



Financial  
Education Curriculum



# Table of Contents

Getting Started .....	5
Training Overview .....	7
Welcome.....	8
What Do You Know?.....	10
Credit Reporting .....	13
Business Credit Reports .....	14
Discussion Point #1: Business Credit Reports .....	15
Three Key Business Reporting Agencies .....	16
Consumer Reporting Agency .....	16
Discussion Point #2: Consumer Reporting Agency.....	17
Reporting Consumer Credit Manages Risk .....	17
Reporting to Credit Agencies.....	18
Fair Credit Reporting Act.....	20
Discussion Point #3: Fair Credit Reporting Act.....	21
Fair Credit Billing Act.....	21
Risks and Responsibilities of Handling Personal Information .....	22
Personal Credit Impact on Business.....	23
Discussion Point #4: Personal Guarantor .....	25
Five Key Points to Remember.....	26
For Further Information.....	28
Post-Test.....	29
Evaluation Form .....	30



## **DISCLAIMER**

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## Getting Started



Use this guide to help you teach this training in an informative, engaging, and effective manner.

You can customize the information in *Credit Reporting for a Small Business* to meet the needs of your audience. However, it is usually a good idea to include:

- **Introductions.** Allows you to “break the ice,” create active instructor-participant dialogue, and set the tone for the session.
- **Agenda and Ground Rules.** Helps participants understand how the training will be conducted.
- **Expectations.** Gives participants the opportunity to tell you what they expect to learn from the training.
- **Objectives.** Helps participants place the information to be learned in the proper context and ensures that the content is consistent with their expectations.
- **Explanation of Participant Guide Format and Contents.** Serves to keep participants on track with the presentation.
- **What Do You Know? Form and/or Pre-Test.** Helps you and training participants to determine what they already know or do not know so you can customize the presentation accordingly.
- **Discussion Points.** Helps participants to reinforce learning.
- **What Do You Know? Form and/or Post-Test.** Helps you and training participants to gauge how well participants have learned the presentation content, giving you an indication of what content to review, if any, and what additional materials participants may want to review on their own.

## Icons Guide

The following icons may be used throughout this instructor guide to indicate activity type.



### Presentation

Present information or demonstrate an idea.



### Discussion

Facilitate a discussion about a topic as directed.



### Review

Refer participants to and summarize material provided in the Participant Guide.



### Assessment

Direct participants to take a short test.



### Ask a Question

Present a problem or question for discussion.

# Training Overview

## Purpose

The *Credit Reporting for a Small Business* module provides an overview of credit reporting and is designed to help participants to understand how reporting their credit can benefit their business.

## 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.

## Presentation Time

Each topic has an approximate completion time. Use the suggested times to personalize the module based on your participants' needs and the given time period. Allow extra time for discussion and questions when teaching larger groups.

## Materials and Equipment

The materials and equipment needed to present this training are:

- Instructor Guide
- Participant Guide
- PowerPoint presentation (FDIC\_SBA\_CREDIT\_REPORTING.pptx)
- Audiovisual equipment (such as a computer with Microsoft Office PowerPoint, overhead projector, and microphone, if appropriate)

## Module Discussion Points

- Discussion Point #1: Business Credit Reports
- Discussion Point #2: Consumer Reporting Agency
- Discussion Point #3: Fair Credit Reporting Act
- Discussion Point #4: Personal Guarantor

## Instructor Notes

## Presentation

## 5 minutes



Slide 2

*Introduce yourself and share a little of your background and experience. Record participants' expectations, questions, and concerns on chart paper. If there is anything you will not be teaching, tell participants where the information can be obtained. Check off their responses at the end of the training to show expectations were met.*



*Review Participant Guide contents and organization with participants.*

## Welcome

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

## Agenda

We will discuss concepts and have time for your questions. There will be at least one 10-minute break during the class.

## Ground Rules

If you have experience or knowledge in some aspect of the material, please share your ideas with the class. One of the best ways to learn is from each other. You might be aware of some method that has worked well for you or some pitfall to avoid. Your class contribution will enhance the learning experience.

If something is not clear, please ask questions!

## Introductions

Before we get started, I will share a little about myself and I would like to know a little bit about you. As you introduce yourself, state:

- Your expectations
- Questions and/or concerns about the training content

## Participant Materials

Each of you has a copy of the *Credit Reporting for a Small Business Participant Guide*. It contains information and discussion points to help you learn the material.

What questions do you have about the training overview?



## Instructor Notes

## Presentation

## Objectives

After completing this module, the participants 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 these 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 or products, tools, or services which 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.

**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.



CREDIT REPORTING 1

Slide 3

**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.



CREDIT REPORTING 4

Slides 4

**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.



CREDIT REPORTING 4

Slides 5

## Instructor Notes

## Presentation

## 10 Minutes



Slide 6

*Use the What Do You Know? Form and/or the Pre-Test to gauge participants' prior knowledge of the content in order to customize your presentation, focusing on content with which they are least familiar.*

## What Do You Know?

Before we begin, let's see what you know about banking services for a small business.

**[If using the What Do You Know? Form]**

The What Do You Know? form on page 5 of your participant guide lets you compare how much you know before the training and how much you learned after the training. Please take a few minutes now to complete the "Before Training" column. Which statements did you answer with "Disagree" or "Strongly Disagree?" **[Note: If time is limited, make sure you cover these content areas.]** We will complete the second column when we finish the training.

**[If using the Pre-Test]**

Take a few minutes to complete the Pre-Test beginning on page 6 of your participant guide. Which questions were you unsure of or were unable to answer? **[Note: If time is limited, make sure you cover these content areas.]**

As we progress through the training, you will see if you answered each question correctly.

# 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 these 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 to build or improve credit to improve the business' credit.	1	2	3	4	1	2	3	4
8. I can explain how the personal finances of a business owner impact the business's ability 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. Dun and Bradstreet
  2. Experian Business
  3. Equifax Business
  
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**

## Instructor Notes

## Presentation

## 10 minutes

**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

SBA CREDIT REPORTING 7

Slide 7

**Credit Report Impact**

- Borrower seeking credit
- Report user
- Reporter of information

CREDIT BALANCE REPORT

SBA CREDIT REPORTING 8

Slide 8

## Credit Reporting

A small business credit report contains information provided by banks, lenders, investors, landlords, other businesses, and government agencies. A credit report contains 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 use previous addresses of the business, former names of the business, and the tax ID number to identify the small business.

## 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.

## Instructor Notes

## Presentation

## 10 Minutes

## Business Credit Reports

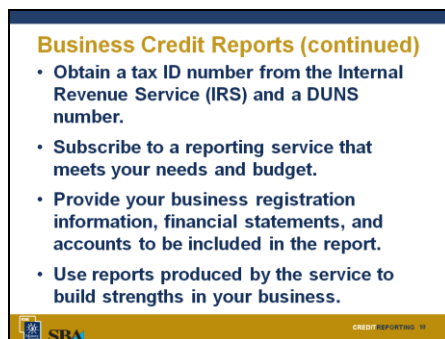


**Business Credit Reports**

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

SBA CREDIT REPORTING 9

Slide 9



**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.

SBA CREDIT REPORTING 10

Slide 10

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 market place. 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](http://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.

The amount of information you receive in an inquiry and the length of time the report is held for you to view are determined by the paid subscription package purchased. Review the needs and services available.

## Instructor Notes

## Presentation

**Discussion Point #1: Business Credit Reports**

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



CREDIT REPORTING 11

*Slide 11**Refer to the participants guide.***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 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

**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



CREDIT REPORTING 12

*Slide 12*

## Instructor Notes

## Presentation

## 10 Minutes

## Three Key Business Reporting Agencies



Slide 13

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.

## Consumer Reporting Agency

## Consumer Reporting Agency

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



<http://www.annualcreditreport.com>



Slide 14

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. You can find their contact information through [www.annualcreditreport.com](http://www.annualcreditreport.com).

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 some of 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 liabilities.

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.



## Instructor Notes

## Presentation

**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?



Slide 15



Refer to the participants guide.

**10 Minutes**

Slide 16

**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 on unpaid accounts. By reporting late payments, you begin the notification process. Current reporting also helps other creditors 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

## Instructor Notes

## Presentation

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.

## 10 Minutes



**Reporting to Credit Agencies**

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

Slide 17

## Reporting to Credit Agencies

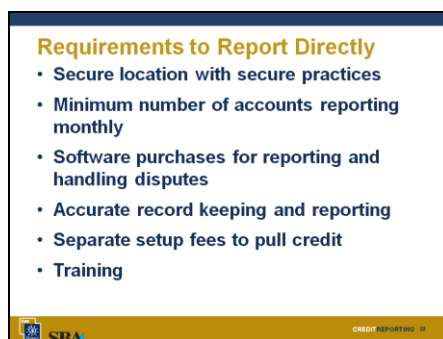
A business can report consumer information directly to one of the three major credit agencies or through a third party. Representatives of the credit agency will guide you through the credit reporting process. However, before participating in credit reporting, consider the requirements and costs in relation 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



**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

Slide 18

## Instructor Notes

## Presentation

**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



Slide 19

**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



Slides 20

**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)



Slides 21

**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. Shop around to find the best deal.

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.

## Instructor Notes

## Presentation

## 10 Minutes

**Fair Credit Reporting Act**

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



CREDIT REPORTING 22

*Slide 22***Fair Credit Reporting Act (continued)**

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



CREDIT REPORTING 23

*Slide 23***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



CREDIT REPORTING 24

*Slide 24***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](http://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.

## Instructor Notes

## Presentation

**Discussion Point #3: Fair Credit Reporting Act**

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



Slide 25



Refer to the participants guide.

**10 Minutes****Fair Credit Billing Act**

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



Slide 26

**Discussion Point #3: Fair Credit Reporting Act**

How does the Fair Credit Reporting Act impact your business?

**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 work with a creditor to offer financing to customers for the purchase 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 time period 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

## Instructor Notes

## Presentation

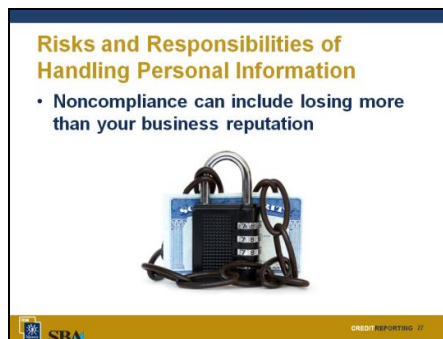
the purchase with a credit card, the FCBA requires you to promptly issue a credit for the return to the customer's credit card.

**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.

## 10 Minutes



Slide 27

**Risks and Responsibilities of Handling Personal Information**

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 the notice. Make sure you also follow the laws of your state.


## Instructor Notes

## Presentation

## 10 Minutes

**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.

 SBA CREDIT REPORTING 11

Slide 28

**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

 SBA CREDIT REPORTING 12

Slide 29

**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

 SBA CREDIT REPORTING 13

## 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](http://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

## Instructor Notes

## Presentation

Slide 30

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.

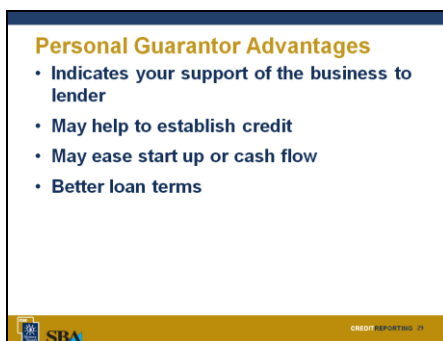
## Personal Guarantor Advantages

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.

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.


## 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.



**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

 CREDIT REPORTING 31

Slide 31



## Instructor Notes

## Presentation

**Personal Guarantor Disadvantages****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



CREDIT REPORTING 32

*Slide 32*

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](http://www.fdic.gov/consumer).

**Discussion Point #4: Personal Guarantor**

What are the challenges of being a personal guarantor?

**Discussion Point #4: Personal Guarantor**

- What are the challenges of being a personal guarantor?



CREDIT REPORTING 33

*Slide 33**Refer to participant guide.*

## Instructor Notes

## Presentation

## The New Small Business Owner

**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!


 CREDIT REPORTING 34


Slide 34

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."

**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 free copy of your business credit report.



 CREDIT REPORTING 35


Slide 35

## Five Key Points to Remember

- 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](http://www.annualcreditreport.com) (the only authorized source to receive your free credit report) and dispute any inaccurate information.
- 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.
- 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.
- 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.
- 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

**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.

 CREDIT REPORTING 36

Slide 36

## Instructor Notes

## Presentation

agency you are using is reputable and can provide training to you and your employees.

## Summary

We have covered a lot of information today. What final questions do you have? Who would like to share one thing they learned?

Now we will see what you have learned by completing *[a short Post-Test that is the second to the last page in the Participant Guide and/or the “After the Training” column of the What Do You Know? form that you completed earlier]*.

We would also like your feedback about the workshop. Please complete the Evaluation Form—this is on the very last page of the Participant Guide.

**Summary**

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

SBA CREDIT REPORTING 37

Slide 37

## Conclusion

You learned about:

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

**Conclusion**

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

SBA CREDIT REPORTING 38

Slides 38

**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

SBA CREDIT REPORTING 39

Slide 39

## For Further Information

### **Federal Deposit Insurance Corporation (FDIC)**

[www.fdic.gov](http://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](http://www.fdic.gov/smallbusiness).

Another FDIC web site is [www.fdic.gov/buying/goods](http://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](http://www.sba.gov)

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](http://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.

## Post-Test

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

2. 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**
  
3. List the three key business reporting agencies:
  1. Dun and Bradstreet
  2. Experian Business
  3. Equifax Business
  
4. 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
  
5. 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
  
6. 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**

# Evaluation Form

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

## Module 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 training.	1	2	3	4	5
7. The instructor was knowledgeable and well-prepared.	1	2	3	4	5
8. The participants had ample opportunity to exchange experiences and ideas.	1	2	3	4	5

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

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

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16. What was the least useful part of the training and how could it be improved?

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