

2019

INSTRUCTOR GUIDE



BUILDING CREDIT

MONEY SMART for Small Business



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ACKNOWLEDGMENTS

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Contents

GETTING STARTED	3
Understanding the Icons	4
TRAINING OVERVIEW	5
Purpose	5
Preparing for Class	5
Learning Objectives	6
Presentation Time	6
Materials and Equipment	6
Credit Module at a Glance	7
Welcome	8
Participant Guide.....	8
Agenda	8
Learning Objectives	9
What Do You Know?	9
Before and After: What Do You Know?	11
Pre-Survey.....	12
SECTION I: The Big Picture: Credit Reporting and My Business	13
Why Are Credit Reporting Agencies Important to My Business?	13
Definition of Credit	14
Personal Credit History Versus Business Credit History	14
The Importance of Credit for a Business	15
The Personal and Business Credit Spectrum.....	16
Case Study: Meet Eco-Grow Solutions.....	17
Credit and Your Business	18
SECTION II: The Impact of Personal Credit on My Business	19
What Is a Personal Credit Report?	19
Major Consumer Credit Reporting Agencies	20
Personal Credit Report Information	20
Credit Inquiries	21
What Does NOT Appear on a Personal Credit Report?	22
What Is a Personal Credit Score?	23
FICO® Score and VantageScore®	23
What Is a Good Personal Credit Score?	24
Keeping Up With Your Personal Credit Report.....	24
Keeping Up With Your Personal Credit Report.....	24
Fair Credit Reporting Act	25
Exercise 1: Review a Sample Personal Credit Report	26
Sample Personal Credit Report.....	26
Best Practices for Building a Strong Personal Credit History	29
When Personal Credit History Is Important for Your Business	30
Check-In With Rosa and Albert.....	31

SECTION III: Business Credit Reporting	32
What Are Business Credit Reports?	32
Personal Versus Business Credit Reports.....	32
The Major Players in Business Reporting	33
What Information Do Business Credit Reports Contain?.....	34
Regulation of Business Credit	35
Business Credit Scores	36
Checking Your Business Credit Report.....	38
Exercise 2: Business Credit Report Checklist.....	39
Sample Business Credit Report	39
Correcting Inaccurate Information	42
Why Should I Establish Business Credit?.....	42
Establishing Business Credit.....	43
Best Practices for Strong Business Credit	43
Check-In With Eco-Grow Solutions.....	44
Building Your Business Credit History	45
SECTION IV: How Lenders Evaluate Your Creditworthiness	45
The Current Landscape of Business Credit Reporting.....	45
Putting It All Together	46
Nontraditional Data	47
Different Lenders, Different Priorities	48
Exercise 3: Compare Lender Criteria and Financing Options	48
Exercise 3: Discussion Questions	50
Best Practices for Entrepreneurs	51
Exercise 4: Self-Assessment	51
SECTION V: Credit Reporting and Business Operations	54
Key Points to Remember	56
Summary	57
Key Resources	57
For More Information	58
National Resources	58
Local Resources.....	59
Post-Survey and Evaluation	60
Post-Survey.....	61
Evaluation Form	62
Glossary of Terms	64

GETTING STARTED

Here are ideas to help you plan and present engaging and productive sessions:

- **Review the Money Smart for Small Business (MSSB) Train-the-Trainer materials.** This resource was designed to train MSSB instructors. It summarizes other Money Smart modules and facilitation suggestions and includes a section on accommodating participants with disabilities. Links to Money Smart materials can be found on the FDIC and SBA websites (www.fdic.gov/moneysmart and www.sba.gov/moneysmart).
- **Use the PowerPoint presentation effectively.** The slides are provided to support and enhance your presentation; they alone are not the presentation. This Instructor Guide contains suggested talking points for every slide, but instructors are encouraged to add their perspective. Participants will appreciate interesting or local examples and brief anecdotes that make the concepts come alive.
- **Make time for introductions.** Introductions allow you to break the ice, create active instructor–participant dialogue, and set the tone for the session. Introductions can also help you gauge the level of business experience of your participants.
- **Recognize the diversity of participant needs.** Assume that some participants are just getting started (Group A), while others have already gone down the path to business ownership (Group B). Where appropriate, Group A and Group B options maybe provided to allow you to anticipate and address the diverse needs of participant groups in some modules.
- **Explain the agenda, materials, and ground rules.** Explaining the agenda, the icons in the Participant Guide, and any provided handouts, in addition to establishing ground rules, helps participants understand how the training will be conducted.
- **Set expectations.** Discussing expectations gives participants the opportunity to tell you what they hope to learn from the training.
- **Explain the learning objectives.** Establishing objectives helps participants place the information they will learn in the proper context and ensures that it is consistent with their expectations.
- **Use the Participant Guide.** The Participant Guide helps participants follow the presentation. Several of the included worksheets and exercises help participants apply key concepts to their specific situation.
- **Prepare for the discussion points, exercises, and case study analysis.** Discussions and exercises help participants reinforce learning. The case study helps enhance understanding by applying concepts to practical, realistic situations.
- **Conduct the pre- and post- surveys, and have participants complete the Before and After and Evaluation forms.** The pre-survey helps determine what the participants already know so that you can customize the presentation accordingly. The post-survey helps gauge how well participants learned the content, which helps you determine






what content, if any, to review and what additional materials participants may want to review on their own. The Before and After form focuses on the learning objectives and helps participants recognize where they have grown in knowledge after completing the training. Also consider using the provided Evaluation form, which gathers feedback on the instructor and the materials.

- **Use a parking-lot chart paper or board.** This option is helpful if you are asked questions that you do not have time to answer or that you will answer later during the training session. Instructors park those questions on a chart or board and then follow up with participants during and after the training.
- **Allow time for breaks.** Modify the suggested agenda accordingly.

Understanding the Icons

This Instructor Guide uses several icons to help you quickly navigate the training.

Notes to the instructor and additional information that should not be read aloud are in green boxes.

	Share Key Takeaway	When you convey the primary message of a section
	Lead Discussion	When you facilitate discussions
	Lead Activity	When you facilitate activities
	Take Action and Closing	When you help participants plan action steps to apply what they learned
	Case Study	When you use a short story to start a discussion or activity about a financial topic

TRAINING OVERVIEW

Purpose

The Money Smart for Small Business (MSSB) Building Credit module summarizes the importance of small business owners having a good personal and business credit history. Lenders use different approaches to assess creditworthiness, including personal and business credit histories.

This training has five sections: The first focuses on the connection between a good credit history and business success generally. The second and third discuss the specifics of personal and business credit reports and scores, as well as best practices for establishing a credit history and improving credit scores. The fourth examines the business reporting landscape in the United States and describes how creditors and other businesses use credit histories to evaluate business loan applications and contracting opportunities. The fifth explains the use of credit reporting services.

For the purpose of this training, “credit” refers to one’s personal or business credit history, reports, or scores, not to lending products and services. This module contains some technical terms. Advise participants to check the Glossary of Terms or to ask you if they are unfamiliar with a term. Glossary terms are specific to this module and can be found at the end of the document. Sections or names of Money Smart modules and resources are **highlighted**.

This Instructor Guide and the accompanying PowerPoint slides are the key documents for instructors. The Instructor Guide serves as a script for each slide. We provide space in the Instructor Guide for you to add notes and examples from your experience, or you can edit the document electronically. The **Participant Guide** is the key document for participants. Please be sure to review the slides and **Participant Guide** carefully, as they contain information you will reference during the training.

Preparing for Class

Each participant will need a **Participant Guide** (printed two-sided), but copies of the slides are not necessary. Before printing the guides, consider adding local information—such as resources in your area that offer technical assistance or responsible options for small businesses—in the **For More Information** section and by editing other sections as needed.

Learning Objectives

After completing this training, participants will understand the following:

- How the personal and business credit reporting landscape relates to their business
- What goes into the personal and business credit reports and scores used to assess credit profiles
- How to establish and build strong personal and business credit histories to support the growth and sustainability of their business
- How lenders and other businesses may use personal and business credit reports and scores to assess lending risk or evaluate other business-to-business opportunities;
- How the use of credit reporting services can help small business owners make sound decisions
- How to leverage strong personal and business credit histories to obtain satisfactory financing terms
- How to recognize when business and personal credit history may become a bigger factor in seeking larger financing options;

Presentation Time

Each section has an approximate completion time. Use the suggested times to personalize the training based on participant needs and the available time. When teaching larger groups, allow appropriate time for discussion and questions.

Materials and Equipment

You will need the following materials and equipment to present this training:

- ☐ Instructor Guide
- ☐ Participant Guide
- ☐ PowerPoint presentation
- ☐ Audiovisual equipment (computer with software to run the slides, projector, and microphone, if appropriate)
- ☐ Board or easel pad

When preparing your materials and resources, be sure to address the needs of participants who request accommodations.

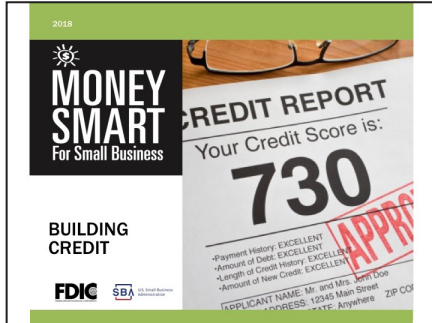
Credit Module at a Glance

Time (in minutes)	Topic	Instructor Comments/Notes
10	Welcome, Pre-Survey, Agenda, and Learning Objectives	
15	SECTION I: The Big Picture: Credit Reporting and My Business (case study introduction)	
30	SECTION II: The Impact of Personal Credit on My Business <ul style="list-style-type: none"> Exercise 1: Review a Sample Credit Report (case study check-in) 	
15	Break	
45	SECTION III: Business Credit Reporting <ul style="list-style-type: none"> Exercise 2: Business Credit Report Checklist (case study check-in) 	
25	SECTION IV: How Lenders Evaluate Your Creditworthiness <ul style="list-style-type: none"> Exercise 3: Compare Lender Criteria and Financing Options Exercise 4: Self-Assessment 	
10	SECTION V: Credit Reporting and Business Operations	
5	Key Points to Remember	
5	Summary, Post-Survey, Evaluation	

Total 160 minutes

Welcome

10 minutes



Slide 1, Participant Guide page 4

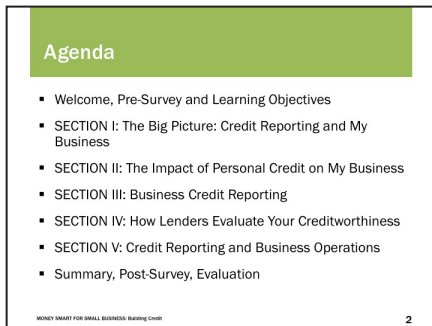
Welcome to **Building Credit**. This class is an important step toward building a better business.

My name is (briefly introduce yourself).

Instructors provide local resources in the “For More Information” section, which is a standard section in all MSSB modules.

Participant Guide

Each of you has a copy of the **Building Credit Participant Guide**. It contains information, discussion points, and exercises to help you learn the material. Take time to review the guide on your own before and after the training. Be sure to check out the **For More Information** section, which lists many valuable resources.



Slide 2, Participant Guide page 4

Agenda

We have a full agenda today, and we want to make sure we cover all of the learning objectives; therefore, we will discuss as a group whether we need to spend more or less time on the different topics based on interest.

Learning Objectives

- Understand how the personal and business credit reporting landscape relates to your business
- Identify what goes into personal and business credit reports and scores
- Learn how to establish and build strong personal and business credit histories
- Understand how lenders and others may use your personal and business credit information

MONEY SMART FOR SMALL BUSINESS: Building Credit
3

Learning Objectives (continued)

- Learn how credit reporting services may benefit your business
- Leverage strong personal and business credit histories for better financing terms
- Recognize when business credit history may become a bigger factor in accessing financing

MONEY SMART FOR SMALL BUSINESS: Building Credit
4

Slides 3 and 4, Participant Guide page 5

Learning Objectives

This training will help you understand:

- How the personal and business credit reporting landscape relates to your business
- How to identify personal and business credit reports and scores
- How to establish and build strong personal and business credit histories
- How lenders and others may use your personal and business credit information
- How credit reporting services may benefit small businesses
- How to leverage strong personal and business credit histories
- How to recognize when your business and personal credit history may become a bigger factor in accessing financing for your business

Slide 5, Participant Guide page 6



What Do You Know?

Before we begin, let's take a few minutes to find out what you know about credit reporting.

If using the What Do You Know? form:

The **What Do You Know?** form on page 6 of your **Participant Guide** lets you compare how much you know before and after the training.

Please take a few minutes now to complete the "Before Training" column of the form. Which statements did you disagree or strongly disagree with?

We will complete the second column when we finish the training to determine what you've learned.

Introductions:

What Do You Know?

- What do you currently know, and what do you want to learn?
- Complete the What Do You Know? form or Pre-Survey and discuss the results.

MONEY SMART FOR SMALL BUSINESS: Building Credit
5

Note: Two resources are available to help instructors assess the participants knowledge before and after the training: **The What Do You Know** form and **Pre-and Post-Surveys**. There is also an **Evaluation** form at the end of the module to capture information about the quality and helpfulness of the overall information provided and the Instructor's presentation.

Consider asking the participants to complete the **What Do You Know?** form and **Pre-Survey** before the training and sharing the average results with them. The **What Do You Know?** form focuses on the learning objectives, while the pre- and post-surveys focus on important concepts and details assumed to be known (pre) or taught during the training (post).

Ideally, participants' answers can help you determine priorities during your training and help you customize it. The proposed agenda does not factor in time to discuss answers to either tool in detail; the allotted time may be used for participants to complete the surveys during class. Consider using a co-facilitator to collect the answers and tabulate them for discussion. Be sure to address knowledge gaps during the training.

If using the Pre-Survey

Take a few minutes to complete the **Pre-Survey** on page 7 of your **Participant Guide**. Which questions were you unsure of or unable to answer?

As we progress through the module and cover the training material, you will be able to determine whether you answered each question correctly.

Now that we know who is here and what you want to know, we will discuss building credit for your business. This training has five sections: The **first** focuses on the connection between a good credit history and business success generally. The **second** and **third** discuss personal and business credit reports and scores, as well as best practices for establishing a credit history and improving credit scores. The **fourth** looks at the business reporting landscape in the United States today and how creditors and other businesses may use credit histories to evaluate small business loan applications and contracting opportunities. The **fifth** covers the use of credit reporting services.

Before and After: What Do You Know?

Instructor: _____ Date: _____

This form will allow you and your instructor to find out what you know about personal and business credit before and after the training. Read the statements below and circle the number that shows how much you agree with each one.

	Before Training				After Training			
	Strongly Disagree	Disagree	Agree	Strongly Agree	Strongly Disagree	Disagree	Agree	Strongly Agree
1. I understand why personal credit history is important to my business.	1	2	3	4	1	2	3	4
2. I know business credit history is different from personal credit history.	1	2	3	4	1	2	3	4
3. I can explain what type of information is on my personal credit reports and what financial actions drive changes to my personal credit scores.	1	2	3	4	1	2	3	4
4. I know what type of information may be on my business credit reports.	1	2	3	4	1	2	3	4
5. I know the steps I need to take to establish and build a strong personal credit history.	1	2	3	4	1	2	3	4
6. I know the steps I need to take to establish and build a strong business credit history.	1	2	3	4	1	2	3	4
7. I understand how lenders and others may use my personal or business credit information to make lending decisions.	1	2	3	4	1	2	3	4
8. I can explain why some services offered by credit reporting agencies may benefit my business.	1	2	3	4	1	2	3	4
9. I know how high or low credit scores may influence my options for financing and other opportunities.	1	2	3	4	1	2	3	4
10. I understand why, as my business grows, my business credit history may become more important.	1	2	3	4	1	2	3	4

Pre-Survey

The correct answers are in bold below.

Assess your knowledge of credit reporting before you start the training.

1. Which of the items listed below may appear on a personal credit report?
 - a. Civil judgments
 - b. Employment**
 - c. Tax liens
 - d. Income
 - e. Former alias**

2. Select all the business credit reporting agencies from this list.
 - a. Dun & Bradstreet**
 - b. Experian Business**
 - c. Equifax Business**
 - d. PayNet**
 - e. Small Business Financial Exchange**

3. Business credit reports do not include public records information about a business.
 - a. True
 - b. False**

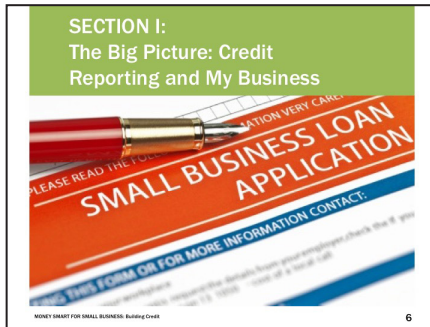
4. Personal and business credit scores are the same thing.
 - a. True
 - b. False**

5. A lender may use the following factors, among others, to determine whether to make a loan to my business (select all that apply):
 - a. My personal credit reports**
 - a. My business plan**
 - b. My business financial statements, financial projections, and account history**
 - c. My personal opinion of the viability of my business

6. You must abide by the Fair Credit Reporting Act if you furnish information to, or obtain reports from, a consumer credit reporting agency.
 - a. True**
 - b. False

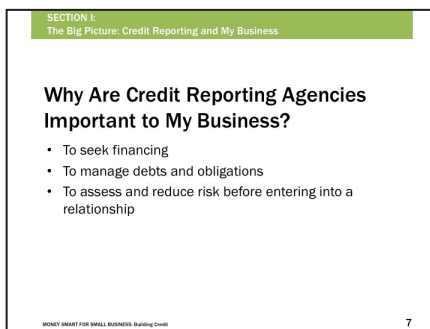
SECTION I: The Big Picture: Credit Reporting and My Business

15 minutes



Slide 6, Participant Guide page 8

We will begin by looking at how credit reporting may be important to you as an entrepreneur and to your business.



Slide 7, Participant Guide page 8

Why Are Credit Reporting Agencies Important to My Business?

As an entrepreneur, your personal and business credit histories can create opportunities or limit them.

- **When you apply for financing**, financial institutions and suppliers will review your personal credit history and may review your business credit history. Credit history helps creditors decide whether to extend financing and, if granted, on what terms.
- **To effectively manage debts and obligations** to financial institutions and trade creditors, you should understand that business lenders may know about your personal debt. Unpaid personal debt can lead to a business loan denial. Healthy business and personal credit histories help grow and sustain a healthy business.

Credit reporting can also help entrepreneurs improve business operations in other ways by helping them assess and reduce risk. For example, you may want or need to request the credit report of a potential business customer to consider your risk before entering into a relationship.

We will discuss using credit reports in your business operations in more detail in **SECTION V**.



Slide 8, Participant Guide page 9

The Definition of Credit

What is credit? Credit is the ability to borrow money based on the promise that you will pay it back. Car loans, credit cards, small business loans, and mortgages are all examples of credit—i.e., financing or lending—products. While using too much credit can lead to large debt loads, being able to use credit responsibly can be critical to your personal and business financial stability and success. For example, having access to financing products can help a business take advantage of investments or manage unexpected cash flow challenges.

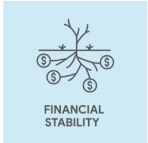
When we use the word **credit** in this module, we are generally referring to business or personal credit history—not capital, financing, or lending. The **Money Smart for Small Business Banking Services** module provides an overview of the different types of financing options, sources, and products and services provided by banks and others.

SECTION I:
The Big Picture: Credit Reporting and My Business

★ **The Definition of Credit**

Credit is:

- the ability to borrow money or goods based on the promise that it will be paid back; and
- important for the financial stability and success of individuals and businesses.



MONEY SMART FOR SMALL BUSINESS: Building Credit

8

SECTION I:
The Big Picture: Credit Reporting and My Business

★ **Personal Versus Business Credit History**

Personal Credit History	Business Credit History
A record of your use of credit reported to consumer credit reporting agencies.	Your business's record of handling debts and financial obligations reported to business credit reporting agencies.

MONEY SMART FOR SMALL BUSINESS: Building Credit

9

Slide 9, Participant Guide page 9

Personal Credit History Versus Business Credit History

Today, we are going to talk about personal credit history and business credit history. Let me explain what I mean by each of these terms.

- **Personal credit history.** Also called consumer credit history, your personal credit history is a record of your use of credit now and in the past that is reported to consumer credit reporting agencies.
- **Business credit history.** Also called commercial credit history, your business credit history refers to your business's record of handling debts and financial obligations that are reported to business credit reporting agencies, including supplier accounts that provide trade credit.



Ask a volunteer to share what type of business he or she owns, and use the volunteer's example to explain how personal and business credit may be important to that particular business. For example:

"We have just learned that [PARTICIPANT NAME] has a [BUSINESSTYPE] business. When [PARTICIPANT NAME] uses personal credit cards and loans, these records become part of [his/her] personal credit history and are reported to the consumer credit reporting agencies.

When [PARTICIPANT NAME] borrows money or opens accounts and credit cards in the name of [his/her] business, these records may become part of [BUSINESS NAME]'s credit history. By having a record of business credit activity, [BUSINESS NAME] will likely have access to more business growth opportunities, such as access to credit with financial institutions and vendor lines of credit."

Participants may not know the difference between a personal and business credit history, but this discussion will allow you to clarify concepts that will be explained later in the training.



Slide 10, Participant Guide page 10

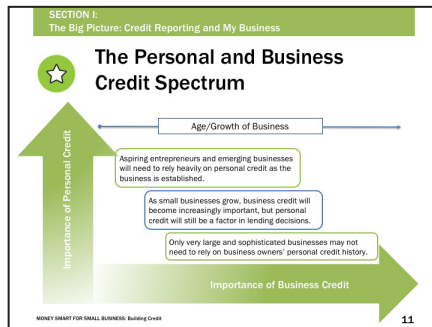
The Importance of Credit for a Business



Invite participants to suggest reasons why they believe that credit might be important to small businesses. Then continue the explanation using the chart on the slide.

Having strong personal and business credit histories can support the growth and sustainability of an emerging small business. For example, a strong credit history:

- allows access to financing to start or expand a business;
- enables acquisition and financing of raw materials and inventory;
- allows investment in equipment, materials, vehicles, and other market opportunities; and
- facilitates borrowing money to help businesses address working capital shortfalls. For example, a business may use a line of credit to accumulate inventory for an upcoming sale season or to fill a large order.



Slide 11, Participant Guide page 10

The Personal and Business Credit Spectrum



Instructor: As you explain the concept of moving from personal to business credit, it is important to recognize that there is no standard threshold (in terms of business size or amount of financing sought) that determines whether lenders will no longer need to examine an entrepreneur's personal credit history and instead rely only on his or her business credit history. Try to represent this concept as a continuum. For small businesses, the personal credit of the owner(s) remains relevant throughout the entire life cycle of the business.

It takes time for a business to build a credit history. Entrepreneurs often have to assume the responsibility of financing their business, particularly during the start-up phase; therefore, personal credit history is extremely important. However, entrepreneurs should aspire to establish a positive business credit history as they grow so that they can bolster their financing and other opportunities over time.

Let's discuss this chart, which shows the continuum of personal and business credit:

- If your business is new, lenders will review your personal credit history as they decide the terms of financing for your business because they have limited business history and credit performance to evaluate. Lenders view your personal credit history as an indicator of how you will likely manage your business finances.
- Establishing a credit history under the name of your business, through trade relationships with your suppliers, and/or through a business credit card, may also help you obtain additional credit for your business in the future. As the business becomes more mature, business credit history becomes more meaningful. Even so, it is common for entrepreneurs to be required to personally guarantee and/or cosign business loans.
- Underwriters may place greater weight on business credit history for larger, more experienced, and well-resourced businesses. However, a business owner's personal credit history remains relevant for most small business financing.

To maximize your business success, it is important to fully understand what you can do to build a strong personal AND business credit history.

Slide 12, Participant Guide page 11

Case Study: Meet Eco-Grow Solutions



Instructor: Refer participants to the introduction of this case study on page 11 of the **Participant Guide**. Read (or ask a volunteer to read) the following description.




Rosa is 21 years old and wishes to patent and sell a plant nursery irrigation system. She is partnering with her father, Albert, an avid gardener and retired veteran with a disability, who opened his own commercial nursery two years ago.

Rosa grew up gardening with her father. While in high school, she developed an innovative, water-efficient irrigation system for their home flower and plant nursery. This experience increased her interest in science and technology and led her to pursue a biochemistry and agribusiness degree. She is in her second year of college and has developed an eco-friendly plant nursery technology as part of her studies. Her father has incorporated this system into his nursery business, and Rosa and Albert believe that there is a market to sell this technology to commercial nurseries and farmers; therefore, they need financing to develop this line of business.

Eco-Grow's revenue is under \$80,000 a year: about \$60,000 from three contracts for providing gardening services to government buildings and about \$20,000 from sales to retailers.

Albert already has a business bank account because it is a requirement to do business with government agencies.

SECTION I:
The Big Picture: Credit Reporting and My Business

 **Credit and Your Business**

- Have you applied for business loans or lines of credit in the past?
- What information and documentation did the lender obtain or request from you during the loan application process?
- Did the lender tell you if he or she would need to check your credit history?

MONEY SMART FOR SMALL BUSINESS: Building Credit

13

Slide 13, Participant Guide page 12

Credit and Your Business

Facilitate a group discussion on the following questions:

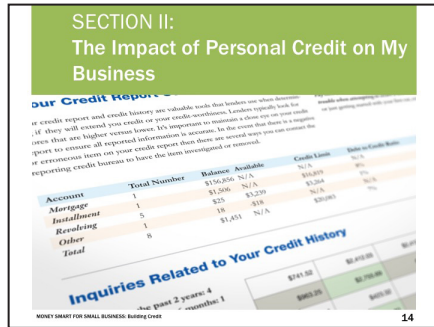
- Have you applied for business loans or lines of credit in the past?
- What information and documentation did the lender obtain or request from you during the loan application process?
- Did the lender tell you if he or she would need to check your personal and business credit history?

Make note of questions or areas of confusion that arise from the discussion so that you can follow up with more specific feedback later.



SECTION II: The Impact of Personal Credit on My Business

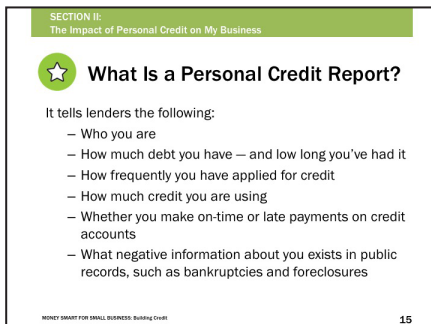
30 minutes



Slide 14, Participant Guide page 13

In this section, we will focus on how to understand and manage your personal credit history and get a better sense of how it might affect your business.

Much of the information in this section is a modified and abbreviated version of the detailed information on personal credit reports and scores that can be found in the **Money Smart for Adults Credit Reports and Scores** modules. We recommend participants review that module or identify an organization offering a training session at www.fdic.gov/moneysmart.



Slide 15, Participant Guide pages 13-14

What Is a Personal Credit Report?

A personal credit report (also called a consumer credit report) is a record of how you have managed credit accounts in the past. It tells lenders the following:

- Who you are
- How much debt you have—and how long you've had it
- How frequently you have applied for credit
- How much credit is available to you—and how much you are using
- Whether you have made timely payments for credit accounts
- Whether there is negative information about you in public records, such as bankruptcies and foreclosures

We will take a detailed look at a sample personal credit report in a moment. First, we will look at the companies that maintain your credit report.

Slide 16, Participant Guide page 14

Credit accounts only include information reported by creditors. It is possible that credit reports do not capture a full record of all debts a consumer owes. Monthly bills such as rent, utilities, or cell phone payments may not show up on a credit report unless the consumer stops paying, at which point the debt may appear as a collection account.

Major Consumer Credit Reporting Agencies

There are three major consumer credit reporting agencies:

- Equifax
- Experian
- TransUnion

These companies receive information from creditors, usually monthly, about whether you are making loan, credit card, and other debt payments on time. They also collect information from public records (e.g., bankruptcy filings, etc.).

Many consumers use online credit education websites to access credit report information and credit scores, but these companies should not be confused with consumer credit reporting agencies.



Slide 17, Participant Guide page 14

Personal Credit Report Information

The reports from consumer credit reporting agencies may look different, but they generally contain the same basic information:

1. Personal identifying information, such as:
 - Name
 - Social Security number, if you have one
 - Current and previous home addresses
 - Telephone number
 - Birth date
 - Current and previous employers
 - Spouse's name, if married
2. Credit history, including credit account records with different creditors that show how much credit has been extended, how much is being utilized, and whether payments have been made on time. The credit history section might include accounts that are open, that have been closed by you or a creditor, or that are in collections. If you dispute a record, you can request the credit reporting agency add a "consumer statement" to the credit report, indicating that you disagree with what is listed.
3. A list of inquiries reported by creditors and other authorized parties (including you) who have requested and received your credit report. Hard inquiries indicate that

SECTION II:
The Impact of Personal Credit on My Business

Personal Credit Report Information

Personal Identifying Information	Credit History	Inquiries	Public Record Information
<ul style="list-style-type: none"> Name Social Security number Current and previous addresses Date of birth Telephone number Names of current and previous employers Spouse (if married) 	<ul style="list-style-type: none"> Open credit accounts Closed credit accounts Charged-off accounts Collection accounts Consumer statements 	<p>Such as...</p> <ul style="list-style-type: none"> A list of businesses that viewed your credit report in the last 24 months, when you applied for credit 	<ul style="list-style-type: none"> Bankruptcies Foreclosures

*If purchased, credit reports also include fraud alerts and credit scores.

MONEY SMART FOR SMALL BUSINESS: Building Credit 17

Note: As time allows, and if participants need further clarification, provide additional explanation on credit **inquiries** and **public records** using the information on page 22.

you may be searching for credit.

4. Public records information about you (as a consumer), if any exist, including bankruptcies and foreclosures.

Certain public records, such as tax liens and civil judgments, may not show up on your personal credit report. If you know or think you may have any liens or judgments against you, please check with the appropriate jurisdiction for more information; do not ignore them just because they do not show up on a personal credit report.*

Credit Inquiries

There are two types of credit inquiries: hard and soft inquiries.

Note: Lenders report that some entrepreneurs have many hard inquiries on their credit reports because they open retail credit card accounts to get shopping discounts. A ten percent discount on a single purchase for opening a new credit card may not actually translate into significant savings if the inquiry lowers your credit score.

- Hard inquiries occur when you apply for credit. They can lower a credit score, often minimally, and account for about ten percent of your credit score. When lenders or other businesses obtain your credit report, they will be able to see up to two years' worth of hard inquiries. Utility companies generally make hard inquiries that affect credit scores. If your credit report is obtained because you are cosigning a loan, this will also result in a hard inquiry.
- Soft inquiries occur when you or others check your credit report for informational purposes, such as when you obtain your own report, a potential employer obtains it, or when a lender determines you are preapproved for credit offers such as a credit card for which you have not applied. Soft inquiries do not affect your credit score. Only you can see them on your personal credit report.

Instructor: The following information is for future reference and will not be discussed during the training.

***A Note on Public Records**

To enhance consumer protections in credit reporting through the National Consumer Assistance Plan, the three major consumer credit reporting agencies must adhere to stricter standards when reporting certain transactions. Specifically, civil judgments, fines that do not arise from a contract for payment, and tax liens no longer show up on personal credit reports. Thus, while the majority of bankruptcy and foreclosure records will continue to appear, public records reported on personal credit reports are likely to be much more limited than in the past. It is critical for entrepreneurs to understand that even if a tax lien or civil judgment does not show up on their credit report, this does not mean that the debt is no longer owed. In addition, such items may still appear in other databases and reports beyond the ones generated by the three major consumer credit reporting agencies.

SECTION II:
The Impact of Personal Credit on My Business

What Does NOT Appear on a Personal Credit Report?

Checking and savings account balances	Business account information
Income	Race, gender, religion, or national origin
Medical history	Driving record
Purchases made with cash, check, or debit card	Marital status

MONEY SMART FOR SMALL BUSINESS: Building Credit

18

Note: If a lender requests information about any type of obligations, borrowers should provide the details, whether they appear on a credit report or not; otherwise, these may be discovered near or on the loan closing date and could be the basis for a loan denial. For example, unpaid parking tickets could lead to a loan denial.

Slide 18, Participant Guide page 15

What Does NOT Appear on a Personal Credit Report?

Can you think of some items a credit report would not include?



Instructor: Ask participants to brainstorm what information is not included on a credit report, and write their answers on a whiteboard or flip chart. Then, advance through the bullets on the slide.

Personal credit reports do not contain the following:

- Personal checking and savings account balances
- Personal income
- Medical history
- Purchases made with cash or check
- Business account information
- Race, gender, religion, or national origin
- Driving record
- Marital status

Business account collection information may appear on your personal credit report if you default on a loan and have debt collection activity that involves personal assets, such as through a personal guaranty or cross-collateralization agreement. In some states, creditors can pursue collection for up to 20 years.

Slide 19, Participant Guide page 16

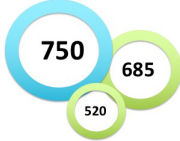
What Is a Personal Credit Score?

Your personal credit score, also known as a consumer credit score, is based on the information in your personal credit report.

SECTION II:
The Impact of Personal Credit on My Business

What Is a Personal Credit Score?

- A number that helps lenders determine your credit risk
- Frequently used score models:
 - FICO® Score
 - VantageScore®
- Many lenders also use their own credit scores.



MONEY SMART FOR SMALL BUSINESS: Building Credit

19

- Your credit score is a number that helps lenders and creditors determine your credit risk—that is, the risk of default.
- It is common for lenders to use credit scores to help make loan decisions.
- Lenders may use one or more credit scores to help make a lending decision, and these scores may predict different types of risk. Lenders may generate the scores themselves or use a score calculated by another company. Credit scores frequently used are generated by two score-modeling companies: FICO® and VantageScore®.




Slide 20, Participant Guide page 16

FICO® Score and VantageScore®

There are multiple credit scores, but we will discuss only FICO® Score and VantageScore®. These two score models are calculated in different ways, but they generally use a score range of 300 to 850. Knowing how the scores are calculated can help you understand how to build or improve your personal credit scores.

SECTION II:
The Impact of Personal Credit on My Business

 **FICO® Score and VantageScore®**

- Typical score range: 300 to 850
- Score factors:

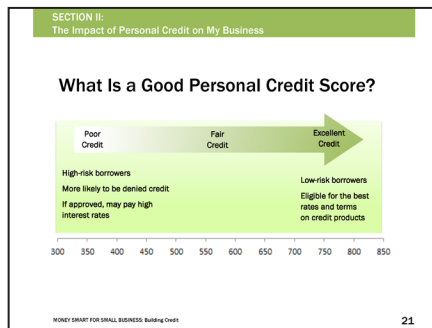
FICO®		VantageScore®	
Past payment history	35%	Past payment history	Extremely influential
Outstanding debt	30%	Age and type of credit	Highly influential
How long you have had credit	15%	% of credit used	Highly influential
New applications for credit	10%	Total balances/debt	Moderately influential
Types of credit	10%	Recent credit behavior and inquiries	Less influential
		Available credit	Less influential

MONEY SMART FOR SMALL BUSINESS: Building Credit

20

- Payment history is the most important factor in FICO® Score and VantageScore® calculations. That is why it is important that payments you make on credit accounts are posted by the due dates.
- Outstanding debt, particularly the percentage of credit used (or credit utilization), is another important factor in the calculation of these credit scores. That is why it is important to avoid keeping high balances on credit card accounts or maxing out any revolving credit account.
- Other factors that influence your scores include the length of your credit history, how often you have applied for credit, and how many and what types of credit products you are using.

The weight of the credit score in evaluating your financing request or in the pricing of financing varies significantly from one financial institution to another.



Remember, we are still only talking about personal credit scores. We will learn more about business credit scores in the next section.

Slide 21, Participant Guide page 17

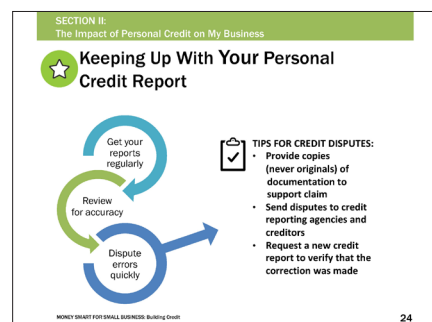
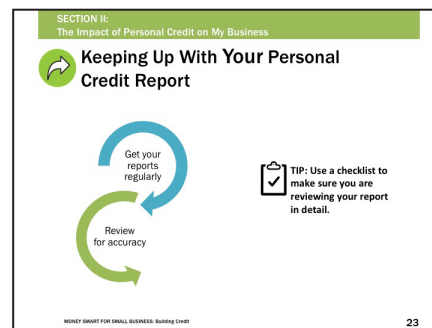
What Is a Good Personal Credit Score?

In general, higher credit scores mean that you are likely to be a lower risk for a lender or, in other words, a better borrower. People with the highest credit scores generally qualify for the best rates and terms on loan products. If you have a low credit score, or no score at all, you may be denied a loan altogether, or you may have to pay a higher interest rate. People with “fair” credit may qualify for some loan products but not for the lowest interest rates. Another material factor for loan approvals is the borrower’s debt-to-income ratio, reflecting the amount of income available to make loan payments.



Slides 22–24, Participant Guide page 17

Keeping Up With Your Personal Credit Report



- At least once each year, order and review your personal credit report for free from each of the three major consumer credit reporting agencies through www.annualcreditreport.com. Doing so regularly, and within 60 to 90 days before you apply for credit, will help you ensure the accuracy of your credit report and address any errors before submitting your loan application. This is particularly important in light of data breaches that occur at different companies. Breaches usually involve your personal identifying information. You may request your free credit reports at the same time from all three credit reporting agencies; however, it’s a good practice to request a report from one company every four months, particularly after an error was corrected on a credit report.
- If there are errors, you can file a dispute. Consider disputing directly with the credit reporting agency that created the report on which you found the error and with the creditor that provided the inaccurate information.
- Provide copies (never originals) of all documentation to support your claim when you file the dispute. Once the error resolution process is completed, request an updated credit report from all three consumer credit reporting agencies to verify that the changes were made, allowing sufficient time for the correction to be made.

- You may be able to file disputes online with the credit reporting agency. When filing a dispute by mail, use an option that generates a tracking number and will provide a notification of receipt. This tracking number and receipt will establish a timeline that determines when you may expect to receive a response from the creditor that reported the information or from a credit reporting agency. When you dispute an account, the creditor or credit reporting agency must respond within 45 days.

Again, we are only talking about personal credit.

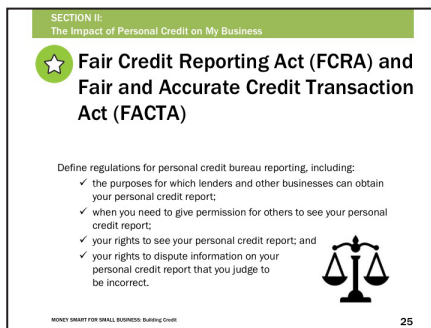


Slide 25, Participant Guide page 18

Fair Credit Reporting Act

The Fair Credit Reporting Act (FCRA) and associated amendments through the Fair and Accurate Credit Transactions Act (FACTA) define key regulations for consumer credit reporting, including the following:

- **The purposes for which lenders and other businesses can obtain your personal credit report.** The FCRA/FACTA restricts the use of personal credit reports to “permissible purposes,” such as extension of credit, employment, and insurance underwriting. Anyone using a personal credit report must have a permissible purpose.
- **When you need to give others permission to see your personal credit report.** In certain cases, such as for employment, consumers must provide prior written permission for others to request and view their personal credit reports. The FCRA/FACTA specifies when and how consumers need to provide permission for others to access their personal credit report.
- **Your rights to see your personal credit report.** The FCRA requires each of the national consumer credit reporting agencies—Equifax, Experian, and TransUnion—to provide a free copy of your credit report, at your request, once every 12 months. In addition, you must be told if information in your file has been used against you. For example, if you are denied a loan because of negative information in your personal credit report, the lender must give you the name, address, and phone number of the credit reporting agency that provided the information that informed the decision within 30 days.
- **Your rights to dispute incorrect information on your personal credit report.** If you identify incomplete or inaccurate information on your report and dispute it with



the credit reporting agency, the creditor must investigate unless your dispute is frivolous. A dispute may be considered frivolous if you are disputing everything on your credit report whether it is incorrect or not. Beware of credit repair organizations that tell you to dispute everything on your report. Also, sometimes loan documents contain language that gives lenders the right to obtain your credit report at their discretion, which is common in an existing credit relationship. If so specified in your loan agreement, you may give them permission to do so by signing the loan documentation.



Exercise 1: Review a Sample Personal Credit Report

Slide 26, Participant Guide pages 19–20

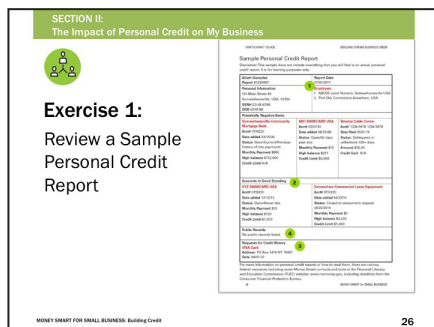
Sample Personal Credit Report

Instructor: Refer participants to the **Sample Personal Credit Report** on page 20 of the **Participant Guide**. As a group, have the participants identify the key sections of the credit report.

We are about to discuss the different sections of a credit report using a sample designed specifically for this course. The sample credit report does not include everything that you would find in an actual personal credit report (for example, the credit reports that lenders use include 24 months of payment history per account).

A personal credit report has four main sections:

1. Personal or consumer information (e.g., name, addresses, and employment)
2. Credit account summary, including creditor information, account status, amounts owed, account type, and history
3. Public record information (e.g., bankruptcy or foreclosure)
4. Inquiries that have been made to review your credit history



What questions do you have about the Sample Credit Report?

In small groups or independently, have participants answer the questions listed on page 19 of the **Participant Guide**.

Inform participants about the Financial Literacy and Education Commission website www.mymoney.gov, which includes various federal agency resources, (search using “credit report” key words).

Is Albert current on all of his accounts?

Answer: No. Albert is behind on his ABC Bankcard account. In addition, he has an outstanding collection account for a cable bill. He was late on one or more mortgage payments in the past, but he caught up.

Does Albert have any open accounts that are in good standing?
If yes, which ones?

Answer: Yes. Albert’s XYZ Bankcard account is in good standing and it is open.

Has Albert applied for credit recently?

Answer: Yes. Albert applied for a VISA card on 04/01/16.

Does Albert have any public records?

Answer: None are listed on this report.

Sample Personal Credit Report

Disclaimer: This sample does not include everything that you will find in an actual personal credit report. It is for training purposes only.

Albert Gonzalez Report #1234567		Report Date 07/01/2017	
Personal Information 123 Main Street #2 Somewheresville, USA 01234 SSN #: 123-45-6789 DOB: 02/01/68		1 Employers 1. ABCDE Local Nursery, Somewheresville, USA 2. Port City Contractors, Anywhere, USA	
Potentially Negative Items			
Somewheresville Community Mortgage Bank Acct # 0110220 Date added: 03/15/06 Status: Open/Current/Previous history of late payments Monthly payment: \$950 High balance: \$152,000 Credit limit: N/A	ABC BANKCARD USA Acct # 0220110 Date added: 08/25/08 Status: Open/60 days past due Monthly payment: \$15 High balance: \$227 Credit limit: \$8,000	Televise Cable Comm. Acct # 1234 5678 1234 5678 Date filed: 05/01/15 Status: Delinquent in collections 120+ days Amount: \$35 Credit limit: N/A	
Accounts in Good Standing			
2 XYZ BANKCARD USA Acct # 0110220 Date added: 12/12/12 Status: Open/Never late Monthly payment: \$15 High balance: \$129 Credit limit: \$1,000		Somewhere Commercial Lease Equipment Acct # 0110220 Date added: 04/23/10 Status: Closed at consumer's request 08/22/2014 Monthly payment: \$0 High balance: \$3,228 Credit limit: \$1,000	
Public Records No public records listed.			
Requests for Credit History 4 VISA Card Address: PO Box 1414 NY 10001 Date: 04/01/16			



Slide 27, Participant Guide page 21

Best Practices for Building a Strong Personal Credit History

In addition to ensuring that your credit reports are accurate, consider the following to improve your scores:

SECTION II:
The Impact of Personal Credit on My Business

Best Practices for Building a Strong Personal Credit History

- Maintain healthy credit: Pay your loans and other bills on time.
- Keep outstanding revolving debt balances low.
- Pay off outstanding collection accounts and other debts.
- Avoid negative events that could result in public records, such as bankruptcy or foreclosure.
- Comparison shop for major loans within a 45-day window.
- Maintain a mix of credit accounts.
- Avoid closing older accounts in good standing.

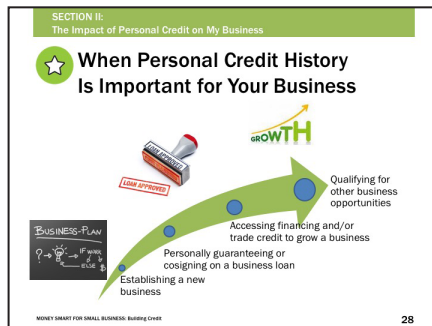
MONEY SMART for SMALL BUSINESS Building Credit
27

- **Pay your loans** and other bills on time. As we have learned, repaying credit accounts on time is the most significant factor in increasing any credit score. If you have had trouble with credit in the past, you can rebuild your credit history by paying what you owe on past-due accounts.
- **Minimize how much you owe** in relation to your credit limit. Low credit utilization shows that you are not overextended with your debt obligations. For example: if you are using \$1,300 of your \$2,500 in available credit, your credit utilization is 52 percent.
- **Pay off** outstanding collection accounts and other debts that could lead to legal action.
- **Avoid negative events**, such as bankruptcy or foreclosure, which make it difficult to obtain business and consumer credit and will be reported in public records.
- **Comparison shop** for a mortgage or car loan within a limited period (no more than 45 days). Think carefully before applying for new financing. Because hard inquiries negatively affect your credit score, determine if the loan is essential.
- **Maintain a mix** of installment and revolving credit accounts. This shows lenders that you can manage different types of credit successfully. You do not have to carry much, if any, outstanding debt. For example, you can use a credit card once each month for basic household purposes but pay it off in full every month. The **Banking Services** module provides details on types of loans and financing options.
- **Do not close old accounts** or those that have been paid in full. This can lower your available credit limit, leading to an increase in credit utilization on your remaining accounts that could hurt your personal credit scores. If, however, you are paying fees for an account that you do not need or use, it may make financial sense to close it.

**Slide 28, Participant Guide page 21****When Personal Credit History Is Important for Your Business**

Personal credit may be important at various stages throughout the life cycle of your business, in particular when:

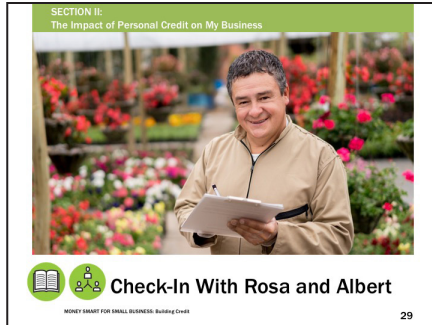
- establishing a new business;
- personally guaranteeing or cosigning a business loan;
- accessing financing to grow an existing business;
- obtaining trade credit from suppliers of inventory or raw materials before receipt; and
- qualifying for other business opportunities, such as government contracts.



If your business is new, you have not yet had the opportunity to build your reputation as a business owner or establish a credit history under the business's name. Therefore, your ability to secure loans and establish contracts will depend heavily on your personal credit history.

In most circumstances, a lender may require you to guarantee a loan or other financing product (such as a line of credit) for your business. As a guarantor, you are personally liable for the debt even if the business is unable to make payments. Consider the risk of loss and the terms of such a guarantee carefully.

For more details on the lending process, consider attending a local **Money Smart for Small Business Banking Services** training, or review the curriculum on your own.



Slide 29, Participant Guide page 22

Check-In With Rosa and Albert



Refer participants to the case study details on page 22 of the **Participant Guide**. Ask a volunteer to read the following description.

Albert mostly leveraged his savings to launch his nursery, but he also has some personal loans from a bank and a personal credit card that he has been using for his business. He is not familiar with nontraditional or nonbank financing services. Last year, the nursery had a few slow months, and, as a result, he took a pay cut. This caused him to fall behind on some personal credit card bills and to miss one mortgage payment on his home.

Since that time, Albert brought in new inventory and purchased advertisements in local media outlets. This has helped his sales recover, and his customer base is now growing. Albert is still getting caught up on his personal debt, and his personal credit score took a hit because of last year's financial troubles.

Rosa has never used credit; therefore, she does not know much about financing options, and she has no personal or business credit score.



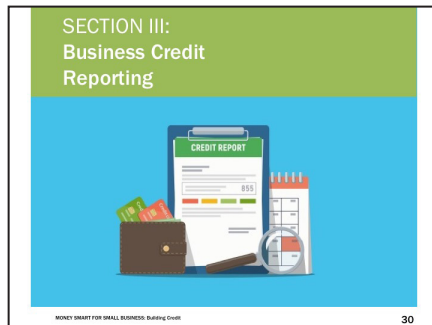
Ask participants to consider Albert's and Rosa's personal credit histories.

- How might Albert's and Rosa's personal credit histories affect their ability to access financing for their new business?
- What can they do to establish, build, or improve their personal credit histories?

Later, we will learn more about Rosa and Albert and the financing options for their new venture.

SECTION III: Business Credit Reporting

45 minutes



Slide 30, Participant Guide page 23

Now that we have learned about how to build and manage your personal credit history, we will discuss business credit reporting.



Slide 31, Participant Guide page 23

What Are Business Credit Reports?

Similar to personal credit reports, business credit reports provide information that could help lenders and other businesses, such as vendors or companies seeking contractors, assess the risk of working with your business. Business credit reports tell lenders and others about the credit performance of your business.



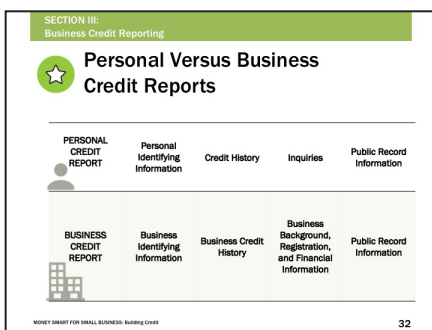
Slide 32, Participant Guide page 23

Personal Versus Business Credit Reports

We have learned about the main sections of a personal credit report. Now we will compare those with the information contained in a business credit report.

While business credit reports are not all the same, they generally provide the following information:

- Your business's identifying information
- Business credit history
- Business background, registration, and financial information
- Public record information



Unlike personal credit reports, business credit reports are generally available to the public. This means that potential customers, partners, and suppliers can purchase your business credit report from business credit reporting agencies. Business credit reporting agencies may, but are not required to, provide your business with a free business credit report upon your request.

SECTION III: Business Credit Reporting	
The Major Players in Business Reporting	
Dun & Bradstreet (D&B)	Focus is on how your business interacts with vendors and suppliers (trade credit performance)
Equifax	Focus is on how your business has managed business lines of credit and loans
Experian Business	Focus is on credit information from both lenders and business vendors

MONEY SMART FOR SMALL BUSINESS: BUILDING CREDIT 33

Slide 33, Participant Guide page 24**The Major Players in Business Reporting**

The three well-known business credit reporting agencies are Dun & Bradstreet (D&B), Equifax Business, and Experian Business. While much of the data they collect may overlap, these agencies focus on slightly different aspects of a business when preparing their business credit reports. For example:

- Dun & Bradstreet focuses solely on business credit, with an emphasis on how your business interacts with its vendors and suppliers, known as trade credit performance.
- Equifax Business compiles business credit reports with a focus on small businesses' experience with business lines of credit and loans from banks and nonbanks.
- Experian Business focuses on bank and nonbank lender data, vendor and supplier data, and information in public records.

The SBA website contains a wealth of information on business credit reporting, including other business credit reporting agencies. We will focus on D&B, Equifax Business, and Experian Business in this module. But a few other credit reporting agencies produce business credit reports, including PayNet and LexisNexis Risk Solutions.

- PayNet has a proprietary database of small business leases, loans, and lines of credit that it sells to banks and nonbanks. Although entrepreneurs cannot order their own PayNet business credit reports directly, if you are denied financing by a company that uses these reports, PayNet will give you a free copy upon request.
- LexisNexis offers a business credit report to lenders making small business loans, using credit data from the Small Business Financial Exchange (SBFE®) combined with nontraditional data from LexisNexis.

*SBFE® is a nonprofit trade association for small business lenders, but it is not a business credit reporting agency and does not compile, create, or sell business credit reports. Instead, it facilitates the exchange of business account data to companies like Experian, D&B, and LexisNexis that have licensing agreements with SBFE®.



Slide 34, Participant Guide page 24

What Information Do Business Credit Reports Contain?

A business credit report from D&B, Experian Business, and Equifax Business includes many different types of information, such as the following:

SECTION III: Business Credit Reporting			
What Information Do Business Credit Reports Contain?			
Business Identifying Information	Business Credit History	Business Background, Registration, and Financial Information	Public Record Information
Such as...			
<ul style="list-style-type: none"> Business names and aliases Business addresses, phone numbers, and web presence DUNS number Industry classification codes 	<ul style="list-style-type: none"> Companies that have granted credit Payment data from suppliers and creditors Risk scores and ratings 	<ul style="list-style-type: none"> Registration and incorporation data Legal structure and ownership History of business Affiliations Corporate financial reports Contracts, grants, loans, and debarments from the federal government Self-reported data 	<ul style="list-style-type: none"> Uniform Commercial Code filings Lawsuits, liens, and judgments Business registrations (state, city, county courts) Incorporation and current and past bankruptcy filings from state and county courts


- Business names and aliases
- Business addresses, phone numbers, and web addresses
- Data Universal Numbering System (DUNS) number
- Industry classification codes
- Companies that have granted credit to the business
- Payment data from suppliers and creditors
- Risk scores and ratings
- Registration and incorporation data, including business structure and ownership
- History of business
- Affiliations
- Corporate financial reports
- Contracts, grants, loans, and debarments from the federal government
- Self-reported data
- Uniform Commercial Code (UCC) filings
- Lawsuits, liens, and judgments
- Business registrations (state, city, county courts)
- Incorporation and current and past bankruptcy filings from state and county courts

This list includes examples of what may be on a business credit report. Unlike personal credit reports, which may look different but contain the same basic information, the information on business reports can vary significantly.

SECTION III:
Business Credit Reporting

Regulation of Business Credit

- Many consumer lending regulations, such as the FCRA/FACTA, do not apply to business credit reporting.
- Business credit reporting agencies still have procedures in place for the following:
 - Providing access to reports
 - Managing disputes
 - Determining how long information stays on the report



MONEY SMART FOR SMALL BUSINESS: Building Credit

35

Slide 35, Participant Guide pages 24–25**Regulation of Business Credit**

A fundamental difference between consumer credit reporting and business credit reporting is that information reported to business credit reporting agencies is not subject to the FCRA/FACTA.

Nonetheless, business credit reporting agencies typically have procedures to make credit reports available to businesses and to manage disputes when inaccurate information is reported.

The FCRA/FACTA is relevant to businesses that have a permissible reason to access personal credit reports or report to consumer credit reporting agencies. Expert legal advice is recommended if businesses seek to do either. We will learn more about FCRA/FACTA implications for your business in

SECTION V.**The Equal Credit Opportunity Act**

While not directly focused on credit reporting, other laws and regulations are applicable to a small business's access to credit. As an entrepreneur, you have rights under the Equal Credit Opportunity Act (ECOA), which requires creditors to ensure underwriting and pricing are free from discriminatory practices. Creditors are also required to act on your credit requests in a timely manner and keep you informed of their status.

A creditor must provide notice if any of the following has taken place:

- An adverse action (rejection) on a completed or incomplete application
- An adverse action (closure or reduction) on an existing credit account
- A counteroffer by the creditor to an application for credit that the applicant does not accept to an application for credit that the applicant does not accept

A creditor must notify the applicant as follows:

- 30 days after receiving a complete or incomplete application
- 30 days after taking action
- 90 days after making the counteroffer

Note: The 30-day clock does not apply to commercial credit requests of \$1 million or more.

If you feel you have been denied credit or offered credit on worse terms because of your race, color, religion, national origin, sex, marital status, or age (provided you are old enough to enter into a contract), or because all or part of your income comes from a public assistance program—or if you believe you have been discriminated against in any other way—you have various options to consider:



- File a complaint with the creditor.
- Report the potential violation to your state attorney general's office, the Federal Trade Commission (FTC), the bank's primary regulator (Federal Reserve Bank, Office of the Comptroller of the Currency, or the FDIC) and the Consumer Financial Protection Bureau (CFPB) as appropriate.
- Hire an attorney.

Learn more about your rights under the ECOA by going to the websites of the above-mentioned agencies and searching for the key word "ECOA."

SECTION III:
Business Credit Reporting

★ Business Credit Scores

Personal Credit Scores	Business Credit Scores
Created by consumer credit reporting agencies and credit scoring companies	Created by business credit reporting agencies and credit scoring companies
Many types available	Many types available
Generally have similar ranges and measure similar factors	Have wide variety of scoring ranges and rating systems; emphasize different factors

MONEY SMART FOR SMALL BUSINESS: Building Credit

36

Slide 36, Participant Guide pages 26–27

Business Credit Scores


Just as there are many different personal credit scores, there are also many different business credit scores and ratings used for different business purposes. D&B, Equifax Business, and Experian Business each have their own scores and rating systems that lenders and other companies use to make credit decisions. For example:

- Dun & Bradstreet offers predictive and performance-based scores. The D&B PAYDEX[®] score ranges from 1 to 100 and reflects a business's payment history as reported by vendors to D&B. A minimum of three vendors must report a business payment history for D&B to generate a PAYDEX[®] score for that business. PAYDEX[®] is primarily used by vendors and suppliers to determine trade terms (e.g., invoice payments in 30 or 60 days). Having more time to pay your bills can help you better manage cash flow.

- Equifax Business offers a variety of business credit scores used by trade creditors and some lenders. Its Payment Index score (ranging from 1 to 100), for example, is similar to the PAYDEX® score, reflecting business payment history and information from creditors and vendors, and providing delinquency and failure scores. The Payment Index predicts the likelihood that a business will be severely delinquent, have an account charged off, or go bankrupt within a 12-month period.
- Experian's Intelliscore PlusSM score (ranging from 1 to 100) is calculated from numerous data points, such as age of records on file, payment trends, number of trade lines, outstanding balances, credit utilization, public records (the number, type, amount, and frequency of them, as well as how recent they are), and more. It too is used by different types of creditors, including some lenders.

A key difference between personal and business credit scores is that personal credit scores generally measure similar factors using information from your personal credit reports and have similar ranges. Business credit scores, on the other hand, use a wider variety of rating systems focused on measuring different factors found on your company's business credit report as well as from sources outside of that report.

SECTION III:
Business Credit Reporting

**Checking Your Business Credit Report**

- Check your business credit report to make sure the information is accurate.
- You can create an account with Dun & Bradstreet to access your D&B business credit report and update basic information.*
- Some businesses use credit monitoring services to receive alerts and check business credit scores.*

*Some services are free; others are subject to fees.

MONEY SMART FOR SMALL BUSINESS: Building Credit

37

Slide 37, Participant Guide page 27**Checking Your Business Credit Report**

- As with personal credit, checking your business credit report can help you identify and correct errors that may affect your business.
- On the Dun & Bradstreet website (<https://iupdate.dnb.com>), you can create an account that allows you to view and update basic information on your D&B business credit report and submit up to five disputes at a time. You may log in to your D&B account anytime at no cost. In some cases, you may have to pay a fee to view your report.
- Experian Business, Equifax Business, and Dun & Bradstreet offer paid services for small business owners interested in monitoring business credit scores or adding more specific information to their business profile, such as self-reported expenses.
- A number of services are available for monitoring your business credit reports and scores from business credit reporting agencies. For example, some online platforms let you see business credit reports, scores, and ratings in one place. Some may also provide customized recommendations on how to improve your business credit history, as well as product recommendations. Some of these services are free and some are available for a fee. You should rely on expert advice from Small Business Development Centers (SBDCs) or SCORE (an SBA resource partner that provides mentoring to small businesses) counselors to evaluate these resources.

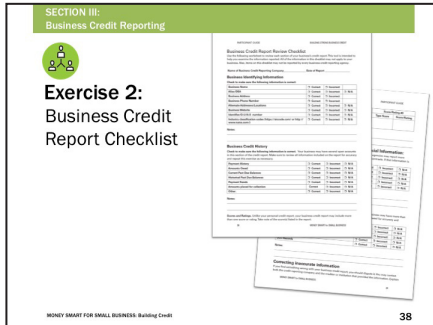
Lenders and other companies use different business credit scores to make financing or other decisions about small businesses. Although a business credit score is important in the decision-making process, it is not the only factor. Also, many lenders use their own proprietary scores instead of the business credit scores described in this section. In general, business cash flow is a more important factor in lending decisions, as financial institutions want to be confident that business cash flow is sufficient to cover the requested debt. The **Money Smart for Small Business Managing Cash Flow** module provides more information on this topic.



Exercise 2: Business Credit Report Checklist

Slide 38, Participant Guide pages 28–30

Business Credit Report Checklist



Instructor: Refer participants to the **Business Credit Report Checklist** on pages 28–30 of the **Participant Guide**. As a group, have the participants identify each of the key sections of the business credit report.

Let's review the different sections of this **Business Credit Report Checklist**. Keep in mind that different business credit reports will include different information and formats, but this checklist will help you know generally what to look for.

What questions do you have about the **Business Credit Report Checklist**?



Business Credit Report Checklist

Instructions: Use this worksheet to review each section of your business's credit report. This tool is intended to help you examine the information reported. All of the information on this checklist may not apply to your business. In addition, all items may not be reported by every business credit reporting agency.

Name of Business Credit Reporting Agency _____ Date of Report _____

Business Identifying Information

Check to make sure the following information is correct:

Business Name	<input type="checkbox"/> Correct	<input type="checkbox"/> Incorrect	
Alias/Doing Business As (DBA)	<input type="checkbox"/> Correct	<input type="checkbox"/> Incorrect	<input type="checkbox"/> N/A
Business and Legal Address	<input type="checkbox"/> Correct	<input type="checkbox"/> Incorrect	
Business Phone Number	<input type="checkbox"/> Correct	<input type="checkbox"/> Incorrect	
Alternate Addresses/Locations	<input type="checkbox"/> Correct	<input type="checkbox"/> Incorrect	<input type="checkbox"/> N/A
Business Website	<input type="checkbox"/> Correct	<input type="checkbox"/> Incorrect	<input type="checkbox"/> N/A
Identifier/DUNS number/Employer Identification Number	<input type="checkbox"/> Correct	<input type="checkbox"/> Incorrect	<input type="checkbox"/> N/A
Industry Classification Codes (https://siccode.com or www.naics.com)	<input type="checkbox"/> Correct	<input type="checkbox"/> Incorrect	<input type="checkbox"/> N/A

Notes:

Business Credit History

Check to make sure the information below is correct. Your business may have several open accounts in this section of the credit report. Be sure to review all information included in the report for accuracy, and repeat this exercise as necessary.

Payment History	<input type="checkbox"/> Correct	<input type="checkbox"/> Incorrect	<input type="checkbox"/> N/A
Amounts Owed	<input type="checkbox"/> Correct	<input type="checkbox"/> Incorrect	<input type="checkbox"/> N/A
Current Past-Due Balances	<input type="checkbox"/> Correct	<input type="checkbox"/> Incorrect	<input type="checkbox"/> N/A
Historical Past-Due Balances	<input type="checkbox"/> Correct	<input type="checkbox"/> Incorrect	<input type="checkbox"/> N/A
Payment Trends	<input type="checkbox"/> Correct	<input type="checkbox"/> Incorrect	<input type="checkbox"/> N/A
Amounts Placed for Collection	<input type="checkbox"/> Correct	<input type="checkbox"/> Incorrect	<input type="checkbox"/> N/A
Other:	<input type="checkbox"/> Correct	<input type="checkbox"/> Incorrect	<input type="checkbox"/> N/A

Notes:

Scores and Ratings. Unlike your personal credit report, your business credit report may include more than one score or rating. Take note of the score(s) listed in the report.

Score/Rating #1		Score/Rating #2		Score/Rating #3	
Type of Score	Score/Rating	Type of Score	Score/Rating	Type of Score	Score/Rating
E.g., PAYDEX® score	74				

Notes:

Business Background, Registration, and Financial Information

Check to make sure the information below is correct. Credit reporting agencies may report more detailed information about employees, sales, and public bids or contracts. If that information is listed, verify its accuracy.

Registered Name	<input type="checkbox"/> Correct	<input type="checkbox"/> Incorrect	<input type="checkbox"/> N/A
Business Type	<input type="checkbox"/> Correct	<input type="checkbox"/> Incorrect	<input type="checkbox"/> N/A
Corporation Type	<input type="checkbox"/> Correct	<input type="checkbox"/> Incorrect	<input type="checkbox"/> N/A
State of Incorporation	<input type="checkbox"/> Correct	<input type="checkbox"/> Incorrect	<input type="checkbox"/> N/A
Incorporation Date	<input type="checkbox"/> Correct	<input type="checkbox"/> Incorrect	<input type="checkbox"/> N/A
Business Ownership Structure	<input type="checkbox"/> Correct	<input type="checkbox"/> Incorrect	<input type="checkbox"/> N/A
Name of Owner(s)	<input type="checkbox"/> Correct	<input type="checkbox"/> Incorrect	<input type="checkbox"/> N/A
Business Ownership Percentages	<input type="checkbox"/> Correct	<input type="checkbox"/> Incorrect	<input type="checkbox"/> N/A

Notes:

Public Record Financial Information

Check to make sure the information below is correct. Remember, your business may have more than one reported event in each of these sections. Be sure to review each item listed for accuracy, and repeat this exercise as necessary.

Bankruptcy Records	<input type="checkbox"/> Correct	<input type="checkbox"/> Incorrect	<input type="checkbox"/> N/A
Lawsuits	<input type="checkbox"/> Correct	<input type="checkbox"/> Incorrect	<input type="checkbox"/> N/A
Liens	<input type="checkbox"/> Correct	<input type="checkbox"/> Incorrect	<input type="checkbox"/> N/A
Judgments	<input type="checkbox"/> Correct	<input type="checkbox"/> Incorrect	<input type="checkbox"/> N/A
UCC Records	<input type="checkbox"/> Correct	<input type="checkbox"/> Incorrect	<input type="checkbox"/> N/A

Notes:

Correcting Inaccurate Information

If you find something wrong on your business credit report, you should dispute it. You may contact the business credit reporting agency and the creditor or institution that provided the information. Explain what you think is wrong and why, and provide copies of relevant documentation if available.

Experian Business <http://sbcr.experian.com>
800-303-1640

Dun & Bradstreet www.dandb.com
866-248-1450

Equifax Business www.equifax.com/business/business-credit-reports-small-business
800-727-8495



Slide 39, Participant Guide page 30

Why Should I Establish Business Credit?

Business credit reports help entities receiving the report determine whether, and under what terms and criteria, to work with your business. A good business credit history might give you a competitive advantage. For example:

- **Lenders** may use information on business credit reports as part of their decision to approve and set the terms of financing.
- **Suppliers and shipping companies** review the credit history of your business when deciding whether they will allow you to defer payments and on what terms.
- **Customers** can verify if your company is a legal and reputable entity when it is listed with a business credit reporting agency.
- **Insurance companies** may use business credit report information to help determine the risk level of your business; the higher the risk, the higher the price of your commercial insurance policies.
- **Procurement officers** may evaluate your ability to execute government contracts based on your business credit report and other factors.

Remember, many business credit reports are available to the public. A strong business credit report can increase your company's business prospects.

Now we will learn more about what you can do to establish and sustain a healthy business credit history.

SECTION III:
Business Credit Reporting

★

Why Should I Establish Business Credit?

Use credit reports to...

Lenders	Help determine approval and terms of financing
Suppliers and shipping companies	Decide whether to grant a deferral of payment for goods and services
Customers	Determine if your company is a legal entity and reputable
Insurance companies	Help determine the price of your insurance policies
Procurement officers	Help evaluate your ability to execute government contracts

MONEY SMART FOR SMALL BUSINESS: Building Credit

39



Slide 40, Participant Guide page 31

Establishing Business Credit

SECTION III:
Business Credit Reporting

Establishing Business Credit

What you should have	What you should do
Employer Identification Number (EIN)	Get a copy of your EIN if you don't have one already, and keep it in a safe place.
Business credit report	Verify whether you already have one.
Businesses/lenders reporting your credit information	Ask lenders/suppliers to report information about you, and self-report financial and credit data as feasible.

MONEY SMART FOR SMALL BUSINESS: Building Credit 40

Note: Remember that not all business credit reports are free. Consider checking with D&B first.

- To start the process of building a credit history for a business, obtain an Employer Identification Number (EIN) from the Internal Revenue Service. You may need an EIN to do business with different entities. If you wish to do business with the U.S. government, you should also obtain a DUNS number through Dun & Bradstreet (www.dandb.com).
- Next, if you already have open credit accounts or trade credit for your business, **find out if you already have a business credit history** by searching for your company name on the websites of each of the business credit reporting agencies. If your business is listed, request a report to see what information has been reported and make sure that everything is accurate.
- If your business does not have a listing with the business credit reporting agencies, ask your lenders, suppliers, and vendors if they will start reporting to the business credit reporting agencies, or consider establishing relationships with those that you know already do so.
- Once you have records established at one or more of the business credit reporting agencies, you can build your business credit history by **updating or correcting your information**, including figures from your annual financial statements.



Slide 41, Participant Guide page 31

Best Practices for Strong Business Credit

Let's review best practices for strong business credit.

SECTION III:
Business Credit Reporting

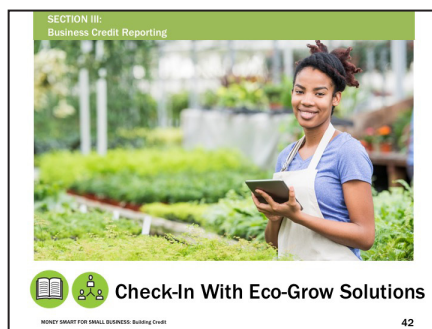
Best Practices for Strong Business Credit

- Maintain healthy credit:** Pay your loans, bills, and taxes on time.
- Make sure your business is visible.
- Maintain good relationships with suppliers and vendors.
- Separate personal and business finances.
- Monitor your personal and business credit histories.

MONEY SMART FOR SMALL BUSINESS: Building Credit 41

- **Pay your loans, bills, and taxes on time.** A strong payment history shows lenders that your business can be trusted to manage credit well. Paying taxes on time helps you avoid liens or judgments, interest, and penalties. Late payments can be an indicator that a business is having cash flow issues.
- **Make sure your business is visible.** Lenders, customers, and other businesses want to be assured that you are known and trusted in the community. You become visible by having an Employer Identification Number, phone number, legal address, and digital presence.

- **Maintain good relationships with suppliers and vendors.**
Having a good track record of paying other businesses that you work with on time will strengthen your business credit history.
- **Separate personal and business finances.**
 - Avoid using your personal assets and finances to support your business. Do not commingle business and personal finances.
 - Seek advice from professionals such as insurance agents, accountants, and lawyers to limit personal liability for your business activity.
 - Obtain credit accounts, when needed, in the name of your business.
- Monitor your personal and business credit histories. Know what is being reported to consumer and business credit reporting agencies, and dispute anything inaccurate.



Slide 42, Participant Guide page 32

Check-In With Eco-Grow Solutions



Instructor: Refer participants to the case study on page 33 of the **Participant Guide**. Read (or ask a volunteer to read) the following narrative.



Albert has heard of business credit, but he does not really understand how business credit reporting works and has not tried to establish a business credit history. Rosa knows very little about business credit history and the opportunities it may offer to Eco-Grow Solutions.

Discuss what steps Albert and Rosa can take to establish and build business credit history.

- How might Albert establish or improve his existing business credit history?
- Should Albert and Rosa consider working on a business credit history for their new venture Eco-Grow?
- If so, what steps should they take to build a favorable business credit history? What professional advice should they seek, and why?

SECTION III:
Business Credit Reporting



Building Your Business Credit History

- In the next year, how do you think having a healthy business credit report could help your business?
- In the next five years, how do you think having a healthy business credit report could help your business?

MONEY SMART FOR SMALL BUSINESS: Building Credit

43

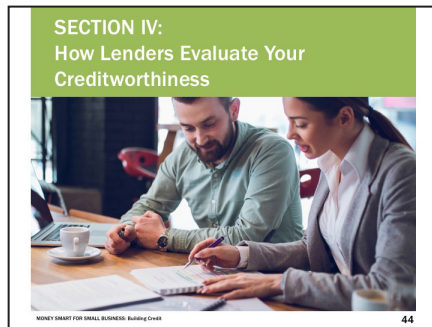
Slide 43, Participant Guide page 32**Building Your Business Credit History**

Instructor: Facilitate a group discussion around the following questions:

- In the next year, how do you think having a healthy business credit report could help your business?
- What about in the next five years?

SECTION IV: How Lenders Evaluate Your Creditworthiness

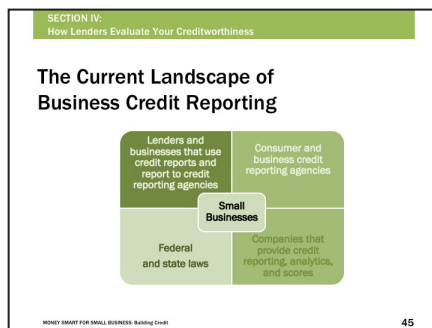
25 minutes



Slide 44, Participant Guide page 33



Instructor: Make sure that all questions about personal and business credit have been answered before moving forward. Introduce this section with the goal of providing participants with a better understanding of how lenders and others will access and use personal and business credit report information.

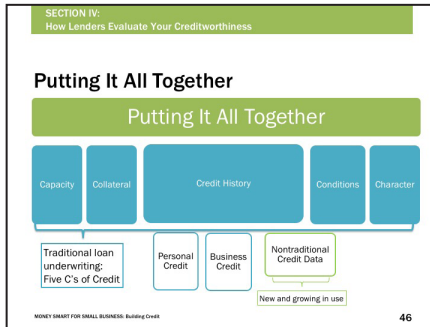


Slide 45, Participant Guide page 33

The Current Landscape of Business Credit Reporting

Now we will review the entities involved in the business credit reporting landscape and how you, as a small business owner, may interact with them.

- First, lenders and businesses may obtain credit report information about you and your business to evaluate whether they should extend you credit, provide you with purchase terms, or conduct business with you at all. They may also report your credit activity, including payment history and record of accounts receivables, to the credit reporting agencies.
- Consumer and business credit reporting agencies collect and disseminate information about credit account usage by consumers and businesses.
- Some companies engage in specialized credit reporting and credit report data analytics. Some create and sell their own credit scores, while others serve as a marketplace to connect borrowers with lenders.
- Laws such as the FCRA/FACTA and the ECOA set rules for institutions authorized to obtain personal credit reports, report data to the consumer credit reporting agencies, and lend to small businesses. The laws are enforced by federal and state agencies.



Slide 46, Participant Guide page 34

Putting It All Together

To take the appropriate level of risk and ensure loan repayment, lenders follow core strategies that are reflected in their policies. These principles are known as the Five C's of Credit—capacity, collateral, credit history, conditions, and character—and are used to determine the overall creditworthiness of potential borrowers. We'll focus our discussion on these principles.

Walk through each of the potential underwriting factors listed in the chart on slide 46, and ask participants to supply examples of a tool or document that could be used for each of the five C's.

1. **Capacity** is the cash flow that the business needs to demonstrate it can repay a loan. Lenders want to know what revenues you will use to repay the loan and whether those are documented in your financial statements and tax returns.
2. **Collateral** is a form of security you provide the lender by pledging an asset you own or your business owns—such as your equipment or inventory—and agreeing it will be the source of repayment if you cannot repay the loan. When you default on a loan that involves collateral, the lender has the right to foreclose or repossess the asset used as collateral. Most lenders view seizing collateral as undesirable and therefore evaluate the adequacy of cash flow carefully to avoid it.
3. **Credit history** refers to the credit performance of the owner(s) and the business. Lenders evaluate information obtained from business and consumer credit bureaus as well as internal financial institution information, such as performance on accounts that the owner(s) and business currently have. They consider information such

as credit scores, inquiries, and credit utilization, as well as delinquency and some public records.

4. **Conditions** involve a variety of qualitative and quantitative measures, including the conditions of the loan (how will you use the money—to expand or to purchase equipment or inventory?); local, industry, and economic conditions; and the competition your business faces—all of which could affect your financial projections and ability to repay.
5. **Character** refers to mostly qualitative measures such as your personal integrity, business reputation, and references provided by your customers, vendors, past lenders, and other business partners—and possibly including your social media reputation and online customer reviews. Character is also reflected in your credit history and your business’s credit history.

Slide 47, Participant Guide page 35

Nontraditional Data

In a consumer context, the term “nontraditional data”—sometimes called alternative data—generally refers to information about how you have handled financial obligations not traditionally reported to credit reporting agencies, such as utilities, phone, and rental payments.

In the business context, nontraditional data may include payment transactions through payment-processing intermediaries, shipment volume, e-commerce trade, and merchant account transactions. Most business lending in the United States today still relies on traditional credit underwriting; however, as the lending marketplace evolves, the role of nontraditional data in assessing credit risk may change. Alternative data is not currently as prevalent as traditional data.

SECTION IV:
How Lenders Evaluate Your Creditworthiness

Nontraditional Data

Nontraditional
Credit Data *

What Is Nontraditional Data?
Typically non-loan data that may still help lenders predict risk

- **Personal credit reporting examples:**
Utilities, telephone services, rental data
- **Business credit reporting examples:**
Online business reviews, shipment volume, e-commerce trade, and merchant account transactions

*Nontraditional data is not as prevalent as traditional data.

MONEY SMART FOR SMALL BUSINESS: Building Credit

47

See Fictional Local Bank Fee Schedule in the MSSB Banking Services module to identify services that were recommended to Eco-Grow Solutions.

MONEY SMART for SMALL BUSINESS CREDIT MODULE

48

SECTION IV:
How Lenders Evaluate Your Creditworthiness

Different Lenders, Different Priorities

Potential Factors in Underwriting

Capacity	Collateral	Credit History	Conditions	Character
----------	------------	----------------	------------	-----------

Personal Credit
Business Credit
Nontraditional Credit Data

Lender A: Providing start-up loans

- Considers all five C's
- Emphasizes personal credit and collateral

MONEY SMART FOR SMALL BUSINESS: Building Credit 48

Slides 48–49, Participant Guide page 36

Different Lenders, Different Priorities



Instructor: Use the illustrations on slides 48–49 to show that not all lenders approach underwriting the same way.

SECTION IV:
How Lenders Evaluate Your Creditworthiness

Different Lenders, Different Priorities

Potential Factors in Underwriting

Capacity	Collateral	Credit History	Conditions	Character
----------	------------	----------------	------------	-----------

Personal Credit
Business Credit
Nontraditional Credit Data

Lender B: Providing working capital

- Considers all five C's to some degree
- Emphasizes business credit, nontraditional credit data and conditions

MONEY SMART FOR SMALL BUSINESS: Building Credit 49

As shown in the examples, lenders A and B have different priorities, which may be influenced by the types of loans and credit they offer, the amounts of credit to be extended, and the types of businesses they typically serve. Big and small banks, credit unions, and other lenders, including certified community development financial institutions (CDFIs) and online lenders, may all have slightly different lending priorities and policies governing credit approval.

Tip: Plan ahead! Research your potential financing source. Meet with a loan officer, small business lender, or relationship manager to learn details about the application process, product offerings, required documentation, expected timeline for credit evaluation, terms, and conditions, and to determine the best fit for your business.

SECTION IV:
How Lenders Evaluate Your Creditworthiness

Exercise 3: Compare Lender Criteria and Financing Options

MONEY SMART FOR SMALL BUSINESS: Building Credit 50

Slide 50, Participant Guide pages 36–37

Exercise 3: Compare Lender Criteria and Financing Options



Instructor: Read through the case study together or in small groups. Then lead a discussion about the impact of Albert's and Rosa's credit histories on their financing options.

Together, Rosa and Albert are seeking \$100,000 to finance production of the new technology and product demonstrations, and to attract paying customers (the technology has only been in testing sites thus far). They seek help from a Small Business Development Center counselor who introduces them to a local bank and to a certified community development financial institution. The bank is an SBA lender that provides flexible products for small businesses, while the CDFI offers business development, technical assistance, and training, in addition to microloans.

Rosa and Albert visit the local bank first and learn that the bank can help in two ways:

1. The bank will provide a business account with convenient terms and waive some fees by offering a bundled small business package that includes low-fee merchant services.
2. The bank will provide a business credit card to help Albert establish a business credit history.

At this time, the local bank is not able to offer a \$100,000 loan because of Albert's cash flow problems, his lack of collateral or guarantors, and his inability to demonstrate that the business is able to pay back the loan. In addition, Albert has a blemished personal credit score and does not have a business credit score. Also, Rosa does not have a personal credit history.

After their visit with the bank, Rosa decides to contact an online company that advertises quick financing for businesses. Rosa submits an application and receives a response within 24 hours with an offer in terms that she does not fully understand; however, she is excited about the quick turnaround time and easy application process.

The terms offered by the online lender include a \$4,000 origination fee, which is 4 percent of the gross loan amount of \$100,000, and a \$10 monthly administrative fee with payments of 20 percent of daily business receipts until payment is completed. (This is simply an example; it does not represent an average offer by online companies. The offer does not imply a disbursement in 24 hours.)

Next, Rosa and Albert turn to the CDFI, which is a nonprofit lender. After working with the CDFI for three weeks, they learn that the CDFI will be able to provide expansion financing of \$50,000—but at a slightly higher interest rate than they were hoping for. These are the terms offered by the CDFI: 12 percent APR, 60-month amortization, and a \$150 refundable loan application fee, if the loan is approved.

Rosa and Albert must decide whether to select one of the current financing options available or spend the next few months building and improving their credit histories and obtaining additional sources of revenue.

Exercise 3: Discussion Questions

Instructor: Lead a discussion about how Albert's and Rosa's credit histories affect their options for financing by asking the following questions:

1. How do Albert's and Rosa's personal and business credit histories affect their ability to obtain financing?
2. Which lender do you think might best meet Albert and Rosa's needs in the short and long term based on their current credit histories and stage of business growth?
3. Should Albert and Rosa try to secure financing immediately or wait until they have had a chance to build or improve their personal and business credit histories, and to generate additional sources of business revenue?
4. What key factors might Rosa and Albert want to consider when comparing their financing options?

Potential answers to question 4: Amount of credit available in the short term; cost of financing (interest/fees); terms of financing; what happens in case of default; other services offered by lender; when financing would be available; and the ease of the application process.

(Potential answers for questions 1–3 are not provided as there are no right or wrong answers.)

SECTION IV:
How Lenders Evaluate Your Creditworthiness

 **Best Practices for Entrepreneurs**

- ✓ Know your CREDIT
- ✓ Know your LENDER
- ✓ Know your RIGHTS

MONEY SMART FOR SMALL BUSINESS: Building Credit

51

Slide 51, Participant Guide page 37

Best Practices for Entrepreneurs

Instructor: Summarize this section by describing how it is important for entrepreneurs to be empowered and proactive in building strong credit to accomplish their small business

development goals. State the following three best practices for entrepreneurs:


- **Know your CREDIT:** Review your personal and business credit reports periodically to see how you can fix errors and strengthen your credit histories.
- **Know your LENDER:** Assess financing product options to ensure that you can manage the payments and other terms.
- **Know your RIGHTS:** Protect yourself from credit-related scams or fraud, and take steps to avoid or mitigate harm caused by them.

Exercise 4: Self-Assessment

Slide 52, Participant Guide pages 37–40

SECTION IV:
How Lenders Evaluate Your Creditworthiness

Exercise 4:
Self-Assessment



MONEY SMART FOR SMALL BUSINESS: Building Credit

52



Instructor: Refer participants to the exercise on pages 37–40 of the **Participant Guide**, which contains a worksheet that should be completed individually. Provide a few moments for participants to complete the

exercise. If you are running short on class time, ask participants to complete this exercise at home.

If time allows, ask participants to share some of the action items that they listed and any questions that they might have.

Use the worksheet on the next page to create an action plan to review your personal and business credit.

Exercise 4: Self-Assessment Survey

Consider what you have learned about personal and business credit. Think about how to further your small business goals with what you have learned.

PERSONAL CREDIT

I have viewed my personal credit report in the past 12 months.

☐ Yes ☐ No

My personal credit is:

- ☐ excellent.
- ☐ fair.
- ☐ poor.
- ☐ I have no personal credit.
- ☐ I am not sure.



ACTION ITEM

Visit www.annualcreditreport.com to obtain your free annual credit report from one or more of the three major consumer credit reporting agencies.

My personal credit is important to my business because:



ACTION ITEM

Here are four things that I can do to establish or build my personal credit history and score:

1. For example: Calculate my current credit utilization rate.*

2. _____

3. _____

4. _____

Examples might include paying off debt and collections, disputing inaccurate information, paying down balances on revolving credit accounts, and building credit history with a new loan or credit card.

$$\text{*Credit Utilization} = \frac{\text{Credit Outstanding}}{\text{Credit Available}} = \frac{\$}{\$} =$$

BUSINESS CREDIT

My business credit is important, or will be important in the future, because:

My business has a credit history.

- ☐ Yes.
- ☐ Not yet.
- ☐ My business is not established yet.
- ☐ Not sure.

**ACTION ITEM**

Search for your business name on the websites of each of the three major business credit reporting agencies. If your business is listed, request a free credit report, and ensure that the information about your business has been reported accurately.

Establishing Business Credit History: A Checklist

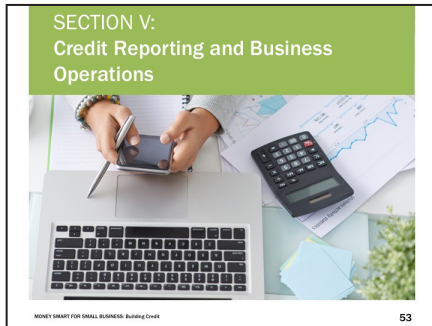
- ☐ Obtain an Employer Identification Number.
- ☐ Register for a DUNS number (for D&B reporting).
- ☐ Make sure that your business phone number is listed and that you have a visible web presence.
- ☐ Request your business credit reports to see what information is being reported about your business.
- ☐ Dispute any errors or inaccuracies, including small things such as periods or commas in the business name or address.
- ☐ Ask lenders and businesses to report your credit and transaction information.
- ☐ Self-report financial statements and business background information.
- ☐ Pay all bills on time, and maintain strong business relationships with suppliers and vendors.

**ACTION ITEM**

These are the three most important things that I can do to establish or build favorable business credit history and scores:

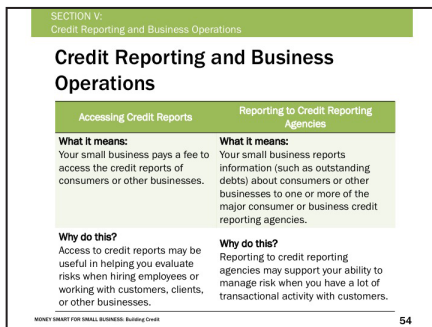
SECTION V: Credit Reporting and Business Operations

Ten minutes



Slide 53, Participant Guide page 41

Now we will discuss other ways that you and your business may want to use credit reports from the business credit reporting agencies to support your business operations.



Slide 54, Participant Guide page 41

Credit Reporting and Business Operations

Qualified entities (such as landlords, cell phone companies, and employers) can obtain credit reports for a permissible purpose under the FCRA/FACTA. Check with a credit reporting agency representative if you think you need personal credit reports for employment, background checks, or other reasons. If you are seeking business credit reports, you do not need a permissible purpose, and the FCRA/FACTA does not apply.

Some qualified entities that report their customers' credit information to the consumer credit reporting agencies are considered a "furnisher of information" under the FCRA/FACTA. Data furnishers' obligations include providing information that is accurate and complete, and investigating consumer disputes about the accuracy of information provided to the consumer credit reporting agencies.



Key Points to Remember


Five minutes

Slides 55, Participant Guide page 42

It is time to wrap up this module with a quick review of what we have learned in this session.

Wrap-Up

Key Points to Remember



MONEY SMART FOR SMALL BUSINESS: Building Credit

55



Time permitting, review the chart on the slide to solidify the differences and similarities between personal and business credit reporting and answer any questions.

Wrap-Up

Key Points to Remember

Personal Credit Histories	Business Credit Histories
Credit reports created by consumer credit reporting agencies and other companies	Credit reports created by business credit reporting agencies and other companies
Credit reports include personal identifying information, personal credit history, inquiries, and personal public records	Credit reports include business identifying information; business credit history; business background, registration, and financial information; and business public records
Many types of scores available with similar ranges and measuring similar factors	Many types of scores available with wide variety of ranges and rating systems, and emphasis on different factors

Best practice: Pay your loans and other bills on time!!!

MONEY SMART FOR SMALL BUSINESS: Building Credit

56

Wrap-Up

Key Points to Remember

- **Personal and business credit reporting** are important for your business.
- Managing your **personal and business credit reports and scores** can help you **establish and build strong credit histories**.

MONEY SMART FOR SMALL BUSINESS: Building Credit

57

Wrap-Up

Key Points to Remember (continued)

- **Lenders and others use credit information in different ways** to make decisions about your business.
- **Understanding your credit** and achieving a healthy credit history will **increase your financing options**.

MONEY SMART FOR SMALL BUSINESS: Building Credit

58

Slides 56—58, Participant Guide page 42

1. **Personal and business credit reporting** are important for your business.
2. Managing your **personal and business credit reports and scores** can help you **establish and build strong credit histories**.
3. **Lenders and others use credit information in different ways** to make decisions about your business.
4. **Understanding your credit** and achieving a healthy credit history will **increase your financing options**.

**Slide 59, Participant Guide page 43**

Five minutes

Summary

We have covered a lot of information today. What final questions do you have?

Key Resources

Many resources were provided throughout this module. Below are other important ones. Also, look for the star icons to find some of the most important information in this module.

- For more information about the responsibilities of a furnisher of information to the consumer credit reporting agencies, consider the following:
 - Visiting the Federal Trade Commission website (www.ftc.gov) and searching for “Consumer Reports: What Information Furnishers Need to Know”
 - Doing an internet search for “National Consumer Assistance Plan,” an initiative launched in 2015 by the three consumer credit reporting agencies to make credit reports easier for consumers to understand.
- Major consumer credit reporting agencies:

Experian: www.experian.com

888-397-3742

TransUnion: www.transunion.com

800-680-7289

Equifax: www.equifax.com

800-525-6285

- Major business credit reporting agencies:

Experian Business: <http://sbcr.experian.com>

800-303-1640

Dun & Bradstreet: www.dandb.com

866-248-1450

Equifax Business: www.equifax.com/business/small-business

800-727-8495

For More Information

Participant Guide pages 44–46

National Resources

USA.gov

www.usa.gov/business

This official portal of the United States government provides guidance and resources to help you start or finance your business, do government contracting, comply with business laws and regulations, and more.

U.S. Small Business Administration

www.sba.gov

Answer Desk: 800-827-5722

The SBA website provides resources, answers to frequently asked questions, and free online tools, including information on writing business plans and on topics such as buying or selling a business, government contracting, accounting, attracting investors, cybersecurity, fundamentals of crowdfunding, customer service, and more.

SCORE

www.score.org

SCORE is a nonprofit that provides counseling, mentorship, and training, as well as free online resources such as templates for business, finance, and marketing plans; how-to guides; self-paced modules on financing, contracting, and cash flow management; and more.

America's Small Business Development Center Network

www.americassbdc.org

You can find Small Business Development Centers (SBDCs) at many colleges and universities. SBDC counselors provide business training and consulting, including business-planning and loan-packaging assistance, and can connect you with regional and local business resources and lending institutions.

Women's Business Centers

www.sba.gov/tools/local-assistance/wbc

This national network of centers is designed to level the playing field for women entrepreneurs, who still face unique obstacles in the business world. The network provides comprehensive training and counseling on a variety of topics in several languages.

Financial Literacy and Education Commission

www.mymoney.gov

888-My-Money (696-6639)

MyMoney.gov is the federal government's one-stop shop for financial education resources from more than 20 agencies.

Consumer Financial Protection Bureau

www.consumerfinance.gov

The CFPB's Consumer Tools menu (see main navigation on the website) has useful information for entrepreneurs in two sections: "Money Topics" addresses frequently asked questions, key terms, and tools on consumer finance topics of interest, including bank accounts and services. Under "Guides," you will find self-paced guides on topics such as "navigating the military financial lifecycle."

Federal Trade Commission

www.ftc.gov/tips-advice

The FTC's Tips and Advice page includes a "Business Center" tab that has five sections: Advertising and Marketing; Credit and Finance; Privacy and Security; Selected Industries; and Protecting Small Businesses. Each section has videos, self-paced materials, guides, publications, and other information.

Federal Deposit Insurance Corporation

www.fdic.gov

The FDIC encourages bank lending to creditworthy small businesses. It also encourages small business owners with inquiries or concerns about the availability of credit to contact the FDIC Small Business Hotline at 855-FDIC-BIZ or www.fdic.gov/smallbusiness.

Resources for small business owners who want to conduct business with the FDIC are available at www.fdic.gov/buying/goods.

For more information about the **Money Smart for Small Business** curriculum and the Money Smart Alliance, and to learn about FDIC events, visit www.fdic.gov/moneysmart.

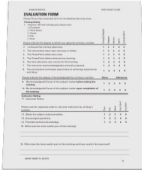
Local Resources

[To be completed by MSSB Training Host]

Wrap-Up

Post-Survey and Evaluation

- If you have not already done so, assess what your knowledge on this topic was *before* you participated in this class.
- Assess your knowledge on this topic *after* taking this class.
- Complete the Evaluation form. Your feedback is helpful!
- Return both forms to the instructor before you leave. Thank you!



EVALUATION FORM

NAME: _____

DATE: _____

1. How much did you know before this class?

2. How much do you know now?

3. How much did you like this class?

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MONEY SMART FOR SMALL BUSINESS: Building Credit

60

Slide 60, Participant Guide pages 46–48

Post-Survey and Evaluation

We would like your feedback on this class.

Please complete and return the Evaluation form on the last page of the **Participant Guide**.

What Do You Know? Form

The **What Do You Know?** form on page 6 of your **Participant Guide** allows you to compare how much you knew before the class with how much you have learned. Please take a few minutes now to complete the “After Training” column. Which statements do you agree or strongly agree with?

Post-Survey

Take a few minutes to complete the Post-Survey beginning on page 46 of your **Participant Guide**. Check to see how many answers you can provide after having attended this class.

Post-Survey

Now that you've gone through the training, see what you have learned.

1. Which of the items listed below may appear on a business credit report? Select all that apply.
 - a. **Loan payments**
 - b. **DUNS number**
 - c. **Unpaid business judgments**
 - d. **UCC filings**
 - e. **Financial statements**
2. Which credit reporting agency creates both personal and business credit scores?
 - a. VantageScore®
 - b. Dun & Bradstreet
 - c. **FICO®**
3. Information you report about a business to a business credit reporting agency is subject to the Fair Credit Reporting Act.
 - a. True
 - b. **False**
4. Both personal and business credit histories can be used by creditors to underwrite business loans.
 - a. **True**
 - b. False
5. A good business credit history will help a business to_____ (select all that apply).
 - a. **obtain lines of credit with suppliers**
 - b. purchase a new home
 - c. **get good rates on insurance products**
 - d. **secure government contracts**
 - e. access residential rental housing
6. The Five C's of Credit are applied in the same way by all business lenders.
 - a. True
 - b. **False**

Evaluation Form

Please fill out this evaluation form on the Money Smart for Small Business Building Credit training.

Training Rating

1. Overall, I felt the training was (check one):

- ☐ excellent
☐ very good
☐ good
☐ fair
☐ poor

Please indicate the degree to which you agree by circling a number.

	Strongly Disagree	Disagree	Neutral	Agree	Strongly Agree
2. I achieved the training objectives.	1	2	3	4	5
3. The instructions were clear and easy to follow.	1	2	3	4	5
4. The PowerPoint slides were clear.	1	2	3	4	5
5. The PowerPoint slides enhanced my learning.	1	2	3	4	5
6. The time allocation was correct for this training.	1	2	3	4	5
7. The instructor was knowledgeable and well-prepared.	1	2	3	4	5
8. The participants had ample opportunity to exchange experiences and ideas.	1	2	3	4	5

Please indicate the degree of knowledge/skill by circling a number.

Please indicate the degree of knowledge/skill by circling a number.		None		Advanced		
9.	My knowledge/skill level on the subject matter before taking the training.	1	2	3	4	5
10.	My knowledge/skill level on the subject matter after completing the training.	1	2	3	4	5

Instructor Rating

11. Instructor name:

	Poor	Fair	Good	Very Good	Excellent
Please rate your instructor by circling a number.					
12. The instructor made the subject understandable.	1	2	3	4	5
13. The instructor encouraged questions.	1	2	3	4	5
14. The instructor provided technical knowledge.	1	2	3	4	5

15. What was the most useful part of the training?

16. What was the least useful part of the training, and how could it be improved?

Glossary of Terms

Participant Guide pages 49–52

Bankruptcy: A legal proceeding that can release a person from repaying debts.

Business credit history: A record, sometimes also referred to as a business credit file or profile, of a business's ability to repay debts and its demonstrated responsibility in repaying debts (see also personal credit history).

Business credit report: A document detailing information about a business using information from a business credit reporting agency, including a summary of company ownership, trade and payment information, commercial banking relationships, public records, and federal government information.

Business credit reporting agency: An agency that maintains the credit history of businesses. Also referred to as a "credit reporting agency" or a "credit bureau."

Business credit score: A proxy for your business's ability to repay its debts developed through statistical algorithms (see also personal credit score).

Collection account: A past-due account that has been referred to a specialist to collect part or all of the debt (e.g., if you do not pay your bills, after a period of time, the creditor may ask a collection agency to collect the amount you owe).

Consumer credit reporting agency: An agency that regularly collects or evaluates individuals' credit information or other information and sells reports for a fee to creditors or others. Typical clients include banks, mortgage lenders, credit card companies, and other financing companies.

Community development financial institution (CDFI): A U.S. Treasury Department-designated financial institution dedicated to delivering responsible, affordable lending to low-income and underserved communities. CDFIs have multiple areas of focus, including microenterprises and small business development. CDFIs include regulated institutions, such as community development banks and credit unions, as well as unregulated institutions, such as loan and venture capital funds. Certified CDFIs can apply for awards for various programs offered by the CDFI Fund. CDFIs may have more flexible underwriting than traditional lenders because their mission is to incentivize and foster development in distressed areas and communities.

Cosigning: When a person promises to repay a loan if the original borrower does not. Cosigning can only be required when the applicant does not otherwise qualify for a loan (each loan request you make is evaluated on its own merit). The Equal Credit Opportunity Act limits when a creditor may specifically seek an applicant's spouse as a cosigner. In general, a spouse should not be required to guarantee a business loan unless the spouse is a partner, director, officer of the business, or shareholder of a closely held corporation. However, the documents that a spouse may need to sign and the liability he or she may incur will depend on the circumstances, such as whether any property securing the loan is held jointly or whether state law treats marital property as community property.

Credit account: An account that a consumer or business has with a financial institution or other company that allows for buying goods and paying for them later.

Credit repair organization: A person or organization that sells, provides, performs, or assists in improving a consumer's credit record, history, or rating (or says it will do so) in exchange for a fee or other payment.

Credit utilization: The amount of credit in use compared with how much credit has been extended by a lender.

Creditworthiness: A term used to describe an individual's access to credit. Individuals who have established credit and maintained a positive credit history are considered creditworthy (i.e., an acceptable risk for the extension of additional credit based upon their ability and willingness to repay past and current debt obligations).

Data Universal Numbering System (DUNS) number: A unique nine-digit identifier for businesses used by Dun & Bradstreet for business credit reports.

Employer Identification Number (EIN): A number used to identify a business entity. Also known as a Federal Tax Identification Number. Businesses need an EIN to perform transactions such as opening accounts and fulfilling their tax obligations.

Equal Credit Opportunity Act (ECOA): Legislation that prohibits discrimination on the basis of race, color, religion, national origin, sex, marital status, age, receipt of public assistance, or good faith exercise of any rights under the Consumer Credit Protection Act.

Fair Credit Reporting Act (FCRA): Legislation that promotes the accuracy, fairness, and privacy of information in the files of consumer reporting agencies.

Fair and Accurate Credit Transactions Act (FACTA): Legislation that amends the Fair Credit Reporting Act by adding provisions designed to improve the accuracy of consumers' credit-related records. It gives consumers the right to one free credit report each year from the credit reporting agencies. The FACTA also requires the provision of risk-based pricing notices and credit scores to consumers in connection with denials or less favorable offers of credit, and it adds provisions designed to prevent and mitigate identity theft.

Financial statements: A set of documents that provides the financial position of a business. These statements traditionally include a balance sheet, profit-and-loss statement, and a statement of cash flow.

Foreclosure: A legal process in which a lender attempts to recover the balance of a loan from a borrower who has stopped making loan payments, thus forcing the lender to exercise its right to take and sell the collateral for the loan to obtain the funds owed. For example, when your mortgage lender loaned you money to buy your house, you agreed that if you cannot repay the loan, the lender can foreclose to take ownership of the house.

Guarantee: An individual's legal promise to repay a business loan or line of credit. Providing a personal guarantee means that if the business becomes unable to repay its debts, the individual guarantor is personally responsible.

Hard inquiry (on credit report): When a lender checks the credit of a consumer or business to make a lending decision (also known as hard pulls). Such inquiries are a factor in the calculation of personal credit scores (see also inquiry).

Inquiry (on credit report): A request to look at your credit file. An inquiry generally falls into one of two types: a hard or soft inquiry (see also hard inquiry and soft inquiry).

Installment (for a credit account or loan): A contractual agreement under which a borrower provides a lump-sum amount of money in exchange for payments made in equal amounts over a number of years.

Judgment: A court-ordered lien for debt owed to a creditor.

Lien: A legal claim against a property.

Line of credit: An arrangement in which the lender disburses funds as they are needed, up to a predetermined limit. The customer may borrow and repay repeatedly up to the limit within the approved time frame, which is defined in the contractual agreement.

National Consumer Assistance Plan: An initiative launched by the three nationwide consumer credit reporting agencies—Equifax, Experian, and TransUnion—to make credit reports more accurate and to make it easier for consumers to correct errors on their credit reports.

Personal credit history: A record, sometimes also referred to as a consumer credit file or profile, of an individual's history of managing credit. It includes information on individual credit accounts and those closed within a period of time.

Personal credit report: A document compiled by a consumer credit reporting agency detailing information about that person or business using information derived from that person's or business's respective personal or business credit history.

Personal credit score: A number representing a person's creditworthiness. A credit score predicts how likely the borrower is to pay back a loan on time. A scoring model uses information from a credit report (see also business credit score).

Public records (on credit report): Information related to legal matters on the handling of indebtedness. Unpaid bills that are not resolved through the legal system may turn into public records. Examples of public records that are often included on credit reports are bankruptcies and foreclosures.

Revolving credit account: See line of credit.

Soft inquiry (on credit report): When an individual or lender checks a credit report of a consumer or business for informational or educational purposes only, such as examining existing accounts or considering new offers. Soft inquiries will not change your credit score.

Small Business Administration 7(a) loans: A loan guarantee program that allows participating lenders to take on risks that they would not otherwise be able to without a guarantee. To be considered eligible for the SBA 7(a) Loan Program, a business must meet SBA's **size standards**, be considered small within its particular industry as defined by the North American Industry Classification System, or operate for profit, and have reasonable equity to invest. Applicants are also required to do, or propose to do, business in the United States or its possessions. Applicants also must have tried to use other financial resources, including personal assets, before applying for a loan.

Trade creditor: A business that has not yet been paid for goods and services that it has supplied to other businesses.

Uniform Commercial Code (UCC): A set of statutes enacted by various states to provide consistency in commercial law across territories. It includes negotiable instruments , sales, stock transfers, trust and warehouse receipts, and bills of lading.

Thank you for presenting this module. Consider providing training on other Money Smart modules. Visit **www.FDIC.gov/moneysmart**.

Visit **www.fdic.gov/education** for information and resources on banking-related issues and to sign up for FDIC Consumer News, which provides practical guidance on financial services.

The FDIC Consumer Response Center at 877-ASK-FDIC (877-275-3342) is responsible for investigating all types of consumer complaints about FDIC-supervised institutions and for responding to consumer inquiries about consumer laws, regulations, and banking practices.



MONEY SMART for Small Business

INSTRUCTOR GUIDE
Building Credit

2019