



CFPB FinEx Webinar: Demystifying Business Credit

January 26, 2023 | 2:00-3:15

CFPB Financial Education Presenters

Facilitator:

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CFPB's Mission

The Consumer Financial Protection Bureau is a 21st century agency that implements and enforces Federal consumer financial law and ensures that markets for consumer financial products are fair, transparent, and competitive.

CFPB Resources for Adult Financial Education

Resources for Helping Others

Resources for Practitioners

If you are a financial practitioner, educator or other professional who helps consumers plan and manage their money, these financial education tools and programs are for you.



Our free practitioner resources are designed to help professionals teach and encourage financial capability, on a wide range of consumer topics, from childhood through retirement.

Resources for the people you serve

Share these resources with people or groups you work with to help them improve their financial understanding and well-being.

- [Underserved or economically vulnerable consumers](#)
- [Multilingual communities and newcomers](#)
- [Adults](#)
- [College students and student loan borrowers](#)

Resources for your profession or organization

Tools and materials you can use to strengthen your professional programs and offerings.

- [Resources for employers](#)
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Webinar archive

Date	Description	Action
August 18, 2021	Helping clients who are experiencing housing insecurity	Watch Read transcript Download slides (CFPB & Treasury HUD)
May 20, 2021	New resources for older Americans	Watch Read transcript Download slides

consumerfinance.gov/consumer-tools/educator-tools/adult-financial-education/cfpb_finex

Submit a complaint

Submit a complaint

Each week we send more than 10,000 complaints about financial products and services to companies for response. If another agency would be better able to assist, we'll send it to them and let you know.

Most companies respond within 15 days.



Ready to begin?

Submitting online usually takes less than 10 minutes. Include everything you need to because you generally can't submit a second complaint about the same problem.

[Start a new complaint](#)

www.consumerfinance.gov/complaint

Before you start a complaint:

Curious how the complaint process works? [Follow the steps your complaint goes through](#) to help you get a response about your issue.

Have you tried reaching out to the company? Companies can usually answer questions unique to your situation and more specific to the products and services they offer.

Not sure if you have a complaint? Search below for hundreds of impartial answers to consumers' most frequently asked financial questions.

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The mission of the Consumer Financial Protection Bureau is to make markets for consumer financial products and services work for consumers by making rules more effective, by consistently and fairly enforcing those rules, and by empowering consumers to take more control over their economic lives.

You may download publications by clicking on each title. Adobe Acrobat Reader is required to view the publications and is available for download at: <http://get.adobe.com/reader>

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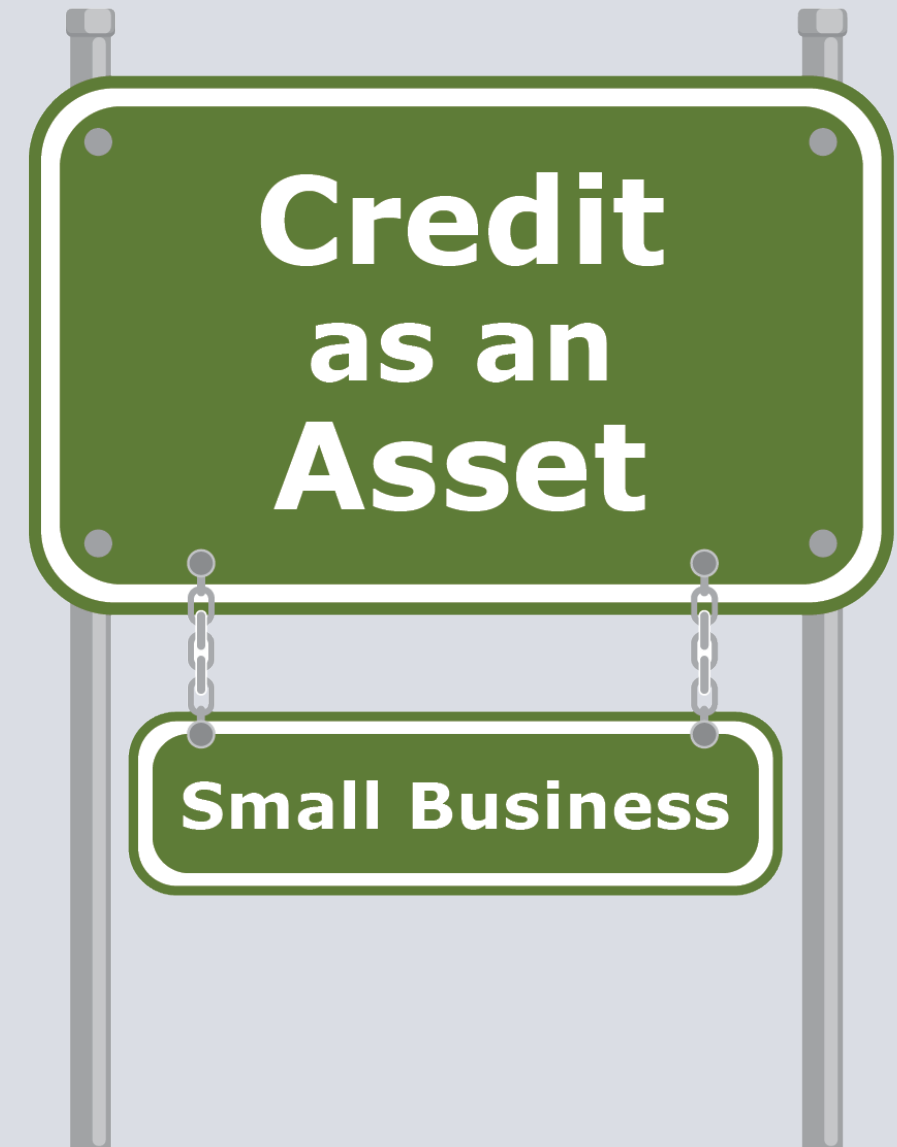
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Demystifying Business Credit



Training created by



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Credit Builders Alliance (CBA)

Our Mission

Bridging the gap between equity-focused nonprofits and credit bureaus to unlock credit as an asset for all



Our Philosophy

Good Credit is an Asset

Mission-driven nonprofits and other entities are uniquely positioned to help the households they serve build credit as an asset – often the **foundational** asset.

Disclaimer

This information is not intended to be legal advice and may not be used as legal advice. Every effort has been made to ensure this information is up-to-date as of publication, but it is not intended to be a full and exhaustive explanation or endorsement of any credit product or strategy.

What is Business Credit?

- A business's usage and history of managing credit accounts and products
- These credit products, like credit cards and loans, are specifically for the business and issued in its name rather than the entrepreneur's (though they may potentially serve as a guarantor)

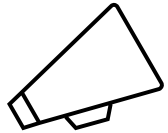
Business Credit Enables Entrepreneurs to



Access financing



Win government contracts and/or attract investors



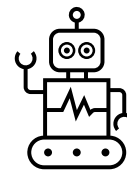
Market the business



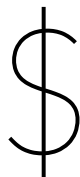
Weather economic shocks & manage cash flow



Rent business space

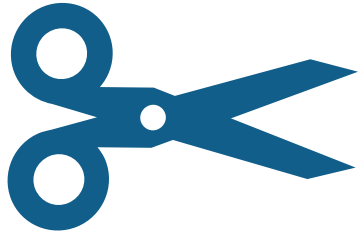


Adapt to industry, technology, and other changes

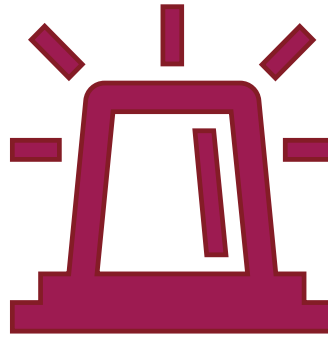


Set interest & insurance rates

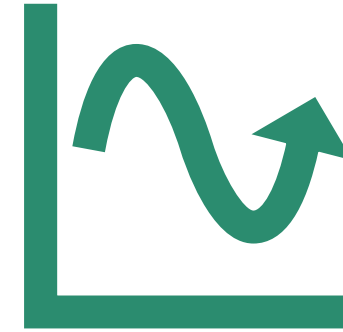
Why Not Rely on Personal Credit?



Separate
personal and
business credit
and finances

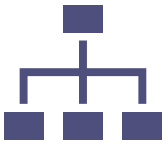


Reduce
personal risk if
business slows
down



Can reduce
overall credit
utilization or
Debt to Income
(DTI) ratio

Signs a Business May Be Ready for Business Credit Building



Business structure is formalized and/or registered



Regular business expenses



Plans for growing or expanding the business now or in the future



Capacity to take on a new account and ability to repay it

Signs a Business Isn't Ready for Business Credit Yet

- X Business is still just an idea without a business plan
- X Lack of personal cash flow and/or inability to make payments
- X No or low personal credit score
- X Business hasn't yet been registered or formally established

Financial Information That May Be Required for Applications



Bank account in the
business's name

Monthly income and
expenses



Business debt to
income (DTI) ratio

12-month cash flow
projections



Building Business Credit

- ✓ Active credit accounts, also called tradelines, paid on time, and reported to at least one business credit bureau
- ✓ Products could come from banks, credit unions, nonprofits, online lenders, or vendors
- ✓ Multiple months to years of payments to show history and track record of how a business manages its accounts

The Credit Reporting Agencies (CRAs)

	Consumer/ Personal Bureaus	Commercial/ Business Bureaus
Dun & Bradstreet		✓
Equifax	✓	✓
Experian	✓	✓
TransUnion	✓	

When Can Business Credit Be Reported on a Personal Credit Report?

Business accounts **may** be reported to the consumer CRAs, but borrowers **must** be given notice of this reporting.

This can include:

- ✓ Personal liability for a business product
- ✓ Guaranteeing or co-signing a commercial account

Definitions



Personal Guarantor: An individual who promises to pay a business's debt in the event the business defaults on their credit obligation

Personal Guarantee: An individual's legal promise to repay credit issued to a business for which they serve as an executive or partner

Note: Personal capital (personal checking accounts, savings accounts, cars, real estate, etc.) can be used as collateral in case the business defaults

Small Business Credit Building Products

Business
Credit
Cards

Vendor
Credit




Business
Loans

Lines of
Credit

Some products may represent personal credit building opportunities rather than, or in addition to, business credit building opportunities.

Where to Look for Credit Products

Entrepreneurs with no credit or challenged credit may have difficulty finding responsible credit products they are eligible for. Consider the following options:

- Text box is centered horizontally and positioned vertically for best readability and visual appeal
-  **Banks/Credit Unions** often offer secured and unsecured business products. If your entrepreneur already has a relationship with a financial institution, this may be a good place to start.
-  **Nonprofit/community lenders (including CBA members and CDFIs) and SBA Lenders** in your area generally have small business and may be centered for same programs specifically designed for underserved communities.
-  **Licensed & reputable online lenders** are becoming more prolific and may offer relatively reasonable rates, but as always, do research in advance to compare products, rates, terms, and repayment options.

Community & Nonprofit Lenders



www.creditbuildersalliance.org/find-a-member

Regardless of Product

- Consider the entrepreneur's individual circumstances
- Understand the role personal credit may play in qualification for products
- Read the fine print
- Remember: Not all products report to the business bureaus, and some may report to the consumer bureaus instead

Counseling Perspective



The Biggest Barrier to Business Credit Building

Not all lenders, vendors, or creditors report to the business credit bureaus, even if they could or even should.

That means some business credit products don't actually help a business build credit. Or they might only be reported to the consumer (personal) credit bureaus instead.

Definitions



Commercial (business) credit report: A list of a business's reported payment and transaction information

- Summarizes identifying information, payment history, and general business information
- Contains a business credit score
- Can be used for underwriting

What Is NOT on a Business Credit Report?

- X Demographic characteristics of the entrepreneur (gender, race, political affiliation, religion, etc.)
- X Personal credit tradelines
- X The business balance sheet and profit and loss sheet
- X Business banking information
- X Business tradelines reported under the specific lenders' names

A Business Credit Report MIGHT Contain

Business
Identifying
Information

Business
Credit History
or Summary

Legal/Public
Record
Information

Inquiries

Reports might not have identical section names.
Familiarize yourself with sample reports and user guides.

Important!

Business credit history does **NOT** include the name of the lender or vendor. Instead, it describes their industry and type of financing.

For example: A supplier account with “The Office Master” may instead be listed as “Office Supply Store” or something similar.

Interpreting Business Credit History

Highlights
performance on
accounts

Payment history is a key component, regardless of score

Reveals
outstanding
obligations and
amounts owed

Delinquencies on commercial reports reflect differently than they do on consumer reports

Definitions



Delinquency: A borrower misses a payment, makes a partial payment, or pays late. This can occur as soon as an account is a single day past due for commercial reporting.

Default: An account has been delinquent for a certain amount of time, which may lead to charge-offs, collections, or other legal consequences



Slow Pay: Designation used for businesses that pay their bills past terms, which includes both late payments and delinquent payments

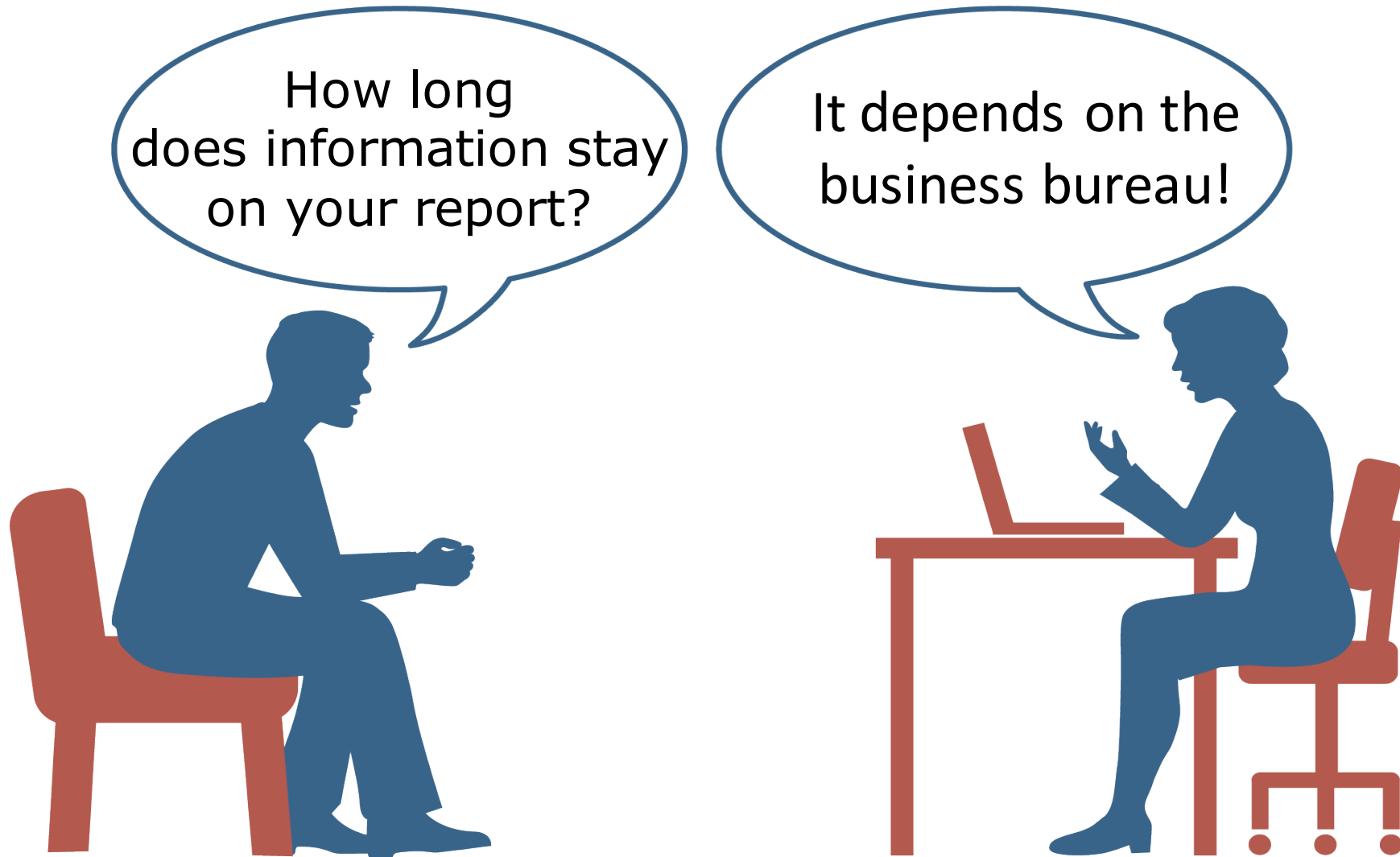
Reach out to the lender at the first sign of trouble!

The Business-Personal Finance Overlap

Even if finances are separate, problems with personal credit or finances may also impact the business and vice versa.

However, struggling in one area doesn't automatically mean struggling in the other.

How Long Does Information Show?



Accessing Business Credit Reports

Commercial bureaus are NOT required to offer one free report each year, unlike the consumer bureaus

Each bureau has a separate process for pulling reports and may charge fees or offer subscription services

Viewing reports on a regular basis may not make sense until multiple tradelines are reporting

Do You Need a D-U-N-S® Number?

If an entrepreneur wants to view their business's Dun & Bradstreet report or if a creditor wants to look at it, the business needs a D-U-N-S® Number

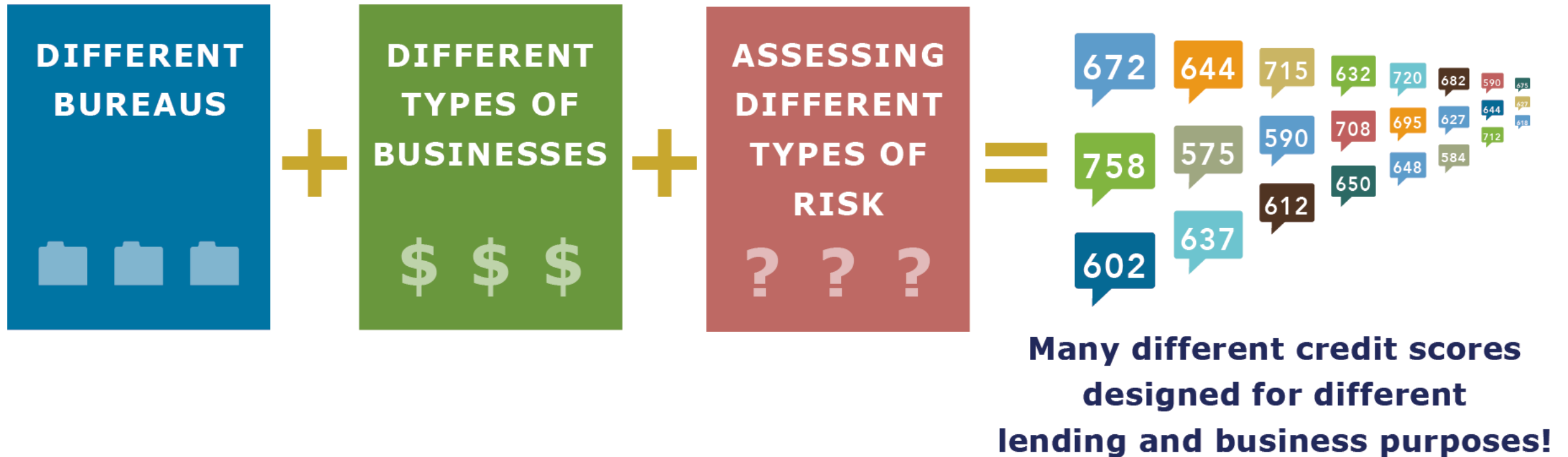
SO

consider registering for a number sooner rather than later

BUT

as of April 4, 2022, businesses no longer need a D-U-N-S® number to apply for government contracts. They'll use a government-assigned Unique Entity ID for that instead.

Which Score?



Why Do Credit Scores Vary?

Credit Reporting Agencies

Dun & Bradstreet, Experian Business, Equifax, and more!

Credit score modelers

Numerous scoring models are available and calculated using different algorithms

How much data is available

Each creditor decides whether and to which bureaus they will report

Date calculated

Scores will vary over time as data is reported

Business Credit Score Ranges

Different than personal credit score ranges

- FICO®: 0-300 scale with a "good" score starting at 160
- Dun & Bradstreet, Equifax, Experian: 0-100 scale, but a “good” score starts at a different number for each

Causes of Low Business Credit Scores

- Not enough activity on the credit report
- Low number of tradelines, high outstanding balances, overutilization of credit, and instances of slow pay
- Few years in business, risky industry, or low revenue for business size
- An increase in the number of business credit inquiries or applications
- Derogatory public records
- Unpredictable or unstable business revenue
- External events, such as a pandemic, natural disaster, or inflation

Creating a Credit Action Plan

What is on the credit report?

The good, the bad, the accurate, and the inaccurate

What is NOT on the credit report?

Is there potential to open new positive tradelines?

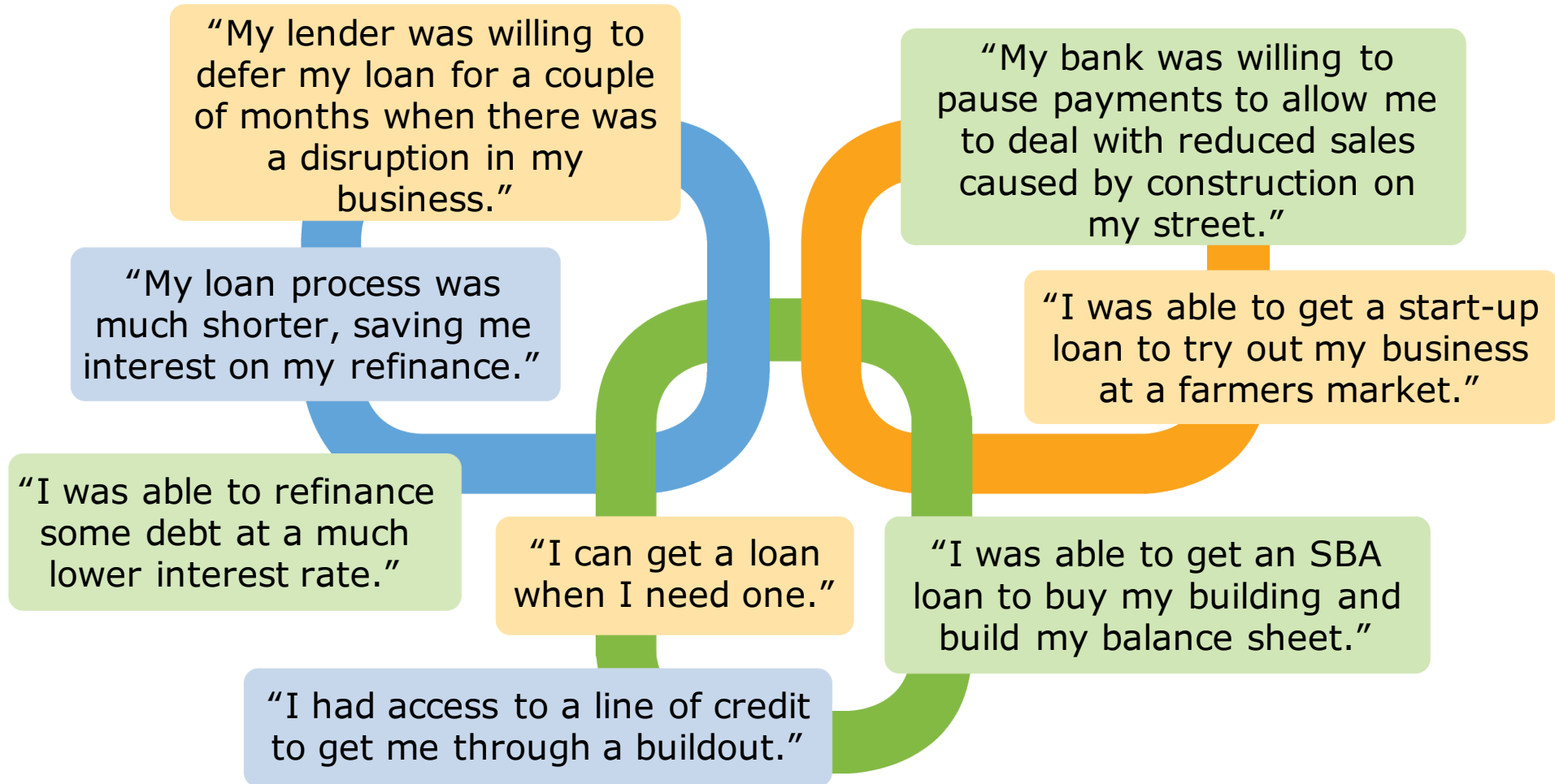
What are the entrepreneur's short- and long-term goals?

What actions will support the entrepreneur's journey toward achieving their goals and how so?

How much is affordable?

Align the credit action plan with a realistic budget

Credit Strength = Ability to Achieve Business Goals



Business Credit Building Requires

- ✓ Understanding an entrepreneur's goals and if they're ready for business credit
- ✓ Establishing at least one (but preferably more) commercial tradeline in the business's name that reports to at least one of the commercial credit bureaus
- ✓ Realistically and strategically evaluating options and choosing the right products at the right time

The *Credit as an Asset* Training Series

On-demand and Live Options



Focus =
Personal/Consumer
Credit



Focus =
Business/Commercial
Credit

- On-demand options available at end of January 2023
- Live trainings in Fall 2023

Learn more at
<https://cbatraininginstitute.org/> or
sign up for our newsletter at
<https://www.creditbuildersalliance.org/cba-newsletter/>

Small Businesses Credit 101

- ✓ An entrepreneur-facing curriculum
- ✓ Available in English and Spanish for those who complete *Credit as an Asset: Small Business*
- ✓ Ready in early 2023!

Questions?



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