a bank with a business loan request backed by owners with stellar personal credit, and watch the effort the lender makes to get to a mutually beneficial outcome. Take that same business and loan request to that same bank and have it backed by principals with average to poor credit scores, and prepare for lengthy credit underwriting process, the kind we all wish to avoid. And prepare to be declined more often than not.

With consumer credit, the credit bureaus affix a number to our foreheads based on our payment histories and debt levels. These numbers pretty much determine our credit request fate. The number is in constant motion, moving up and down with each month's payment performance, constantly fed with fresh information. It makes it easy for lenders to decide yes or no. Report a score at 800 above and you are rubber-stamped; low 700s and above, and you get approved nearly every time. Carry a score between 600-700, and you will find credit, but not from all places. Scores in the 500s and below have little chance of approval with reputable lenders in today's environment.

For small private businesses, credit approval is more of an art form when compared to the consumer process. Inferior credit reporting information available on private businesses shift much more of the onus on the lender to evaluate risk. It is harder to boil that risk down to a number, though banks do with crude internal risk rating systems.

So the personal credit scores of the owners of a small business borrower offer the business lender with a valuable third party opinion on the credit worthiness of their potential clients.

In our 25 years of business lending, we have regularly seen clients get the loans they need despite being short on collateral, or short on earnings, and despite having too much existing debt or being in the "wrong" industry.

Each of those shortcomings can be mitigated by some other factors or strengths the borrower possesses, and most lenders will look for ways to overcome a wart or two.

Not so with bad credit scores. They let the air out of the balloon before it rises. To overcome low scores, it is certainly better if the low scores are connected to a single event, such as a health matter, or a loss from the housing bust. A pattern of perpetually late and missed payments, conversely, will usually get you labeled as 'toxic" to most lenders, and with good reason.

These days, business owners need to manage their personal finances and credit scores just as actively as they do their business, and treat them as the asset they are.