

2019

MONEY SMART for Small Business BUILDING CREDIT

PARTICIPANT GUIDE



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Welcome

Welcome to **Building Credit for Small Business**. This training is an important step toward building a better business.

This module summarizes the importance of having both a good personal and business credit history for small business owners. 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** covers 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. Check the **Glossary of Terms** if you 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**.

Agenda

- Welcome, **Pre-Survey, Agenda, and Learning Objectives**
- **SECTION I: The Big Picture: Credit Reporting and My Business**
- **SECTION II: The Impact of Personal Credit on My Business**
- **SECTION III: Business Credit Reporting**
- **SECTION IV: How Lenders Evaluate Your Creditworthiness**
- **SECTION V: Credit Reporting and Business Operations**
- **Post-Survey and Evaluation**

Learning Objectives

After completing this training, you will understand the following:

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



Before we begin, what do you already know about credit reporting?

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

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
 - b. My business plan
 - c. My business financial statements, financial projections, and account history
 - d. 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

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 benefit your business operations by helping you assess and reduce risk. For example, you may consider or need to request the credit report of a potential business customer to assess your risk before entering into a relationship.

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



The Definition of Credit

What is credit? Credit is the ability to borrow money based on a promise that you will pay it back. Car loans, credit cards, small business loans, and mortgages are all types of credit—i.e., financing or lending—products. Using credit responsibly can be critical to your personal and business financial success.

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 summarizes the different types of financing options, sources, and other products and services provided by banks and others.

Personal Credit Versus Business Credit History

Next, we are going to discuss personal and business credit histories:

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.

The Importance of Credit for a Business

Reflect and share: Why do you think that personal credit and business credit are important to small businesses ?



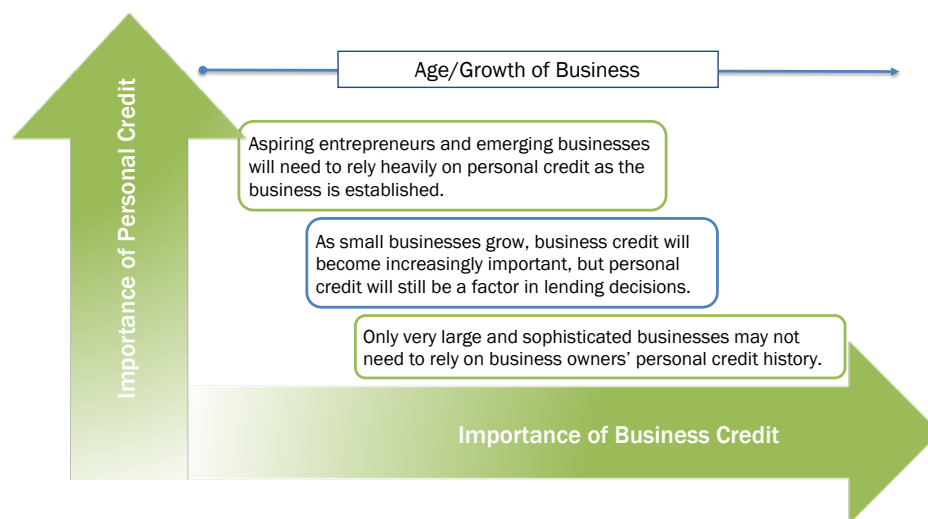
Having strong personal and business credit histories can support the growth and sustainability of an emerging small business. For example, a strong credit history:

- allows access to financing to start or expand a business;
- enables acquisition and financing of raw materials and inventory; and
- allows investment in equipment, materials, vehicles, or other market opportunities;
- 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 sales season or to fill a large order.



The Personal and Business Credit Spectrum

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



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 may also help you to obtain

business financing. As the business becomes more mature, business credit history becomes more meaningful. Underwriters may place greater weight on business credit history for larger, more experienced, and well-resourced businesses.

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



Case Study: Meet Eco-Grow Solutions

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.



Credit and Your Business

Reflect and share:

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?

Your Credit Report Overview

A credit report and credit history are valuable tools that lenders use when determining if they will extend you credit or your credit-worthiness. Lenders typically look for scores that are higher versus lower. It's important to maintain a close eye on your credit report to ensure all reported information is accurate. In the event that there is a negative or erroneous item on your credit report then there are several ways you can contact the reporting credit bureau to have the item investigated or removed.

Pay close attention to items that are not yours or that you have paid off, as they could cause trouble when attempting to secure a loan or just getting started with your business.

Account	Total Number	Balance	Available	Credit Limit	Debt to Credit Ratio
Mortgage	1	\$156,856	N/A	N/A	N/A
Installment	1	\$1,506	N/A	\$16,819	8%
Revolving	5	\$25	\$3,239	\$3,264	1%
Other	1	18	-\$18	N/A	N/A
Total	8	\$1,451	N/A	\$20,083	7%

Your Credit History



SECTION II: The Impact of Personal Credit on My Business

Detailed information on personal credit reports and scores can be found in the Money Smart for Adults credit modules. Download modules and find organizations offering Money Smart training at www.fdic.gov/moneysmart.

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 have 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 on credit accounts
- What, if any, negative information about you exists in public records, such as bankruptcies and foreclosures

▪ **Note:** 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.

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 on personal credit reports must include specific consumer identification information, and the transaction status must be updated at least every 90 days. 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 those generated by the three major consumer credit reporting agencies.

Major Consumer Credit Reporting Agencies

There are three major consumer credit reporting agencies.

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.

Equifax

Experian

TransUnion



Personal Credit Report Information

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

Personal Identifying Information	Credit History	Inquiries	Public Record Information*
Such as...			
<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 	<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.

Personal credit reports may not include all tax liens and civil judgments in the public records section. 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.

- Hard inquiries occur when you apply for credit. They can lower a credit score, often minimally, and account for about 10 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 report, a potential employer obtains it, or when a lender determines you are preapproved for credit offers such as a credit card. Soft inquiries do not affect your credit score. Only you can see them.



What Does NOT Appear on a Personal Credit Report?

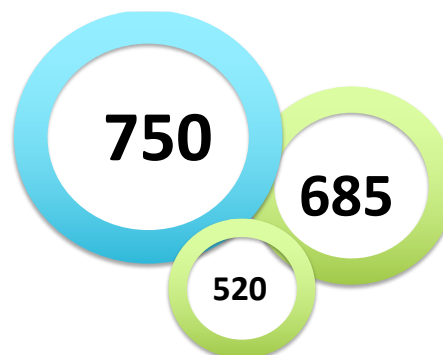
Fill in what you have learned about what information is not included on a personal credit report:

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 denial.

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.

- 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 make loan decisions.
- Lenders may use one or more credit scores to make a lending decision, and these scores may predict different types of risks. 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®.



FICO® Score and VantageScore®

Knowing how credit scores are calculated can help you understand how to build or improve your personal credit scores.

FICO®	
	10%

VantageScore®	
Available credit	Less influential

- Payment history is the most important factor in the FICO® and VantageScore® calculations. That is why it is important that payments you make on credit accounts are posted by the due dates.
- Outstanding debt 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.

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 or no credit score, you may be denied a loan, 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.



Keeping Up With Your Personal Credit Report

- Regularly order and review your personal credit report from each of the three major consumer credit reporting agencies through www.annualcreditreport.com.
- Dispute errors on your credit report 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 of inaccuracy. 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.
- When submitting a dispute through the mail, request a tracking number, which provides a timeline that determines when you may expect a response. When you dispute an account, the creditor or credit reporting agency is required by law to respond within 45 days.



TIP: Obtain one report every four months to review your credit throughout the year.



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 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 nationwide 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 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**

Instructions: Review the four key sections of the **Sample Personal Credit Report** on the next page, then answer the questions below.

Is Albert current on all of his accounts? Explain your answer:

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

Has Albert applied for credit recently?

Does Albert have any public records?

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		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			
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 VISA Card Address: PO Box 1414 NY 10001 Date: 04/01/16			

Various federal resources provide more information on personal credit reports and how to read them, including Money Smart curricula, tools from the Financial Literacy and Education Commission (www.mymoney.gov), and checklists from the Bureau of Consumer Financial Protection.

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.

$$\text{Credit Utilization} = \frac{\text{Credit Outstanding}}{\text{Credit Available}} = \frac{\$1,300}{\$2,500} = 0.52 = 52\% \text{ credit utilization}$$



When Personal Credit History Is Important for Your Business

Personal credit may be important at various stages throughout the life cycle of your business, particularly 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.



Personal guarantee: In most circumstances, a lender may require you to guarantee a loan or other financing product 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.



Check-In With Rosa and Albert

Albert mostly leveraged his personal 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.



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?



SECTION III: Business Credit Reporting

What Are Business Credit Reports?

Similar to personal credit reports, business credit reports help lenders and other businesses assess the risk of working with your business. Business credit reports tell lenders and others about the credit performance of your business.



Personal Versus Business Credit Reports

PERSONAL CREDIT REPORT	Personal Identifying Information	Credit History	Inquiries	Public Record Information
BUSINESS CREDIT REPORT	Business 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 you with a free business credit report upon your request.

The Major Players in Business Reporting

The following are three well-known business credit reporting agencies:

Dun & Bradstreet (D&B)	Focus is on how your business interacts with vendors and suppliers (trade credit performance)	Note: The SBA website has a vast amount of information on business credit reports.
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	

What Information Do Business Credit Reports Contain?

A business credit report from Dun & Bradstreet, Experian Business, and Equifax Business includes many different types of information, such as:

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



Not all business credit reports will contain all of the information listed above. Unlike personal credit reports, which may look different but contain the same basic information, the information on business reports can vary significantly.

Regulation of Business Credit

Information reported to business credit reporting agencies is not subject to the FCRA/FACTA. However, 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 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

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."

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.

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
	

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 (D&B) offers predictive and performance-based scores. The D&B PAYDEX® score reflects a business's payment history. 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's Payment Index score, used by trade creditors and some lenders, is similar to the PAYDEX® score, reflecting business payment history and information from creditors and vendors. It also provides delinquency and failure scores.
- Experian's Intelliscore PlusSM score is calculated from numerous data points, such as age of records on file, payment trends, numbers of trade lines, outstanding balances, credit utilization, public records, 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.

Notes:

Checking Your Business Credit Report

- Checking your business credit report can help you identify and correct errors that may affect your business.
- Dun & Bradstreet (<https://iupdate.dnb.com>) allows you to create an account to view and update basic information on your D&B business credit report and dispute items.
- 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.
- Services to monitor your business credit reports and scores across business credit reporting agencies are available for a fee. You should rely on expert advice from Small Business Development Centers (SBDCs) or SCORE counselors to evaluate these resources (see page 44 for more information on SBDCs and SCORE).



Lenders make financing decisions based on multiple factors. They may not use just one business credit score or may use their own proprietary score. In general, business cash flow is a more important factor in financial institutions' lending decisions. The **Money Smart for Small Business Managing Cash Flow** module has more information on this topic.



Exercise 2: 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 in 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 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 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





Why Should I Establish Business Credit?

A good business credit history might give you a competitive advantage. For example:

	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








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.

Notes:



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.

Notes:



Check-In With Eco-Grow Solutions

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.

- 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?



Building Your Business Credit History

Reflect and share.

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

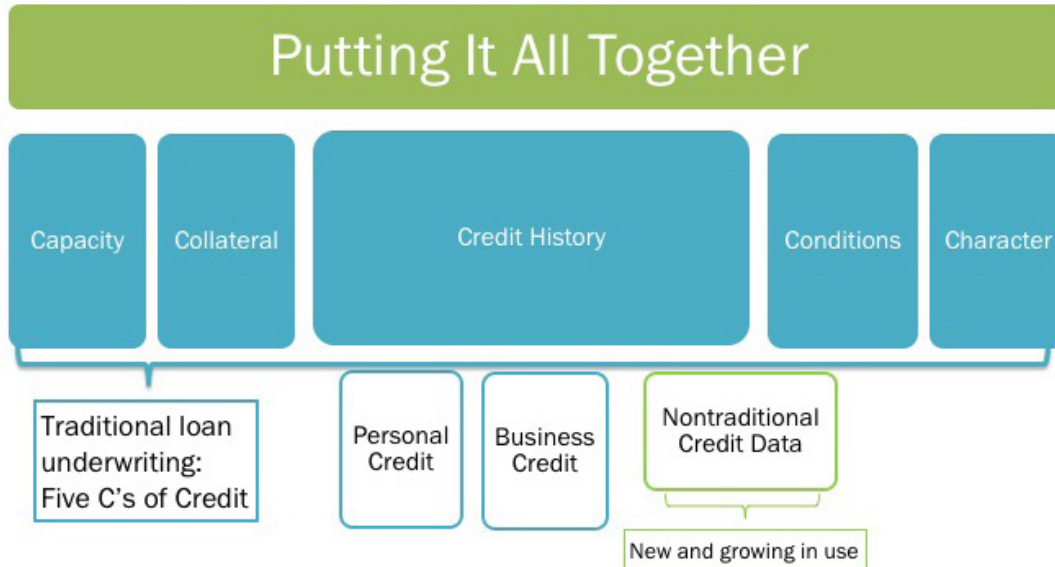
The Current Landscape of Business Credit Reporting

As a small business owner, you may interact with different types of entities involved in business credit reporting:



Putting It All Together

Lenders consider many different factors when evaluating the creditworthiness of a small business. Many lenders consider the “five C’s of Credit. Fill in what you learn about each of the five C’s below, and determine what C’s are your strengths or weaknesses:



Capacity

Collateral

Credit History

Conditions

Character

Nontraditional Data

In a consumer context, nontraditional or alternative data generally refers to information not traditionally reported to credit reporting agencies, such as utilities, phone, and rental payments.

In the business context, nontraditional data may include online business reviews, 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.

Different Lenders, Different Priorities

Lenders 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, community development financial institutions (CDFIs), and online lenders may all have different lending models.



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

Lender A: Providing start-up loans

Considers all five C's

- Emphasizes personal credit and collateral

Lender B: Providing working capital

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



Exercise 3: Compare Lender Criteria and Financing Options

Instructions: Read the new information about Albert and Rosa, and consider how their credit histories may affect their options for financing.

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 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



1. How do Albert's and Rosa's personal and business credit histories impact 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 business revenue?
4. What key factors might Rosa and Albert want to consider when comparing their financing options?

[illegible]



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

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

OUTSTANDING QUESTIONS:

I want to learn more about:



SECTION V: 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.

Accessing Credit Reports	Reporting to Credit Reporting Agencies
<p>What it means: Your small business pays a fee to access the credit reports of consumers or other businesses.</p>	<p>What it means: Your small business reports information (such as outstanding debts) about consumers or other businesses to one or more of the major consumer or business credit reporting agencies.</p>
<p>Why do this? Access to credit reports may be useful in helping you evaluate risks when hiring employees or working with customers, clients, or other businesses.</p>	<p>Why do this? Reporting to credit reporting agencies may support your ability to manage risk when you have a lot of transactional activity with customers.</p>

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

	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!!!

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**.

Summary

- What final questions do you have?
- What have you learned?
- How would you evaluate the training?



Key Resources

- 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 at (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: <http://sbcr.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: www.sbcr.experian.com
800-303-1640

Dun and Bradstreet: www.dandb.com
866-248-1450

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

For More Information

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 life cycle."

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]

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.

	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
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

PARTICIPANT GUIDE

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

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, individual 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.

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.



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