

## A Tale of Two Credit Histories: Building Credit for the Entrepreneur AND the Enterprise

By Vikki Frank, Executive Director  
Credit Builders Alliance  
Washington DC

In today's economy, good credit is a financial asset for an entrepreneur and her enterprise. For underserved entrepreneurs, building personal credit history is essential. Lenders put nearly all emphasis on the credit history of the entrepreneur rather than that of the emerging or growing enterprise. When entrepreneurs are "credit-poor" with no credit history or low credit scores, it costs them and their business.

Entrepreneurs and thus the enterprise pays out hundreds of dollars per month in higher interest, deposits and fees on business expenses—everything from renting or purchasing office space, acquiring business or car insurance, buying company trucks, leasing business equipment, purchasing supplies or even just turning on the lights and telephone service.

Since 2006, Credit Builders Alliance (CBA) has been supporting U.S. microlenders to provide opportunities for underserved entrepreneurs to build a positive credit history by making on-time payments on a business loan. CBA has helped more than 100 microlending programs get started with credit reporting. and each time we hear the same questions:

- Is it relevant (and legal) to report a small business loan to the entrepreneur's consumer credit report?
- Are there times when it is not appropriate to report a small business loan to consumer credit agencies?
- Can we **build a credit history** for the enterprise?

In turn, we ask:

- Do you originate loans to the **entrepreneur** or the **business**?
- Do you **pull the credit report** of the entrepreneur or of the enterprise?
- Do you underwrite loans based on the **credit history** of the **entrepreneur** or the **business**?
- When the entrepreneur "**graduates**" will the next lender pull a consumer credit report or a business credit report?

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For most microlenders serving underserved entrepreneurs, the answers to the above questions resoundingly points back to the entrepreneur herself and not to the business. And our communal solution has been to send the positive payment history to the consumer database to be reported as a "business loan" obligation of the entrepreneur.

At some point, we like to think that we are developing ongoing, stable businesses – and that the enterprise will "graduate" to an independent financial position that will enable it to take on a loan without a personal guaranty. Our goal, or hope, is that the business will eventually have its own financial resume to standby; and that the business grows its own credit history, apart from the entrepreneur. The above questions start to shift, in turn, to reflect a new set of thinking: What does such a business look like? Does it have a business credit history? If so, when does it make sense to begin to build the credit of the enterprise and not just the entrepreneur?

Several credit bureaus (Equifax, Experian and Dun & Bradstreet) maintain a separate database for business credit obligations. CBA is working with Experian's business data group to create a new pathway for underserved entrepreneurs and their enterprises. We proposed an innovative way to tweak the standard reporting format so that the credit obligation of the enterprise can be reported to the business database while the credit obligation of the entrepreneur continues to build consumer credit. Our next hurdle: to define when an enterprise can graduate to leverage just its business credit history to get that capital. **Stay tuned!** The more our industry can innovate and turn new ideas into reality, the better we can help entrepreneurs build businesses.



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