DISCLAIMER

These training materials are intended as general guidance only and may or may not apply to a particular situation based on the circumstances. The materials do not create any legal rights or impose any legally binding requirements or obligations on the Federal Deposit Insurance Corporation (FDIC) or the U.S. Small Business Administration (SBA). The FDIC and SBA make no claims or guarantees regarding the accuracy or timeliness of this information.

The content of this training material is not designed or intended to provide authoritative financial, accounting, investment, legal, or other professional advice that may be reasonably relied on by its readers. If expert assistance in any of these areas is required, readers should seek the services of a qualified professional.

Reference to any specific organization, commercial product, process, or service by trade name, trademark, manufacturer, or otherwise does not constitute an endorsement, recommendation, or preference by the FDIC, SBA, or the United States government.

ACKNOWLEDGMENTS

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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](http://www.fdic.gov/moneysmart) and [www.sba.gov/moneysmart](http://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.

<table>
<thead>
<tr>
<th><strong>Icon</strong></th>
<th><strong>Description</strong></th>
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<tr>
<td><img src="star.png" alt="" /> Share Key Takeaway</td>
<td>When you convey the primary message of a section</td>
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<tr>
<td>![comment.png] Lead Discussion</td>
<td>When you facilitate discussions</td>
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<tr>
<td>![people.png] Lead Activity</td>
<td>When you facilitate activities</td>
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<tr>
<td>![arrow.png] Take Action and Closing</td>
<td>When you help participants plan action steps to apply what they learned</td>
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<tr>
<td>![book.png] Case Study</td>
<td>When you use a short story to start a discussion or activity about a financial topic</td>
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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

<table>
<thead>
<tr>
<th>Time (in minutes)</th>
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<th>Instructor Comments/Notes</th>
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<td>Welcome, Pre-Survey, Agenda, and Learning Objectives</td>
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<td>15</td>
<td><strong>SECTION I: The Big Picture:</strong> Credit Reporting and My Business</td>
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<td><strong>SECTION II: The Impact of Personal Credit on My Business</strong></td>
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<td>▪ Exercise 1: Review a Sample Credit Report (case study check-in)</td>
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<td>Break</td>
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<td><strong>SECTION III: Business Credit Reporting</strong></td>
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<td>▪ Exercise 2: Business Credit Report Checklist (case study check-in)</td>
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<td><strong>SECTION IV: How Lenders Evaluate Your Creditworthiness</strong></td>
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<td>▪ Exercise 3: Compare Lender Criteria and Financing Options</td>
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<td>5</td>
<td>Key Points to Remember</td>
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<td>Summary, Post-Survey, Evaluation</td>
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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).

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

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

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.
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.

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

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.
The Importance of Credit for a Business

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 [BUSINESS TYPE] 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.

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.
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**

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.
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 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 you are using
- Whether you make on-time or late payments on credit accounts
- What negative information about you exists in public records, such as bankruptcies and foreclosures

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.

Slide 16, Participant Guide page 14

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.
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

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.

- **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.

---

**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.

---

**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.
What Does NOT Appear on a Personal Credit Report?

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

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

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.
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 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®.

**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.

- 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.
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.

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](http://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.

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.

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).
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 # 12345678 12345678
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
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:

- **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.
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.
Check-In With Rosa and Albert

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.
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®.
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:

- 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.
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.

<table>
<thead>
<tr>
<th>A creditor must provide notice if any of the following has taken place:</th>
<th>A creditor must notify the applicant as follows:</th>
</tr>
</thead>
<tbody>
<tr>
<td>▪ An adverse action (rejection) on a completed or incomplete application</td>
<td>▪ 30 days after receiving a complete or incomplete application</td>
</tr>
<tr>
<td>▪ An adverse action (closure or reduction) on an existing credit account</td>
<td>▪ 30 days after taking action</td>
</tr>
<tr>
<td>▪ 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</td>
<td>▪ 90 days after making the counteroffer</td>
</tr>
</tbody>
</table>

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.”

### 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.
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:**

<table>
<thead>
<tr>
<th>Information</th>
<th>Correct</th>
<th>Incorrect</th>
<th>N/A</th>
</tr>
</thead>
<tbody>
<tr>
<td>Business Name</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Alias/Doing Business As (DBA)</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Business and Legal Address</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Business Phone Number</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Alternate Addresses/Locations</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Business Website</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Identifier/DUNS number/Employer Identification Number</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Industry Classification Codes (<a href="https://siccode.com">https://siccode.com</a> or <a href="http://www.naics.com">www.naics.com</a>)</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

### 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.

<table>
<thead>
<tr>
<th>Information</th>
<th>Correct</th>
<th>Incorrect</th>
<th>N/A</th>
</tr>
</thead>
<tbody>
<tr>
<td>Payment History</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Amounts Owed</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Current Past-Due Balances</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Historical Past-Due Balances</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Payment Trends</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Amounts Placed for Collection</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Other:</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

### 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.

<table>
<thead>
<tr>
<th>Score/Rating #1</th>
<th>Score/Rating #2</th>
<th>Score/Rating #3</th>
</tr>
</thead>
<tbody>
<tr>
<td>Type of Score</td>
<td>Type of Score</td>
<td>Type of Score</td>
</tr>
<tr>
<td>Score/Rating</td>
<td>Score/Rating</td>
<td>Score/Rating</td>
</tr>
</tbody>
</table>

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.

<table>
<thead>
<tr>
<th>Registered Name</th>
<th>☐ Correct</th>
<th>☐ Incorrect</th>
<th>☐ N/A</th>
</tr>
</thead>
<tbody>
<tr>
<td>Business Type</td>
<td>☐ Correct</td>
<td>☐ Incorrect</td>
<td>☐ N/A</td>
</tr>
<tr>
<td>Corporation Type</td>
<td>☐ Correct</td>
<td>☐ Incorrect</td>
<td>☐ N/A</td>
</tr>
<tr>
<td>State of Incorporation</td>
<td>☐ Correct</td>
<td>☐ Incorrect</td>
<td>☐ N/A</td>
</tr>
<tr>
<td>Incorporation Date</td>
<td>☐ Correct</td>
<td>☐ Incorrect</td>
<td>☐ N/A</td>
</tr>
<tr>
<td>Business Ownership Structure</td>
<td>☐ Correct</td>
<td>☐ Incorrect</td>
<td>☐ N/A</td>
</tr>
<tr>
<td>Name of Owner(s)</td>
<td>☐ Correct</td>
<td>☐ Incorrect</td>
<td>☐ N/A</td>
</tr>
<tr>
<td>Business Ownership Percentages</td>
<td>☐ Correct</td>
<td>☐ Incorrect</td>
<td>☐ N/A</td>
</tr>
</tbody>
</table>

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.

<table>
<thead>
<tr>
<th>Bankruptcy Records</th>
<th>☐ Correct</th>
<th>☐ Incorrect</th>
<th>☐ N/A</th>
</tr>
</thead>
<tbody>
<tr>
<td>Lawsuits</td>
<td>☐ Correct</td>
<td>☐ Incorrect</td>
<td>☐ N/A</td>
</tr>
<tr>
<td>Liens</td>
<td>☐ Correct</td>
<td>☐ Incorrect</td>
<td>☐ N/A</td>
</tr>
<tr>
<td>Judgments</td>
<td>☐ Correct</td>
<td>☐ Incorrect</td>
<td>☐ N/A</td>
</tr>
<tr>
<td>UCC Records</td>
<td>☐ Correct</td>
<td>☐ Incorrect</td>
<td>☐ N/A</td>
</tr>
</tbody>
</table>

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](http://sbcr.experian.com)
800-303-1640

Dun & Bradstreet [www.dandb.com](http://www.dandb.com)
866-248-1450

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.
Establishing Business Credit

- 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.

Best Practices for Strong Business Credit

- 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 comingle 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.

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**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?
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.

**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.
Different Lenders, Different Priorities

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.

Exercise 3: Compare Lender Criteria and 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.)
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

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**

<table>
<thead>
<tr>
<th>I have viewed my personal credit report in the past 12 months.</th>
<th>My personal credit is:</th>
</tr>
</thead>
<tbody>
<tr>
<td>☐ Yes  ☐ No</td>
<td>☐ excellent.</td>
</tr>
<tr>
<td></td>
<td>☐ fair.</td>
</tr>
<tr>
<td></td>
<td>☐ poor.</td>
</tr>
<tr>
<td></td>
<td>☐ I have no personal credit.</td>
</tr>
<tr>
<td></td>
<td>☐ I am not sure.</td>
</tr>
</tbody>
</table>

**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.

*Credit Utilization = \( \frac{\text{Credit Outstanding}}{\text{Credit Available}} \) = \( $\) = \( $\)
BUSINESS CREDIT

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

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

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
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.

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.

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

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]
Post-Survey and Evaluation

We would like your feedback on this class.

Please complete and return the Evaluation form on the last page of your 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.

<table>
<thead>
<tr>
<th>Strongly Disagree</th>
<th>Disagree</th>
<th>Neutral</th>
<th>Agree</th>
<th>Strongly Agree</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>2</td>
<td>3</td>
<td>4</td>
<td>5</td>
</tr>
</tbody>
</table>

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.

<table>
<thead>
<tr>
<th>None</th>
<th>Advanced</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>2</td>
</tr>
</tbody>
</table>

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:

Please rate your instructor by circling a number.

<table>
<thead>
<tr>
<th>Poor</th>
<th>Fair</th>
<th>Good</th>
<th>Very Good</th>
<th>Excellent</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>2</td>
<td>3</td>
<td>4</td>
<td>5</td>
</tr>
</tbody>
</table>

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
INSTRUCTOR 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

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.
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