



## GUIDE TO YOUR BUSINESS CREDIT SCORE

## What makes up my business credit score?

Your business credit score works very much like your personal one. Banks and lenders in general use it to make informed decisions about the risk your business presents when you apply for a loan or a financial product. In short, **your business credit score may affect whether your application will be accepted and impact the rates you will be offered.**

*Your business credit score may affect whether your finance application will be accepted, and impact the rates you will be offered*

So understanding what it is, why it is important and how you can improve it is a big step in your entrepreneurial journey. In this guide, we will explain some of the key areas that determine your score, how to read your business credit report and, above all, how you can improve it over time.

The Credit Passport® business credit score provides a clear picture of your business. It includes:

- Business background information
- Company financial information
- Business credit score and potential risk factors
- Summary of banking, trade, and collection history
- Summary of liens, judgements, and bankruptcies
- Uniform commercial code filings
- A summary of your liquidity status

## What does my business credit score mean?

*Credit Passport® provides an instant, powerful and clear view of a company's credit quality*



**Credit Passport is the first real-time credit score** designed to bridge the gap between the financial industry and business owners. **Powered by Open Banking**, it provides an instant, powerful and clear view of a company credit quality.

Credit Passport uses your bank data to show you how the financial system sees you in real time. By having a full overview of your financial reputation, you can improve your score and take confident and deliberate steps to grow build financial strength and grow your business.

The Credit Passport has two elements. The first is a clear, straightforward view, as simple as the energy efficiency scale, where your business credit score can range from E to A++, or red to dark green.

Anyone with a B or above is doing really well, and is able to communicate this with a Credit Passport web badge to boost customer and supplier confidence.

The second element is a % PD, which stands for **Probability of Default**.

Credit Passport is special, as it is constructed to reflect the internal rating systems of large banks, and this PD scale is in line with banking principles set out in international banking regulations. It is the chance (as a percentage) that your business will be unable to meet its payment obligations within 90 days of their due date in the coming 12 months from the date of the score. This is a complicated concept, but it is very useful for lenders to see, as it means they can **accurately price loans** with the confidence that they will be covered, and they **do not have to increase the rates to 'price the unknown'**.

For example, **a company with a 0.5% PD will be scored as a B, which is all you really need to know.** For the lender, it means that for a 1 year loan, there is a 0.5% chance it that payments will be missed. In other words, if they lent to 200 companies with this score, one of them would default. However, if the loan term was 5 years, out of 200 companies, then 5 of them would default before the loan was paid back. This way, they know what interest rate they can charge and not be overall at a loss.

In our scale, most small companies in the UK will score as a C or B, which we also refer to as Moderate or Sound Credit Quality. **Anyone with a B or above is doing really well**, and is able to communicate this with a **Credit Passport web badge, to boost customer and supplier confidence.**

A higher credit score, which reflects a good company's performance and creditworthiness, indicates low risk to potential lenders, suppliers and customers. On the contrary, a lower credit score (LOW & CRITICAL as per our scale) may mean that you may have difficulty accessing credit and financial products, or end up paying more for finance.

## Mapping Table

To facilitate the understanding and interpretation of a 'PD', this table shows the RiskCalc™ 'EDF' from Moody's Analytics, and shows how this aligns with risk indicators from Credit Passport®

### CREDIT PASSPORT SCALE

The Credit Passport® letter scale can also be interpreted in accordance with the following qualitative assessment:

<b>A<sup>++</sup></b>	<b>EXCELLENT</b> CREDIT QUALITY
<b>A<sup>+</sup></b>	<b>HIGH</b> CREDIT QUALITY
<b>A</b>	<b>GOOD</b> CREDIT QUALITY
<b>B</b>	<b>SOUND</b> CREDIT QUALITY
<b>C</b>	<b>MODERATE</b> CREDIT QUALITY
<b>D</b>	<b>LOW</b> CREDIT QUALITY
<b>E</b>	<b>CRITICAL</b> CREDIT QUALITY

RiskCalc™ Implied Ratings	Credit Passport Scale	Probability of Default
Aaa.edf	A <sup>++</sup>	
Aa1.edf		
Aa2.edf		
Aa3.edf	A <sup>+</sup>	
A1.edf		
A2.edf		
A3.edf	A	
Baa1.edf		
<b>Baa2.edf</b>	<b>B</b>	<b>0.311%</b>
Baa3.edf		
Ba1.edf		
Ba2.edf	C	
Ba3.edf		
B1.edf		
B2.edf	D	
B3.edf		
Caa.edf		
	E	

The display of RiskCalc™ implied ratings is for interpretative guidance only and should not be read as suggesting that a Credit Passport® assessment or the implied rating is equivalent to an agency credit rating



## How is my business credit score calculated?

Your business credit score is calculated based on a variety of inputs. On your financial history, and your track-record of paying back previous business loans and borrowings, as well as how timely you were with the payments and in Credit Passport's case, also your cashflow management and your current exposure to the financial system as indicated via your connected bank accounts.

### Key aspects that might affect your financial assessment are:

- Size and age of your business
- Your industry
- Past repayment history if your business has borrowed before
- Amount of existing credit available to your company
- Number of past applications for finance (and whether you were successful or denied)
- Trade credits you may have secured
- Existing company accounts
- Details of ownership
- Outstanding County Court Judgements, if any
- The amount of liquidity in your bank accounts
- If you manage your finances well
- If your business is showing positive or negative signals

## How is Credit Passport different?

Most credit scores are created by looking at the amount of debt you or your company has with the financial system. For companies, it is also common to look at your most recent filed company accounts. However, these accounts usually reflect finances from 12 or 18 months earlier, and the debt only tells one side of the story.

Credit Passport is different. **It is the only credit score for business created in real-time, that reflects the fast-changing nature of SMEs.**

Credit Passport connects to your bank accounts using Open Banking and **updates daily**. It has been designed from the ground up to reflect how your own bank views and makes lending decisions about you, giving you rare insight into **what you need to do** to be seen in the best light, how to be **more financially resilient**, and how to **access the lowest lending rates**.

*Credit Passport has been designed from the ground up to reflect how your own bank views and makes lending decisions about you,*



## Why your business credit score is important

*Keeping a good Credit Passport score means your business is strong, healthy and ready.*

- A good credit score shows lenders that you are a reliable company and that **you are more likely to be on-time with your payments**. Keeping a good business credit score will make it **easier to grant credit** and to negotiate more favourable conditions, such as **more competitive interest rates**.
- A poor business credit score may be caused by missed loan repayments in the past and it means you may struggle to finance your business with lines of credit and you'll likely only be offered high interest rates if you are in fact granted credit.
- Over the lifetime of your business, keeping a good business credit score is key to ensuring you can continue to access the best credit, insurance options, lower interest loans and other financial products.
- Knowing what options are available to you will help you make the right decision for your business supporting your financial stability and growth.

Remember that a good business credit score is about more than just defaulting on your loans. It also means you are a **resilient and financially healthy company that is well placed for financial growth or to survive unexpected challenges**. Keeping a good Credit Passport score means your business is strong, healthy and ready.

## Credit Passport - Next Steps

Constantly monitoring your credit score will help you make informed and confident financial decisions. **It is very important to be aware of your financial status and immediately take action if anything is impacting it negatively to avoid a performance dip.**

Credit Passport Plus Plan for just £20 per month plus VAT gives you access to your full real-time digital report, including the specific indicators that are having the biggest positive or negative effect on your business credit score.

Remember if you have any questions, you can get in touch with the Credit Passport team via web chat or email and we'll do our best to help you out.

