

FDIC



Financial
Education Curriculum



U.S. Small Business Administration

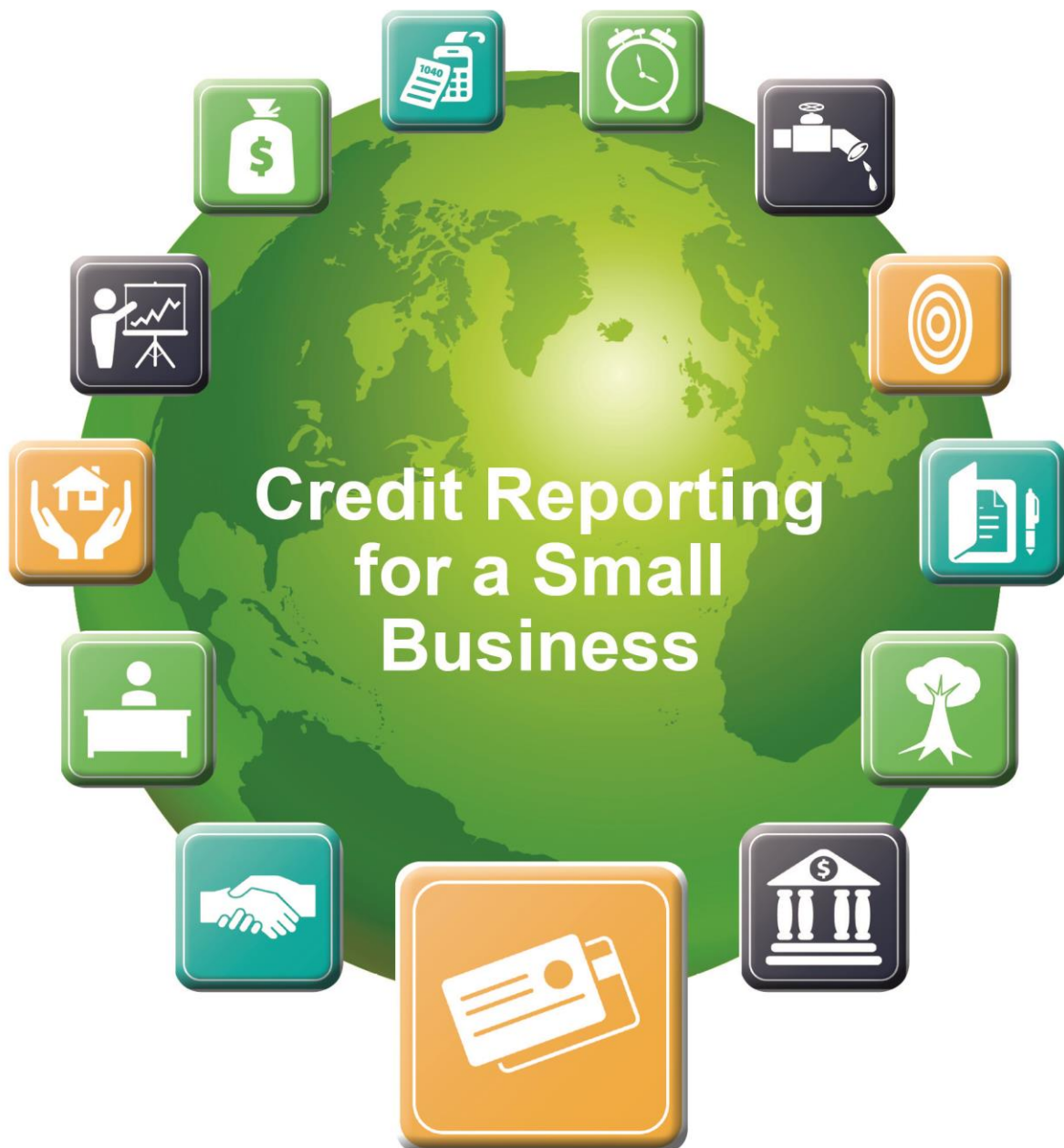


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DISCLAIMER

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

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

Welcome

Welcome to the *Credit Reporting for a Small Business* training. By taking this training, you are taking an important step toward building a better business. This guide accompanies the *Credit Reporting for a Small Business PowerPoint Presentation*.

Objectives

After completing this training, you will be able to:

- Explain the concept of credit reporting and the impact of credit reports on the operation or growth of a small business.
- Identify the credit reports and other reporting systems commonly used to assess the risk of extending credit to a small business.
- Explain how credit reports work.
- Identify the benefits a small business derives from a positive record of managing its debts and obligations.
- Identify risks to a business from credit-related scams or frauds and take steps to avoid or mitigate harm caused by them.
- Identify the common business practices and products, tools, and services that are available for a small business to help in proper credit reporting.
- Identify strategies for building or improving business credit.
- Explain how the personal finances of a business owner impact the ability of a business to get credit.

What Do You Know?

Credit Reporting for a Small Business

Instructor: _____ Date: _____

This form will allow you and your instructor to see what you know about credit reporting, both before and after the training. Please read each statement below. Circle the number that shows how much you agree with each statement.

	Before Training				After Training			
	Strongly Disagree	Disagree	Agree	Strongly Agree	Strongly Disagree	Disagree	Agree	Strongly Agree
1. I can explain the concept of credit reporting and the impact of credit reports on the operation or growth of a small business.	1	2	3	4	1	2	3	4
2. I can identify the credit reports and other reporting systems commonly used to assess the risk of extending credit to a small business.	1	2	3	4	1	2	3	4
3. I can explain how credit reports work.	1	2	3	4	1	2	3	4
4. I can identify the benefits a small business derives from a positive record of managing its debts and obligations.	1	2	3	4	1	2	3	4
5. I can identify risks to a business from credit-related scams or frauds and take steps to avoid or mitigate harm caused by them.	1	2	3	4	1	2	3	4
6. I can identify the common practices or products, tools, or services which are available for a small business to help in proper credit reporting.	1	2	3	4	1	2	3	4
7. I can identify strategies for building or improving business credit.	1	2	3	4	1	2	3	4
8. I can explain how the personal finances of a business owner impact the ability of a business to get credit.	1	2	3	4	1	2	3	4

Pre-Test

Test your knowledge of credit reporting before you go through the training.

- 1. Which of the items listed below will not appear on a credit report? Select all that apply.**
 - a. Unpaid lawsuits
 - b. Employment
 - c. Tax liens
 - d. Credit rating score
 - e. Former alias

- 2. List the three key business reporting agencies:**
 1. _____
 2. _____
 3. _____

- 3. The Fair Credit Reporting Act sets forth legal requirements for your business in all aspects of the credit reporting process, from furnishing credit information to an agency to using credit reports ordered from an agency.**
 - a. True
 - b. False

- 4. The Fair Credit Billing Act may require you to promptly process returns you accept from customers who had paid you using their credit card.**
 - a. True
 - b. False

- 5. Obtaining information on a consumer under false pretenses may cause you to be:**
 - a. Fined
 - b. Imprisoned for up to two years
 - c. Both a. and b.

Credit Reporting

A small business credit report contains information provided by banks, lenders, investors, landlords, other businesses, and government agencies. A business credit report may include items such as an analysis of credit worthiness, insurance underwriting, employment, certain licenses, continued credit terms, and business needs. Credit reporting agencies collect information on bank accounts, payment histories, judgments, collections, tax liens, and unpaid lawsuits. Credit reporting agencies identify the business using its tax ID number, previous addresses, and former names.

Credit Report Impact

Credit reports may be used by, or involve, a small business owner in any of three ways:

- **As a borrower seeking credit**, creditors or suppliers review your credit history to determine whether they will grant you credit and on what terms.
- **As a report user**, you request the credit report of a potential customer or vendor. You may use the report to set credit terms for a customer seeking to make a purchase. You can also use the reports to help assess and manage the risk of a vendor or supplier not fulfilling their contractual obligations.
- **As a reporter of information**, your business submits credit information related to accounts owed to your business. When a customer pays their debts in a timely manner, you provide this information to the credit reporting agencies.



Business Credit Reports

As you are getting started in your business, you can use your personal credit for the business. However, establishing credit with a credit reporting service, in the name of the business, is very important. Business credit reports compare the stability of a business to similar businesses participating in the credit reporting service. Businesses involved in extending credit use these reports to determine terms of financing. Suppliers and shipping companies review the credit history of your business when deciding whether to grant a line of credit. Firms participating in a business credit reporting service are more visible in the marketplace. Being listed with the business reporting service helps consumers find your company through internet searches that link the firm's name to the name or key words in the firm's credit report.

To start the process of building a credit file for your business, obtain a tax identification (ID) number from the Internal Revenue Service (IRS). Next, obtain a unique identification number for your firm, called a Data Universal Numbering System (DUNS) number, through www.dnb.com. Once you have obtained the DUNS number, become a subscriber of a reporting service by submitting financial statements and registration information on your business to one of the three major national credit reporting agencies. To ensure the most favorable credit rating, include the strongest or most well-established opened trade line-of-credit accounts in your registration information. The reporting agency will contact the creditors you list for the most current information.

Discussion Point #1: Business Credit Reports

The purpose of this question is to discuss the benefits and challenges with business credit reports.

Have business credit reports helped your business? What have been some of the challenges of business credit reports?

A business credit report includes information such as:

- Commercial credit risk score
- Potential for business failure indicators
- Credit filings in existence for secured property
- Business ownership information
- Other businesses owned by the same organization
- Public records of security interest filings (which provides notice to other creditors that property cannot be used as collateral for another loan)

Each reporting agency usually provides a free business credit report and for a fee may provide additional information such as:

- Agency summary of financial and nonfinancial accounts
- Public records of any secretary of state business registration
- Scores from another reporting agency
- Payment trend and payment index comparisons to the industry norm over a 12-month period

Three Key Business Reporting Agencies

The three major national business reporting agencies are: Dun and Bradstreet, Experian Business, and Equifax Business. Each of these agencies has extensive information on their web sites regarding their services. You can check with a sales consultant about pricing on additional services.



Decide with Confidence



Consumer Reporting Agency

A consumer reporting agency is any person or business that assembles or evaluates credit information on consumers, for fees or dues, and furnishes these reports to third parties. For consumers, there are three major credit reporting agencies: Experian, Equifax, and TransUnion.



As a small business, if you have a permissible purpose to obtain a credit report on a consumer, you can access the information gathered through these three key reporting agencies either directly from them or indirectly through one of the many other consumer reporting agencies. You can find these additional agencies by searching the Internet. If you obtain a credit report, use it solely for the purpose intended, such as to make a decision whether to extend credit to a customer. Do not pass the credit report on to a third party; doing so can result in your firm being considered a consumer reporting agency causing additional legal responsibilities.

Knowing the legal standards and regulations you must follow when requesting and using a credit report or reporting to a consumer reporting agency is important. If your business has a reporting relationship or the ability to pull credit reports, be sure to train all of your staff and any others who have access to credit reports on how to comply with legal and industry expectations and minimize risks.

Discussion Point #2: Consumer Reporting Agency

The purpose of this question is to discuss why businesses would provide information to a consumer reporting agency.

What are some of the reasons a business owner may have for reporting consumer credit information to a consumer reporting agency?
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Reporting Consumer Credit Manages Risk

Reporting your transactional history with a consumer to a credit agency gives other creditors notice of debts owed to your business. It allows other firms to know a consumer's total existing debt. Dividing monthly debt by the income for the month is referred to as the debt-to-income ratio. Many issuers of credit expect around 45 percent as an acceptable amount of debt-to-income, depending on other monthly expenses.

Consumers who are credit conscious are more likely to pay on your accounts, if they know that you will report their payment history to credit agencies. Overall debt recovery increases with account reporting. Collection agencies require accurate records to collect unpaid bills. By reporting late payments, you begin the notification process. Current reporting also helps to locate debtors by providing updated addresses.

Consumers who review their reports will uncover fraud or identity theft attempts when an account is issued by a creditor that the consumer never opened. The consumer can then contact the repositories to put an alert on any reports already issued or block reports from being issued without the consumer's consent. As a business owner, if you obtain a report with an alert, be sure to contact the applicant—perhaps using the last known address on the credit report—to validate the person's identity and be certain you are not dealing with a case of identity theft.

Reporting to Credit Agencies

A business can report consumer information directly to one of the three major credit agencies or through a third party. Representatives of the credit agency will guide you through the credit reporting process. However, before participating in credit reporting, consider the requirements and costs in relation to your business needs. Decide which type of service to use and whether to establish a direct relationship with one of the three main repositories. The credit agency should also offer training to help your business comply with laws and regulations relating to the reporting of information.

All agencies and businesses must follow state and federal laws with regard to reporting credit. Many of these third party agencies have guidelines or templates to aid your business in complying with these laws. Compare agencies by checking their fees and asking for all requirements.

Requirements to Report Directly

Small businesses are required to have a retail location to work *directly* with one of the three credit agencies. For example, landlords or home-based businesses are generally excluded from directly using the three main credit agencies because of this need for a secured retail location. The three credit agencies have specific requirements about a facility using their services. To ensure data and reports are protected and information is not compromised, a retail location is required to undergo an inspection to check for the following:

- Legitimate business location with secure locks
- Separate office rooms with secured filing systems
- Secure computers
- Security procedures

Reporting through a Local or Regional Agency

If your business does not meet the qualifications to report directly to one of the three main credit agencies, the business can potentially do so through a local or regional agency. Local or regional agencies serve as a “gateway” for a small business to report and obtain information from the three main agencies or repositories.

These local agencies may also act as a collection agency. Collection agency specialized services can vary widely from medical to rent recovery. Many landlords and home-based businesses use the services of a collection agency.

Additional Services of Agencies

Credit reporting service packages can be tailored to your business needs. Check with a representative about your possible need for employment background checks, creditor information, marketing opportunities, and business risks. Agencies should have procedures to ensure compliance with relevant laws and regulations. Ask about these procedures. Also ask about their training programs.

One service, credit collection, helps businesses take legal action on past due accounts and also helps to recover debt. In some cases, a credit collection service will buy debt from your business at less than the owed amount. The requirements and fees vary for different collection services. All collection services require their business customers to keep accurate records, but some collection services require software purchases, charge per account, and receive a percentage fee on collections. Collection services also have different late payment policies. Review agency web sites and contact their help desk or support if you have any questions about their collection services.

Pulling a credit report or reporting credit requires following the law. Providing guidance in this area is part of what an agency will provide. An agency should be knowledgeable and up-to-date. Agency models for reporting and obtaining credit are set up to conform to regulations such as those formed by the Fair Credit Reporting Act and the Fair Credit Billing Act. These agencies take some of the burden off you, the business owner.

Fair Credit Reporting Act

The Fair Credit Reporting Act (FCRA) governs the collection, assembly, and use of consumer report information. The Act sets forth legal requirements for your business in all aspects of the credit reporting process, from furnishing credit information to an agency to how to use credit reports ordered from an agency. For example, the law limits when you can request a credit report on a consumer. It governs how you may use credit scores.

Consumers (you or your customers) have protections under the FCRA. If you make a decision adverse to a consumer based on a credit report, you must provide the consumer a notice that lists the name of the credit reporting agency that provided the report you relied upon when making your decision. In that circumstance, consumers may obtain a free copy of their own report from the credit reporting agency.

Violations of this act expose your business to significant and costly legal damages, plus potential damage to the reputation of the business. Take time to understand the requirements of the FCRA and seek legal counsel as necessary. You can learn more at www.ftc.gov/os/statutes/fcradoc.pdf or elsewhere on the Federal Trade Commission web site. In addition to

complying with the FCRA, be knowledgeable of state laws that apply to your business. Responsible agencies may help guide your business in these areas, so be sure to do some research before signing up with an agency.

Discussion Point #3: Fair Credit Reporting Act

The purpose of this question is to discuss how the Fair Credit Reporting Act impacts your business.

How does the Fair Credit Reporting Act impact your business?

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Fair Credit Billing Act

The Fair Credit Billing Act (FCBA) regulates billing practices for open-end credit (such as credit cards). This law protects consumers from unfair practices and provides a mechanism for addressing billing errors in credit accounts. Even if your business is not billing for credit card services, you may be billing for other services or providing credit and reporting credit-related information. Or, you may be working with a creditor to provide financing to customers for purchases of your products.

If you are engaged in activities covered by the Fair Credit Billing Act, certain requirements are imposed on you by law. For example, if a consumer disputes a bill or requests proof of purchase as part of their inquiry regarding an error, you cannot take any action to collect the disputed amount during your investigation of the consumer's complaint. And, you must respond to the consumer within a timeframe specified in the law.

Also, many of your customers use credit or debit cards to make purchases. If you accept debit or credit cards, go over details with your merchant services provider on how to handle credits or returns properly. Understanding the FCBA ensures you will be compliant with the laws that affect your credit card sales. For example, if you accept a return from a customer who made the purchase with a credit card, the FCBA requires you to promptly issue a credit for the return to the customer's credit card.

Other laws

Know what state or local laws may apply to your consumer billing activities. For example, some jurisdictions may require that you provide a receipt to your customers that lists certain information on the receipt.

And, if you are collecting on debts owed to you, or hiring debt collectors, take time to understand the federal and state laws that may apply and any restrictions you may face in how you collect on money owed to you.

Handling Personal Information: Risks & Responsibilities

Understanding the laws and risks associated with handling personal information is important. Employees should be trained on the proper procedures to ensure compliance. Negligence for noncompliance can result in fines that include liability for sums equal to damages sustained plus attorney fees, in addition to negative publicity for your firm. Obtaining information on a consumer under false pretenses may lead to a fine or imprisonment for up to two years, or both. Agencies providing information to a person not authorized to obtain the personal information may receive a similar penalty. Handle private consumer information as though it were your own to help protect against identity theft and fraud.



Investigate disputes of inaccurate reporting of information to credit bureaus by acknowledging your receipt of the complaint and discontinuing any reporting on the disputed account. Notify the consumer of your findings within 90 days of receiving their notice. Also, follow the laws of your state.

Personal Credit Impact on Business

To make a decision on your business loan application, lenders will likely ask for your permission to review your personal credit reports and contact your bank to verify your handling of checking accounts and existing loans.

Your Personal Credit

Before you apply for credit, it is a good idea to order and review your personal credit report through www.annualcreditreport.com to ensure your credit report does not contain inaccurate information. If there are errors on your report, provide copies of all documentation to support your claim when you file the dispute. Send copies of the documentation directly to the creditor that provided the inaccurate information as well as the credit bureau. Once the error resolution process is completed, request an updated credit report from all three major national credit reporting bureaus to verify that the changes were made.

You may be able to file disputes online. When mailing a response to a dispute request a tracking number. This tracking provides a timeline of when to expect a response. A creditor is required to respond within 30 days of receiving the notice of the dispute.

Improve Your Personal Credit Scores

For most major scoring models, whether you repay loans as agreed (on time) is generally the most significant factor influencing your score. That is why it is important to pay your bills on time. Another key component of your credit score

is how much you currently owe on each account compared to its original loan amount or credit limit. Additional factors include how long you have had your current loans and credit cards, the types of credit accounts you have, and how many recent "credit inquiries" you have (these are requests by lenders for your credit report or score in response to your applications for new credit). Contrary to common misconceptions, your credit score will not be lowered when you order your own credit report.

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. Even if you fell into trouble in the past, you can rebuild your credit history by beginning to make payments as agreed. Paying your debts on time will have a positive effect on your credit score and can improve your access to credit.
- Minimize how much you owe in relation to your credit limit to show that you are not overextending on debt. Do not automatically close accounts that have been paid in full and have not been used for a while, because that can lower your available credit and make the ratio of credit used to credit available worse. The exception is an account that continues to be assessed monthly fees even with a zero balance.
- Think carefully before applying for new credit, as credit inquiries can lower your score.

Personal Guarantor Advantages

Under certain circumstances, you may be required to personally guarantee a loan to the business. Lenders may require you to be the personal guarantor if your business is registered as a limited liability company, if the loan is part of a program provided through the Small Business Administration (SBA), or your ownership is greater than 20 percent.

SBA Loan Program

With an SBA loan, the SBA does not actually originate the loan. You work directly with your bank. The SBA assumes some of the risk involved in the making of the loan to help the bank provide lending that would otherwise not be available.

Obtaining the loan may be important to the business, but naturally as a guarantor, you are personally liable to repay the loan even if the business does not perform well. These risks should be carefully reviewed before signing the loan agreement. Consider seeking advice from an accountant and attorney before borrowing money for your business.

Personal Guarantor Disadvantages

Being a personal guarantor means that you are liable for the loan if your business is not able to make the payments. You will be required to make the payments from your personal funds. You may also be asked to pledge personal assets as collateral to secure a loan. If your home is collateral for the loan to the business, failure to pay the loan could result in foreclosure and loss of your home.

If you do not qualify on your own for a loan, a lender may require another creditworthy individual to sign as a guarantor. Federal rules limit when a creditor may specifically seek an applicant's spouse as a cosigner or guarantor. These rules vary depending on the circumstances, such as whether any property securing the loan is held jointly or whether you are in a state that allows community property.

If you believe a bank has violated rules when requesting a signature from a spouse on a loan agreement and you are not able to resolve the situation after talking with the lender, contact the lender's federal regulator for assistance. To learn more about how to contact your bank's federal regulator, call the FDIC Consumer Assistance Line at: 1-877-ASK FDIC or visit www.fdic.gov/consumer.

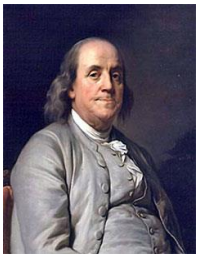
Discussion Point #4: Personal Guarantor

The purpose of this question is to discuss the challenges of being a personal guarantor.

What are the challenges of being a personal guarantor?

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The New Small Business Owner



As a new business owner, your personal credit is your foundation to build the business. Having the best credit possible may save significant time, money, and help launch your business. The advice of Benjamin Franklin in 1748 to a young tradesman is appropriate today: "Remember that credit is money."

Five Key Points to Remember

1. As a small business owner, your personal credit and handling of checking accounts and loans affects your ability to borrow for the business and your terms with vendors. Know what is on your personal credit report by ordering a free credit report through www.annualcreditreport.com (the only authorized source to receive your free credit report) and dispute any inaccurate information. Be sure to pay all bills on time and avoid overdrawing your personal checking account to help build a record of handling your personal accounts well and according to the terms you agreed to.
2. You can establish a credit history for your small business. To do so, start by applying for a tax ID number. Then, contact a business reporting agency. Potential creditors will review the credit history of the business. Build a positive record by paying all bills and other obligations on time.
3. The three key business reporting agencies are: Dun and Bradstreet, Experian Business, and Equifax Business. These agencies can provide a copy of your business credit report and provide other business support services.
4. If your business grants credit to customers, consider providing timely information to the credit agencies on how customers repay their debts. This action may help incentivize customers to pay on time. Consumers may also grant your business permission to pull their credit reports to help your business decide whether to extend credit to them. To do either, you work through a consumer reporting agency. There are many agencies, so shop around.
5. Be aware of and follow all laws relating to how you request, collect, retain, and report information on consumers, as well as the laws relating to how you handle billing disputes and collecting money owed to you to avoid costly fines or legal judgments. Handle information carefully. If you are reporting to a credit bureau or obtaining reports, be sure the agency you are using is reputable and can provide training to you and your employees.

Post-Test

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

1. Which of the items listed below will not appear on a credit report? Select all that apply.
 - a. Unpaid lawsuits
 - b. Employment
 - c. Tax liens
 - d. Credit rating score
 - e. Former alias

2. List the three key business reporting agencies:
 1. _____
 2. _____
 3. _____

3. The Fair Credit Reporting Act sets forth legal requirements for your business in all aspects of the credit reporting process, from furnishing credit information to an agency to using credit reports ordered from an agency.
 - c. True
 - d. False

4. The Fair Credit Billing Act may require you to promptly process returns you accept from customers who had paid you using their credit card.
 - c. True
 - d. False

5. Obtaining information on a consumer under false pretenses may cause you to be:
 - a. Fined
 - b. Imprisoned for up to two years
 - c. Both a. and b.

For Further Information

Federal Deposit Insurance Corporation (FDIC)

www.fdic.gov

The FDIC preserves and promotes public confidence in the U.S. financial system by insuring deposits in banks and thrift institutions for a least \$250,000; by identifying, monitoring, and addressing risks to the deposit insurance funds; and by limiting the effect on the economy and the financial system when a bank or thrift institution fails.

The FDIC encourages bank lending to creditworthy small businesses. The FDIC also encourages small business owner that may have an inquiry or concern about the availability of credit to contact the FDIC Small Business Hotline at 1-855-FDIC-BIZ or www.fdic.gov/smallbusiness.

Another FDIC web site is www.fdic.gov/buying/goods, which provides resources to assist small business owners to conduct business with the FDIC.

U.S. Small Business Administration (SBA)

www.sba.gov (Find Tools and Learning Center sections)

SBA Answer Desk: 1-800-827-5722

The SBA web site provides resources, answers to frequently asked questions, and other significant information for small business owners.

U.S. Financial Literacy and Education Commission

www.mymoney.gov

1-888-My-Money (696-6639)

MyMoney.gov is the one-stop federal government web site which provides financial education resources from more than 20 federal agencies.

Evaluation Form

Your feedback is important. Please fill out this evaluation of the *Credit Reporting for Small Business* training.

Training Rating

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

- Excellent
- Very Good
- Good
- Fair
- Poor

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

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

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

	None			Advanced	
9. My knowledge/skill level of the subject matter before taking the training .	1	2	3	4	5
10. My knowledge/skill level of the subject matter upon completion of the training .	1	2	3	4	5

Instructor Rating

11. Instructor Name:

	Poor	Fair	Good	Very Good	Excellent
12. Made the subject understandable.	1	2	3	4	5
13. Encouraged questions.	1	2	3	4	5
14. Provided technical knowledge.	1	2	3	4	5

Please use the response scale to rate your instructor by circling a number.

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?
