Credit Reporting

For a Small Business
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

D&B
Decide with Confidence

Experian™

EQUIFAX®
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
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