

MEP PROGRAM



SESSION 3 | UNDERSTANDING COMMERCIAL CREDIT DEVELOPMENT

What Is Business Credit & Why Does It Matter If I Have a Good Business Credit Score?

Having a good business or commercial credit score is important for 3 main reasons:



GROWING RELATIONSHIPS THROUGH DATA

Dun & Bradstreet (D&B), Experian, and Equifax are the three major business credit reporting agencies. Each agency has its own scoring models. The most popular is Dun & Bradstreet's Paydex, ranging from 1-100 with scores over 80 indicating good credit. Experian has a 0-100 scale, and above 80 is a good score. Equifax's score ranges from 101-992, with 992 being the best score.

It's important to establish credit with all 3 agencies. While suppliers tend to prefer D&B, banks and other lending institutions prefer Experian and Equifax.

- **Helps you qualify for business financing and save money.** Good business credit leads creditors to place trust in your business. This helps you qualify for business loans and business credit cards, and for the largest amounts of financing and the lowest interest rates.
- **Helps you qualify for good terms from suppliers.** Just as a good business credit score builds trust among lenders, suppliers are more likely to grant favorable payment options to businesses with a good commercial credit score.
- **Reduces reliance on your personal credit score.** If you have good business credit, lenders and suppliers may extend you credit without checking your personal credit history. Even if your personal credit isn't that great, your business won't suffer for it if financing can be extended on the basis of your business' creditworthiness.

How Do I Establish Business Credit?

There's a two part process for establishing credit with D&B:

Getting Started:

These are some of the easiest trade references to have reported:

- Quill
- Uline
- Home Depot
- Lowes
- Staples
- UPS

1. Get a D-U-N-S (Data Universal Numbering System) number. This is a unique 9-digit identification number that is used to create your business credit file, similar to how your social security number is associated with your personal credit reports. You can apply for a D-U-N-S number for free on [D&B's website](#)

2. Provide at least 3 trade references. Trade references, similar to employment references when you apply for a job, come from suppliers and creditors that you've done business with.

Why is it important for not-for-profit to obtain an DUN#

All federal grant applicants must have a Dun and Bradstreet "DUNS" number (Data Universal Numbering System) to apply for or renew grants, or submit plans under mandatory grant programs. The Office of Management and Budget (OMB) will use the identifier for tracking purposes, and to validate address and point of contact information. A universal identifier also eliminates the need for separate identification numbers in different federal agencies.

Obtaining a DUNS number is relatively painless. Organizations can receive a DUNS number at no cost by simply calling Dun and Bradstreet's dedicated toll-free DUNS number request line at 1-866-705-5711. The information needed to request a DUNS number is very minimal (see details below) and you will receive your number in 24 hours. You can also apply online or search for your existing information at <http://fedgov.dnb.com/webform>. If you don't yet have a DUNS number, it can be created within 1 business day.

Understanding Commercial Credit Terms

What is a 'Non-Recourse Debt'

A nonrecourse debt is a type of loan secured by collateral. If the borrower defaults, the issuer can seize the collateral but cannot seek out the borrower for any further compensation, even if the [collateral](#) does not cover the [full value](#) of the defaulted amount. This is one instance where the borrower does not have personal liability for the loan.

Recourse vs. Nonrecourse Debt

Recourse debt gives the creditor full autonomy to pursue the borrower for the total debt owed in the event of default. After liquidating the collateral, any balance that remains is known as a deficiency balance. The lender may attempt to collect this balance by several means, including filing a lawsuit and obtaining a deficiency judgment in court. If the debt is nonrecourse, the lender may liquidate the collateral but may not attempt to collect the deficiency balance.

Understanding Commercial Credit Terms

Recourse vs. Nonrecourse Debt

For example, consider an auto lender who loans a customer \$30,000 to purchase a new vehicle. New cars are notorious for declining precipitously in value the minute they are driven off the lot. When the borrower stops making car payments six months into the loan, the vehicle is only worth \$22,000, yet the borrower still owes \$28,000. The lender repossesses the car and liquidates it for its full market value, leaving a deficiency balance of \$6,000. Most car loans are recourse loans, meaning the lender can pursue the borrower for the \$6,000 deficiency balance. In the event it is a nonrecourse loan, however, the lender forfeits this sum.

• What is a personal guarantee?

- A personal guarantee is an unsecured written promise from a business owner and or business executive guaranteeing payment on an equipment lease or loan in the event the business does not pay. Since it is unsecured, a personal guarantee is not tied to a specific asset. However, in the event of non-payment a lender can go after the guarantor's personal assets.

Why do lessors and lenders require a personal guarantee? Many lenders require a personal guarantee as an “added assurance” that the owner or executive is committed to the business and is committed to repaying the equipment lease or loan. A personal guarantee demonstrates to a lessor or lender that you are a responsible business owner and intend to repay all of your business leases and or loans. The general rule is that any holder of 20% or more of the equity of a business must personally guarantee the lease and loan obligations of the business.

Business Credit Reports

DNBI Risk Management www.dnb.com
 Date Provided: September 17, 2014

Live Report : GORMAN MANUFACTURING COMPANY, INC.
 D-U-B-I-SB Number: 80-475-0132
 Endorsement/Billing Reference: CFA User

D&B Address:

Address: 492 Koller St San Francisco, CA, US - 94118	Location Type: Headquarters
Phone: 415 555-0000	Web:
Fax:	

Added to Profiles: 10/6/2014
Last View Date: 10/16/2014
Endorsement: CFA User

Company Summary Currency: Euro in USD unless otherwise indicated

Score Bar

PAYDEX		Paying on time
Financial Stress Score Class		Moderate Risk of severe financial stress
Commercial Credit Score Class		Low to Moderate Risk of severe payment delinquency
D&B Stability Rating		View More Details
Bankruptcy Found		No
Credit Limit - D&B Aggregate	400,000.00	Based on profiles of other similar companies
D&B Rating	3A4	3A indicates 1 to 10 million, Credit approval of 4 is limited

D&B 3-month PAYDEX

Who weighted by amount, Payments to suppliers average 80% on time

D&B PAYDEX

Who weighted by amount, Payments to suppliers average generally within time

D&B Company Overview

Do not confuse with other Gorman companies. This is a fictitious company used for D & B for demonstrative purposes.
 This is a headquarters location

Branch(es) or Division(s) exist: 1

Manager:	LESLIE SWITS, PRES
Year Started:	1985
Employees:	125 (100 full)
NAICS:	7199

Line of Business:

Public Filings

The following data includes both open and closed filings found in D&B's database on this company.

Record Type	Number of Records	Most Recent Filing Date
Bankruptcy	0	-
Judgments	3	01/03/14
Litigation	0	-

DUN & BRADSTREET

Experian

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Note: This is a fictitious company credit report. Actual reports may vary in the amount of information available per business profile and may not include all information seen in this sample.

Click on a sub-menu item below to view details:

Sample Business Credit Advantage™ Report

LaSalle Medical

Address: 15 Fitcher Ave Address: FR 19820 United States	Key Personnel: Treasurer: James Martin CEO: Steven Spidaris
Phone: 610-555-1111	NAICS Code: 8000 - Gen'l Medical & Surgical Hospital
Experian ID#: 123456789	NAICS Code: 822110 - General Medical and Surgical Hospitals
Works (or has been) operating as: LaSalle Medical Solutions, Inc. LaSalle Imaging Partners	Business Type: Corporation
Family/Origin: Ultimate Parent: National Medical Center, Inc. Los Angeles, CA	Experian File Established: January 1977
Parents/Headquarters: Grock Medical, Inc. Crestview, CA	Experian Years on File: 27 Years
Subsidiaries: LaSalle Hospitals, Inc. Memphis, TN	Years in Business: More than 57 Years
Branch(es)/Markets: LaSalle Patient Care Locations: 123 Main Street Memphis, TN	Total Employees: 100
	Sales: \$1,750,000
	Filing Date Provided by: Pennsylvania
	Date of Incorporation: 02/14/1971

Current Days Beyond Terms (DBT): 1

Provisional DBT for 06/11/2014: 1

Average Delinquency (AD): 3

Payment Trend Indicator: Stable

Lowest 3 Month Balance: \$1,125,000

Highest 3 Month Balance: \$2,350,400

Current Total Account Balance: \$2,351,800

Highest Credit Amount Extended: \$1,605,200

Median Credit Amount Extended: \$19,000

Payment Threshold (see chart): 80

Business Insurance (see summary): 10

UCC Filings: 0

Banking/Insurance/Lending (see detail): 0

Businesses Scoring Worse: 85%

Bankruptcies: 0

Litigation (see detail): 1

Judgments Filed (see detail): 0

Collections (see detail, summary): 0

Credit Summary Back to top

Your Credit Ranking Score: 60

High Risk Low Risk

How to Improve Your Score? Reset
 Scores Improvement Tip for LaSalle Medical

What Can Affect Your Score? Reset
 Business Down Theory to find out

Key Score Factors

EXPERIAN

Small Business Member Center

Business Credit

My Account

Summary | **Report** | Alerts | Disputes

Credit Report

PDF Print

★ Best Match for Inquiry ? Hide ▲

Company Profile:

ABC SUPPLY, INC
123 MAIN ST
POTTSVILLE, PA 17901-3517
(570) 628-1234
(570) 628-9782

Equifax ID: 123456789

Registered Site ? Hide ▲

Company Profile:

ABC SUPPLY, INC
123 MAIN ST
POTTSVILLE, PA 17901-3517
(570) 628-1234
(570) 628-9782

Equifax ID: 123456789

Credit Utilization ? Hide ▲

Total Credit Limit of \$61,916 (financial accounts only)



Credit Risk Score ? Hide ▲

637



Key Factor(s)

- * Evidence of Non Financial Trades Ever Cycle 2+ Delinquent or Charge-Off
- * Length of Time Since Oldest Financial Account Opened Suggests Lower Risk
- * Available Credit Limit on Revolving Trades Suggest Lower Risk
- * Company Size (Number of Employees) Suggests Lower Risk

Payment Index ? Hide ▲

99



Industry Median: 85

Payment Index	Days Past Due
90+	Paid As Agreed
80-89	1-30 Days Past Due
60-79	31-60 Days Past Due
40-59	61-90 Days Past Due
20-39	91-120 Days Past Due
1-19	120+ Days Past due

Business Credit Reports

Q&A
