

# College of Business News

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# Halaby featured on WalletHub

July 3, 2018

## Dominique Halaby on securing a business credit card.

**When, if ever, should a small business owner consider a so-called secured business credit card?**

For many small business owners, the mere notion of obtaining a secured credit card is akin to robbing Peter to pay Paul. Generally, small business owners consider a secured credit card when they have less than perfect credit and find themselves struggling to obtain an unsecured card. The problem is that most owners in this position got there because of challenges/difficulties with managing their cash flow.

Obtaining a secured credit card requires that the card be “secured” against some amount of funding. The specific amount deposited determines the applicable credit limit. Therefore, if a small business owner wants a secured credit card with a \$1,000 limit, they would have to first deposit \$1,000 in separate bank account. This means that in order to assist their cash flow challenges, they must take cash out of their business. For most, this just isn’t a viable option. They find simply using a debit card to be sufficient. However, the use of debit card doesn’t help them to rebuild their credit.

This is often the primary reason why a small business owner would consider a secured credit card. When doing so, the important thing to know is that rebuilding your credit will take time. Ultimately, I would encourage borrowers in this situation to seek out credit cards/lenders that report to the credit agencies and try to avoid those that don’t.

**Do you have any advice for people with bad credit who need money for a business venture?**

First of all, bad credit means different things to different lenders. Generally, a personal credit score below 600 is the common benchmark. For potential borrowers in this category, there are options but they often come a higher cost.

One option is consider online lenders, like Fundbox. Fundbox will provide financing over a twelve week period at less than five (5) percent interest. This could be a good short-term fix for those small businesses struggling with short-term cash flow issues, however, over an extended period of time the Annual Percentage Rate (APR) could be extremely high (sometimes 50 percent). There is also OnDeck, which focuses more on the business than the borrower. Though this may not be viable for a startup, it could be a good option if the company has been in operations for more than a year.

The owner can also look to establish the company’s credit rating through factoring and equipment financing. Factoring is where a company sells its receivables to a third party. For companies that have business clients that are on net-terms, companies such as Blue Vine, can help them free up cash by purchasing unpaid invoices at a discount.

Also, small businesses that need of equipment may want to ask the vendor if they offer financing and report to Dun & Bradstreet (D&B). If so, they would want to register for a DUNS number. Small businesses with a DUNS number can begin working on their D&B PAYDEX score. The PAYDEX operates much like your individual FICO score and is a way some lenders evaluate your company’s ability to repay debt. A good PAYDEX score can help your small business negotiate more favorable terms with your vendors, such as net-30 or even net-60 days.

Regardless of the lender, people with less than stellar credit should know that when they ask to borrow money they are going to be paying a higher interest rate. Just how high is going to depend on the repayment terms. That is why it is important to look at the fine print and try to place all terms in APR to allow for apples-to-apples comparisons.

**Do you think secured credit cards should pay interest on users’ deposits?**

Great question! It would nice if lenders paid interest on users’ deposits but the fact is most do the exact opposite. Most secured credit card lenders actually charge an annual fee and a high interest rate to their consumers. There are a few, like Discover it Secured, that waive the annual fee and even provide a cash back bonus on purchases, but those are in the minority.

**Why do you think there are so few secured business credit cards available?**

There are a few reasons for this. First of all, the proliferation of debit cards has really limited the usefulness of secured credit cards. Debit cards afford the holder the ability to make purchases and track expenses just like unsecured cards. Secondly, online payment systems such as PayPal (and its subsidiary Venmo), has made it easier for people and businesses to transfer money from accounts and process transactions. Also, most small businesses with credit difficulties are simply not able to tie up the requisite funds to obtain a secured credit card. This means the market for secured credit cards simply isn’t large enough to entice more lenders to offer these services. Finally, low unemployment rates and strong job growth is making lenders more comfortable with borrowers’ ability to repay loans. As such, more lenders are



finding that simply offering unsecured cards with a low credit limit and high interest rate to be a sufficient way to offer services to borrowers with a low credit score.

Halaby is the director of the Business Innovation Group at Georgia Southern University College of Business. To view the article in its entirety, visit [https://wallethub.com/credit-cards/business-secured/#Dominique\\_Halaby](https://wallethub.com/credit-cards/business-secured/#Dominique_Halaby).

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