

Credit Reporting

FOR A SMALL BUSINESS



FDIC



Welcome



1. Agenda
2. Ground Rules
3. Introductions

Objectives

- 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 these credit reports work.

Objectives (continued)

- 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.

Objectives (continued)

- Identify the common practices and products, tools, and services that are available for a small business to help in proper credit reporting.
- Identify strategies to build or improve credit to improve the business' credit.
- Explain how the personal finances of a business owner impact the business' ability to get credit.

What Do You Know?

What do you know or want to learn about credit reporting?



Credit Reporting

- Provides information by banks, lenders, investors, landlords, businesses, and government agencies
- Contains an analysis of:
 - Credit worthiness
 - Insurance underwriting
 - Employment
 - Certain licenses
 - Continued credit terms
 - Business needs

Credit Report Impact

- Borrower seeking credit
- Report user
- Reporter of information



Business Credit Reports

- Participation might increase marketability
- Established accounts are monitored and controlled
- Data may be used to obtain business credit

Business Credit Reports (continued)

- Obtain a tax ID number from the Internal Revenue Service (IRS) and a DUNS number.
- Subscribe to a reporting service that meets your needs and budget.
- Provide your business registration information, financial statements, and accounts to be included in the report.
- Use reports produced by the service to build strengths in your business.

Discussion Point #1: Business Credit Reports

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



Business Credit Reports (continued)

- A business credit report includes:
 - Commercial credit risk score
 - Indicators to predict the potential for business failure
 - Credit filings in existence for secured property
 - Business ownership information
 - Other businesses owned by the same organization
 - Public records of security interest filings

Three Key Business Reporting Agencies



Decide with Confidence



Consumer Reporting Agency

- Any person or business that assembles or evaluates credit information on consumers



<http://www.annualcreditreport.com>

Discussion Point #2: Consumer Reporting Agency

- What are some of the reasons a business owner may have for reporting consumer credit information to a consumer reporting agency?

Reporting Consumer Credit Manages Risk

- Notice of debt incurred
- Notice of property used as collateral – Uniform Commercial Code (UCC)
- Increases timely payments
- Greater debt recovery potential
- Uncover fraud
- Locate debtors

Reporting to Credit Agencies

- Retail locations must have:
 - Location with secured Locks
 - Separate office with secured files
 - Protection of data
 - Secure computers



Requirements to Report Directly

- Secure location with secure practices
- Minimum number of accounts reporting monthly
- Software purchases for reporting and handling disputes
- Accurate record keeping and reporting
- Separate setup fees to pull credit
- Training

Reporting through a Local or Regional Agency

- Option if you do not qualify to directly report
- Comparison-shop
- Know what fees and costs you may pay

Additional Services of Agencies

- Employment – Prescreening and employment package services
- Changes – Address, contact information, and bankrupt debtors
- Collection services – Take legal action to recover debts or buy debts

Additional Services of Agencies (continued)

- Marketing – Mailing lists of like customers
- Lower risks – Fraudulent accounts
- Lower compliance risks – Agency models and training with Fair Credit Reporting Act (FCRA) and Fair Credit Billing Act (FCBA)

Fair Credit Reporting Act

- Defines consumer credit reporting
- Business purposes for use of reports
- Consumer authorizations for use

Fair Credit Reporting Act (continued)

- Fraud alerts
- Disputes
- Identity theft
- Access to free reports
- Policies and procedures
- Limitations on the use of the report

Fair Credit Reporting Act (continued)

- Use of credit scores
- Complaints received by the Federal Trade Commission
- Civil liability for negligence
- Responsibilities of those furnishing information

Discussion Point #3: Fair Credit Reporting Act

- How does the Fair Credit Reporting Act impact your business?



Fair Credit Billing Act

- Billing practices and errors
- Payments – crediting accounts promptly
- Returns – offsets

Risks and Responsibilities of Handling Personal Information

- Noncompliance can include losing more than your business reputation



Personal Credit Impact on Business

- Build business credit with personal liability.
- Establish credit with vendors and suppliers.
- Build credit with your local bank in the business name.
- Maintain established vendor and supplier relationships.

Your Personal Credit

- Review your credit report at least once every year for errors
- Dispute errors quickly
 - Provide documentation to support claim
 - Send directly to creditor
 - Request all repositories to be updated
 - Request a new credit report to verify

Improve Your Personal Credit Scores

- Pay your loans and other bills on time
- Avoid judgments and tax liens
- Comparison shop for financial services
- Keep older accounts and pay them off monthly

Personal Guarantor Advantages

- Indicates your support of the business to lender
- May help to establish credit
- May ease start up or cash flow
- Better loan terms

Personal Guarantor Disadvantages

- May be required to make payments, if business defaults
- May risk losing personal assets, including your home
- Spouse may be required to sign, if you are married
- Other implications with partnerships and owners

Discussion Point #4: Personal Guarantor

- What are the challenges of being a personal guarantor?

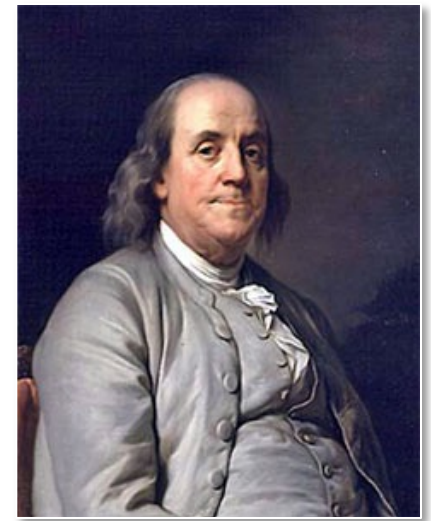


The New Small Business Owner

- Your personal credit is the foundation for building business credit.

“Remember that credit is money.”
– **Benjamin Franklin 1748**

This is still true today!



Top Five Key Points to Remember

- Know what is on your personal credit report by ordering a free credit report.
- Establish a credit history for your small business.
- Request a copy of your business credit report.



Top Five Key Points to Remember (continued)

- Consider providing timely information to the credit agencies on how customers repay their debts.
- Be aware of and follow all laws and industry standards relating to credit reports to avoid costly fines or legal judgments.

Summary

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



Conclusion

- You learned about:
 - The purpose for credit reporting and different types
 - Differences between business and consumer credit reports
 - Agencies, repositories, and reporting

Conclusion

- You learned about:
 - Benefits, risks, and responsibilities of credit reporting
 - The effect personal credit can have on your business
 - How to be a better applicant and improve your own credit