CONSUMER FINANCIAL PROTECTION BUREAU | JUNE 2021

CONSUMER CREDIT TRENDS

Commercial Credit on Consumer Credit Reports

Consumer Financial
Protection Bureau

This is part of a series of reports of consumer credit trends produced by the Consumer Financial Protection Bureau using a longitudinal sample of approximately five million de-identified credit records from one of the three nationwide consumer reporting agencies. This report was prepared by:

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INTRODUCTION

Consumer credit and commercial credit are often closely intertwined for business owners. According to the Federal Reserve's *Small Business Credit Survey*, for example, 88 percent of small businesses with employees reported that they would use their personal credit score to obtain outside financing.[1] Small business credit products also often carry personal guarantees that make the owners personally liable for payments.[2] In this report we document an important aspect of the relationship between commercial and consumer credit for small businesses: the fact that information on some commercial credit is reported, or furnished, to consumer credit bureaus and winds up on consumer credit reports.[3]

We use the Consumer Financial Protection Bureau's Consumer Credit Panel (CCP) to examine furnishing of commercial credit information to consumer credit bureaus.[4] First, we document the amount and types of commercial credit furnished to a nationwide credit reporting agency (NCRA) and find that millions of consumers have some type of commercial credit account on their consumer credit report.[5] Second, we estimate that, in an average quarter, over 2.8 million consumers have an active commercial credit tradeline on their consumer credit report. Third, we find that more than 1,300 entities furnished information on commercial credit products to the NCRA in an average quarter. Last, we discuss how the roughly 3 million, on average, commercial credit accounts that appear on consumer credit reports represent a small fraction of the overall commercial credit market.[6]

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[1] Federal Reserve's *Small Business Credit Survey* (2021). For more information see: https://www.fedsmallbusiness.org/survey/2021/report-on-employer-firms.

[2] In the FDIC's Small Business Lending Survey (hereinafter "FDIC Small Business Lending Survey"), over 85 percent of small banks and 95 percent of large banks reported requiring personal guarantees for small business loan applications. For more information see https://www.fdic.gov/bank/historical/sbls/full-survey.pdf.

[3] Information in a consumer's credit report, including information about a business credit product, is subject to the Fair Credit Reporting Act and other laws. This report does not address the legality of the practices described herein. Nothing in this report should be construed to interpret institutions' legal obligations under Federal consumer financial laws.

For more information on the U.S. credit reporting system see Consumer Financial Protection Bureau, *Key Dimensions and Processes in the U.S. Credit Reporting System* (December 2012), *available* at https://files.consumerfinance.gov/f/201212_cfpb_credit-reporting-white-paper.pdf.

[4] Throughout the report we will refer to commercial credit generally. The data do not indicate the size of the business associated with the credit product.

[5] At least one of the NCRAs has publicly discussed that business credit cards sometimes appear on consumer credit reports: https://www.experian.com/blogs/ask-experian/do-business-credit-cards-show-up-on-a-personal-credit-report/.

[6] In this report, we focus on furnishing between 2012 and 2019 to understand furnishing practices during normal economic times. We do not include information on 2020 because we expect that in the Covid-19 pandemic

We then describe several furnishing strategies that emerge in the data.[7] We first show that only a small fraction of potential furnishers provide information on any commercial loans to consumer credit bureaus. Comparing the number of bank furnishers with the known number of banks with commercial credit on their balance sheet, we find at least 89 percent of banks are not furnishing information on commercial loans to consumer credit bureaus. Second, we show that furnishers likely are not reporting all types of commercial credit to consumer bureaus. Only 15 percent of entities who furnish information on commercial loans to consumer bureaus also report commercial lines of credit despite existing survey evidence that lenders typically offer both loans and lines. Lastly, we show that some entities only furnish information on commercial credit accounts that are seriously delinquent (i.e., 90 days or more delinquent or in a similarly negative condition). This strategy is most common for entities that report business credit cards or commercial lines of credit.

Furnishing commercial credit to consumer credit reports has important implications for business-owning consumers and consumers that provide guarantees for commercial loans. The presence of a commercial product on a consumer's credit report means that the payment history of the consumer's business can affect the availability and cost of consumer credit, such as residential mortgages, consumer auto loans, and consumer credit cards.[8] The variety of furnishing strategies that we document also has different implications for a consumer's credit and the availability of future commercial credit. When applying for a commercial loan or line of credit, a business owner may not be fully informed as to whether, and if so, how and when, that product will appear on their credit report, which, as we document, could depend on the lender and the product sought. Furnishers who only report commercial loans that are seriously delinquent prevent a business owner's personal credit from benefitting from a positive payment history but do allow for the consumer's personal credit to be harmed by any negative payment history. On the other hand, consumers may benefit from a product not being furnished if, for example, they have a high utilization rate on their business credit lines.

companies may have changed their standard furnishing practices; such changes are outside the scope of this report. The Small Business Credit Survey shows various financing and performance-related challenges that small business owners faced during the pandemic. As an example, many firms experienced sharp declines in their financial conditions, resulting in many small business owners using their personal funds instead. In addition to that, approval rates for many loans and lines of credit declined after the onset of the pandemic. Using the CCP data to study the effect of the pandemic on commercial credit products is a vein of future Bureau research that we discuss further in the conclusion.

[7] For more information on payment furnishing see Consumer Financial Protection Bureau, "Quarterly Consumer Credit Trends: Payment Amount Furnishing & Consumer Reporting" (November 2020), available at https://www.consumerfinance.gov/data-research/research-reports/quarterly-consumer-credit-trends-payment-amount-furnishing-consumer-reporting/.

[8] A consumer credit report is not the only channel by which small business credit can affect the availability of consumer credit. For example, small business owners may need to include payments on small business loans in their calculation of debt-to-income when applying for several consumer credit products.

We conclude by discussing how this report can inform future research on commercial credit using consumer credit report data, such as the effect of the COVID-19 pandemic on commercial lending or the consumer credit profiles of business owners.

COMMERCIAL CREDIT ON CONSUMER CREDIT REPORTS

Commercial credit can take many forms, but two common types are term loans and lines of credit, including credit cards.[9] Term loans are closed-end, or loans for specific amounts that have a specified repayment schedule, while lines of credit are open-end but generally set a credit limit up to which borrowers can borrow. Commercial credit can also be secured or unsecured. Additionally, some forms of commercial credit can use personal guarantees of owners or other guarantors to require that individuals are personally liable to repay loans made to the business.[10]

Furnishers have options for reporting commercial credit other than on consumer credit reports. They can report commercial credit to business credit reporting agencies and can participate in organizations like the Small Business Financial Exchange, a data sharing collective composed of small business lenders.[11] Companies sometimes decide to furnish business products to consumer credit reports instead of to commercial credit reports, for example, as a debt collection mechanism and therefore only furnish information on derogatory accounts. In this report, we shed light on the types of commercial credit furnished to consumer credit bureaus and the furnishing strategies.

In an average quarter between 2012 and 2019, over 2.8 million consumers, or about one percent of consumers with a credit record, had a commercial credit product on their consumer credit reports, furnished by 1,300 lenders.[12] Table 1 breaks down, for each product category, the

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9 Some additional popular forms of commercial financing are merchant cash advances, trade credit, leasing, and factoring. Unlike consumers, businesses also can raise capital by offering equity investments as an alternative to debt financing.

10 For more a more comprehensive discussion of the small business lending market see Consumer Financial Protection Bureau, *Key dimensions of the small business lending landscape* (May 2017), https://www.consumerfinance.gov/data-research/research-reports/key-dimensions-small-business-lending-landscape/ (hereinafter "Key dimensions of the small business lending landscape").

11 For more information on the Small Business Financial Exchange, visit https://www.sbfe.org/.

12 All statistics in this report reference accounts that are open and active at the time of reporting and updated within six months of the end of the quarter.

The products referred to as "commercial" were chosen from the full list of reported product categories as products that are likely commercial credit. If lenders report some commercial products as consumer products when furnishing tradeline data to NCRAs, then this report undercounts commercial credit products on consumer credit reports. We do not have a method of systemically determining if commercial products are reported as consumer products in the CCP's tradeline data and so take the type of credit reported as given. This report also does not discuss consumer credit products that are sometimes used for commercial purposes (for example, HELOCs).

average number of consumers with the product on their report, the average number of furnishers reporting the product, and the average number of furnished accounts.[13] Business credit cards are by far the most-furnished business product, appearing on more than two million consumers' credit reports. Business loans, commercial installment loans, and agricultural loans are the three next most commonly furnished business products. Commercial lines of credit and business lines are much less numerous than their term loan counterparts. The total number of commercial accounts on consumer credit reports is small relative to the estimated size of the small business lending market. In a 2017 analysis, the Bureau estimated that there are nearly 13 million small business credit cards and lines of credit, combined, and over 6 million term loans.[14] The number of accounts in Table 1 are a small fraction of this total.

TABLE 1: AVERAGE QUARTERLY STATISTICS FOR BUSINESS CREDIT PRODUCTS: NUMBER OF CONSUMERS WITH AN OPEN TRADELINE, NUMBER OF FURNISHERS, AND NUMBER OF FURNISHED ACCOUNTS (2012 Q1 TO 2019 Q4)

Product Description	Consumers (000s)	Accounts (000s)[15]	Furnishers
Business credit card	2,326	2,545	36
Business loan	179	154	632
Commercial installment loan	129	147	212
Agriculture	120	139	354
Commercial mortgage	80	62	542
Business line	29	26	46
Commercial line of credit	16	11	154
Total	2,812	3,083	1,312

Most companies that furnish information on business products to consumer credit reports are either banks or credit unions. Table 2 presents the quarterly average number of furnishers reporting information by furnisher type.[16] The number of non-bank furnishers has remained relatively steady over time while the number of bank furnishers has decreased (not shown). We

[13] Overall, the number of accounts has remained relatively stable over time. The number of commercial installment and commercial mortgage accounts has decreased slightly. The product with the largest change has been business lines. The number of these accounts has nearly halved between 2012 and 2019.

[14] For more information on the estimated size of the small business lending market, see "Key dimensions of the small business lending landscape."

[15] Joint accounts can appear on the credit reports of multiple consumers and are weighted by one-half to prevent double-counting.

[16] For the purposes of this report, banks are defined as bank credit card issuers, thrifts, and commercial banks. Other finance includes mortgage brokers and auto financing companies. Other non-finance includes wholesale firms.

explore the decline in the number of banks furnishing information on business products in more detail below. For most business credit products, the number of furnishers reporting accounts has remained relatively stable through the period studied in this report. Business loans are an exception. The number of furnishers reporting these accounts has decreased by 36 percent from 746 in the first quarter of 2012 to 475 in the last quarter of 2019. Most companies that furnish business loans are banks, and thus the decrease in the furnishers of business loans mirrors the overall decrease in bank furnishers.

TABLE 2: AVERAGE QUARTERLY NUMBER OF FURNISHERS OF BUSINESS PRODUCTS IN THE CONSUMER CREDIT PANEL BY FURNISHER TYPE (2012Q1 TO 2019Q4)

Furnisher Type	Average Number
Bank	939
Credit union	323
Other finance	32
Other non-finance	18

REPORTING STRATEGIES OF LENDERS THAT FURNISH INFORMATION ON COMMERCIAL CREDIT PRODUCTS

In addition to using the CCP data to describe the commercial credit that appears on consumer credit reports, we analyze the CCP data to understand various consumer reporting strategies employed by furnishers.[17] We identify key three patterns, as discussed below.

1. Many entities that likely hold commercial credit on their balance sheet are not reporting those credit products to consumer credit bureaus.

To illustrate how commonly lenders who offer commercial credit do not report these loans to NCRAs, we compare the number of bank furnishers of commercial products in the CCP to the number of banks and thrifts that report commercial credit on their Federal Financial Institution Examination Council (FFIEC) Call Reports.[18] The Call Report data break down the composition of banks' balance sheets and include information on banks' holdings of small business loans on their balance sheets. Call Reports categorize credit products for small business purposes into

[17] Consumer finance blogs have discussed lender reporting strategies for business credit cards. For example, see: https://www.creditkarma.com/advice/i/business-credit-cards-and-your-personal-credit.

[18] Each quarter, commercial banks and thrifts in the United States are required to file a Report of Condition and Income (FFIEC Call Report) to their regulator. This dataset is one of the primary sources of information on the activity of banks and most of the data are available to the public. For more information, see https://www.ffiec.gov/ffiec_report_forms.htm.

three categories, “Agriculture,” “Commercial Real Estate” (CRE), and “Commercial and Industrial” (C&I) loans.[19] To match the categories of commercial loans in the Call Reports, we combine all CCP tradelines that are not agriculture or commercial mortgages into a single “C&I” category. We then compare the number of banks that furnish commercial tradelines in the CCP to the number of banks that report holding the corresponding small business loans on their balance sheet.

Figure 1 shows the number of bank furnishers in the CCP over time, at the end of each year, by these three types of commercial credit products. There has been a steady decline in the number of bank furnishers of C&I from 2012 to 2019 and a much smaller decline in the number of bank furnishers of Agriculture or CRE loans. In 2019 there were more than 500 bank furnishers of C&I credit products, 400 of Agriculture loans, and 300 of CRE.

FIGURE 1: NUMBER OF BANK FURNISHERS IN THE CCP

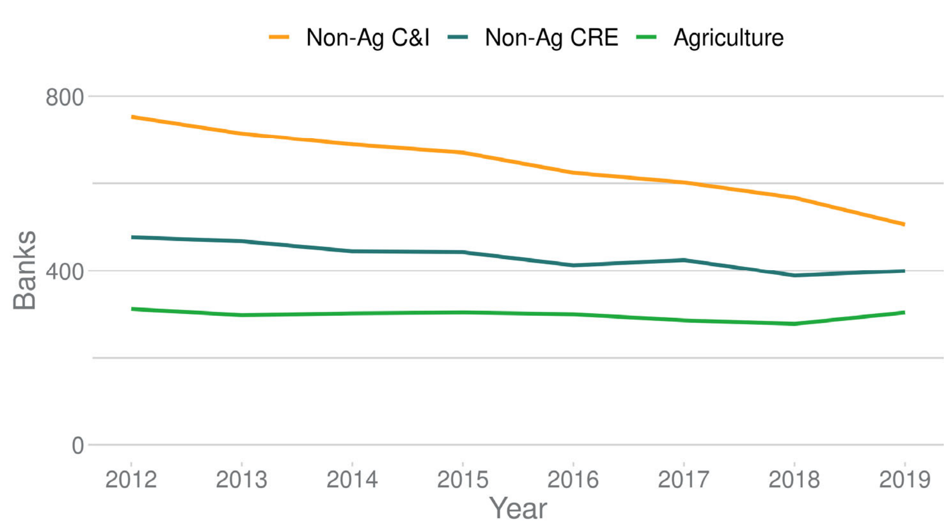
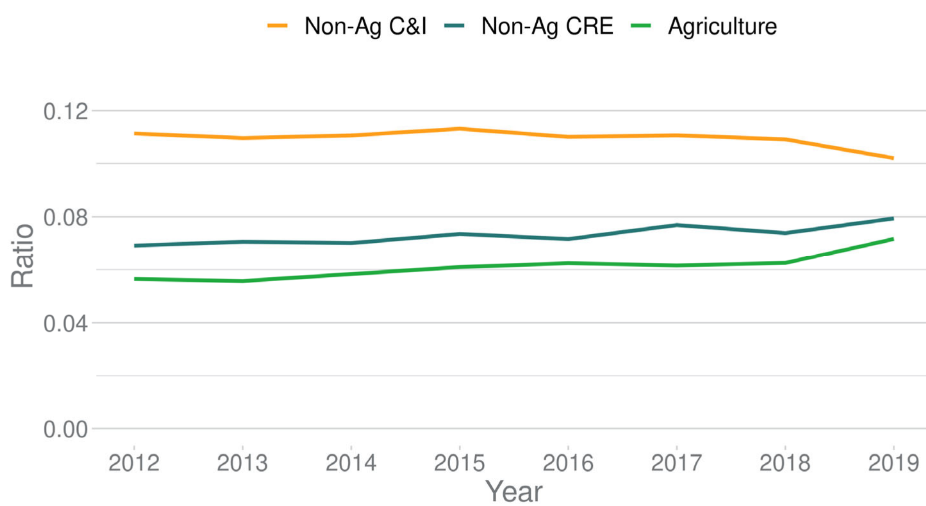


Figure 2 shows the ratio of the number of bank furnishers in the CCP to the number of banks with commercial credit on their balance sheets. For C&I loans, the number of bank furnishers in the CCP has generally been a steady 11 percent of all commercial credit holding banks since

[19] FFIEC Call Reports do not directly measure small business loans but rather commercial and industrial loans and loans secured by nonfarm, nonresidential properties with origination values of $1 million or less, which is often used as a proxy for small business lending. Similarly, the Call Reports collect information on agricultural loans to small farms either secured by farmland or to finance agricultural production (and other loans to farmers) with origination values of $500,000 or less. For more information on the effectiveness of small loans to business as a proxy for small business loans in FFIEC Call Reports, see Goldston and Lee, Measurements of Small Business Lending Using Call Reports: Further Insights from the Small Business Lending Survey, July 2020, available at https://www.fdic.gov/analysis/cfr/staff-studies/2020-04.pdf.

2012, except for a small decline in 2019. In contrast, the ratios for the other two categories there have increased slightly over time.

FIGURE 2: RATIO OF FURNISHERS OF BUSINESS PRODUCTS IN THE CCP CLASSIFIED AS BANKS TO BANKS IN THE FFIEC CALL REPORTS WITH SMALL LOANS TO BUSINESSES ON THEIR BALANCE SHEETS



Figures 1 and 2 suggest that the drop in the number of banks furnishing on C&I accounts reflects a decline in the number of banks that offer these loans because the number of bank furnishers of commercial credit in the CCP has been a small but consistent fraction of all banks that hold commercial credit. However, the ratios also imply that at least 89 percent of all banks that hold C&I accounts on their balance sheets according to the Call Report are not reporting any of those accounts to consumer credit reports.

2. Lenders who are reporting commercial credit products are likely not reporting all their commercial product types

Even among those lenders that furnish commercial credit to NCRAs, the much greater prevalence of business loans compared with business lines of credit in the CCP suggests that lenders do not furnish all the commercial credit products they hold on their books. According to surveys of small business credit by the Federal Reserve System, business lines of credit are nearly as popular as business loans among small business credit applicants.[20] Despite this fact, as reported in Table 1, the number of commercial lines of credit and business lines reported are

[20] In the Federal Reserve's *2020 Small Business Credit Survey: Report on Employer Firms*, among employer firms who applied for loans or lines of credit 49 percent applied for small business loans while 40% applied for a business line of credit. For more information see https://www.fedsmallbusiness.org/medialibrary/FedSmallBusiness/files/2020/2020-sbcs-employer-firms-report.

only a small fraction of the number of commercial installment loans and business loans reported.

It is common for lenders that offer business loans to also offer business lines of credit.[21] As further evidence of a disparity in furnishing of lines as opposed to loans, we examine the percent of furnishers who report on business loans or commercial installment loans at the end of each year that also furnish information on any business line of credit product to consumer credit bureaus.[22] Among furnishers of business loans, only about 15 percent are furnishing information on any lines of credit. This rate remained fairly constant between 2012 and 2019. Given the pattern of offering both loans and lines of credit, this suggests that even lenders that do furnish commercial credit are not furnishing all their commercial credit products to NCRAs.

3. Some lenders appear more likely to furnish information on commercial accounts that are seriously delinquent than accounts that are not.

Some furnishers disproportionately report commercial credit products to consumer credit bureaus when the borrower is seriously delinquent (*i.e.*, 90 days or more delinquent or in a similarly negative condition) on the account.[23] As evidence of this strategy, Table 3 shows how the percent of furnishers that report more than 60 percent of furnished accounts as seriously delinquent at the end of 2012 and 2019 varies by type of loan, including for two categories of business credit products. We interpret this measure as a proxy for the percent of lenders that generally do not furnish information on current accounts. However, we cannot rule out that these furnishers do not have portfolio delinquency rates over 60 percent.

In general, few furnishers only report information on delinquent accounts. However, a significant share of furnishers of information on business credit cards and business lines report more than 60 percent of their accounts as seriously delinquent. At the end of 2012, 19 percent of these furnishers reported at least 60 percent of their accounts as seriously delinquent, and this share dropped to 13 percent by the end of 2019. In contrast, only four percent of furnishers of other business credit products reported more than 60 percent of their accounts as seriously delinquent at the end of 2012, dropping to two percent by the end of 2019. Furthermore, furnishers of information on major consumer credit products are also much less likely to report

[21] FDIC Small Business Lending Survey.

[22] Loans include commercial installment loans, commercial mortgages, and agricultural loans. Lines include commercial lines of credit, business credit cards, and business lines.

[23] We define seriously delinquent as including: 90 or more days past due; in bankruptcy (chapters 7, 11, 12, and 13); foreclosed; in collections; repossessed; voluntarily surrendered; or charged off.

60 percent or more of accounts as seriously delinquent, with the exception of retail revolving cards and student loans.[24]

TABLE 3: PERCENT OF FURNISHERS IN THE CCP THAT REPORT MORE THAN 60% OF ACCOUNTS AS SERIOUSLY DELINQUENT, BY PRODUCT TYPE

Product Type	% of Furnishers in 2012 Q4	% of Furnishers in 2019 Q4
Retail revolving card	20.7	17.8
Business card or business line	18.9	13.0
Student loan	10.1	10.9
Other business product	4.1	2.1
Auto loan	2.5	2.1
Consumer mortgage	0.7	0.3
Consumer credit card	0.6	0.4

This evidence suggests that some furnishers may be more likely to furnish information on delinquent accounts than on accounts that are not. However, the practice seems to be more common among furnishers that report information on business credit cards and business lines of credit. For furnishers on other business products, the likelihood of furnishing seems less likely to vary with an account's delinquency status.

CONCLUSION

The Bureau's analysis of CCP data shows the frequency and types of commercial credit that are present on consumer credit reports. It also illustrates furnishers' reporting strategies in reporting commercial credit data to consumer credit bureaus. Some lenders seem to not report commercial credit at all, some appear to furnish on accounts for a subset of their commercial credit products, and some appear to only provide information on accounts when business accounts are seriously delinquent. These results imply that whether a commercial credit product appears on a consumer report depends on the type of business credit and the lender.

The reporting behaviors described above have important implications for the consumer credit reports of business owners.[25] Given the variety of reporting strategies, borrowers may not be

[24] The higher percentage for student loan furnishers reflects that student loans are often transferred to specialist firms after the borrower defaults.

[25] This report does not address the legality of the practices described herein. Nothing in this report should be construed to interpret institutions' legal obligations under Federal consumer financial laws.

aware of how commercial credit will affect their consumer credit reports when applying for business loans. Some reporting strategies can also only have negative effects on a business owner's consumer credit. When lenders only report delinquent accounts, for example, business owners do not benefit from a satisfactory payment history.

In this report, we have detailed what types of commercial credit are furnished to consumer credit reports and how reporters furnish that information, which provides a base understanding that can facilitate future research on commercial credit using the CCP. There are multiple potential avenues for research on commercial credit in the CCP. Future research could examine changes in commercial credit in the CCP over the course of the COVID-19 pandemic, detailing how the amounts and types of commercial credit were affected by a large shock. Other potential research could compare the consumer credit profiles of consumers that have small business accounts on their credit reports to those that do not, including measures of credit score, delinquency, and other consumer products held.