"Been There, Done That" Podcast:
Small Business Credit

The **SCORE "Been There, Done That" Podcast** features interviews with the best and brightest in the world of small business, covering topics such as business plans, financing, marketing, human resources, SEO, social media and more. In this podcast, SCORE mentors chat with Ty Kiisel.

Ty Kiisel is the Main Street business evangelist, author, and marketing veteran with over 30 years in the trenches. He has been writing about small business and small business finance for OnDeck since 2014. Ty makes the maze of small business lending accessible by weaving personal experiences and other anecdotes into a regular discussion of one of the biggest challenges facing small business owners today.

Fred Dunayer: Welcome to the SCORE small business success podcast Been There, Done That. To get free mentoring services, as well as to see the wide variety of resources available for small businesses, visit our website at www.score.org or call 1-800-634-0245. Now here's your host, Dennis Zink.

Dennis Zink: Episode 44, Small Business Credit. Fred Dunayer joins me today in our studio as co-host, SCORE mentor, and our audio engineer. Good morning, Fred.

Fred Dunayer: Good morning, Dennis.

Dennis Zink: Our guest today is Ty Kiisel. Ty Kiisel is a main street business evangelist, author, and marketing veteran, with over 30 years in the trenches. He has been writing about small business and small business finance for OnDeck since 2014. Ty makes the maze of small business lending accessible by weaving personal experiences and other anecdotes into a regular discussion of one of the biggest challenges facing small business owners today. Ty, what is the greatest misconception that most small business owners have regarding business credit?

Ty Kiisel: You know, I think you'd be surprised that the greatest misconception that small business owners have about business credit is that it actually exists. That their business has a business credit profile.

Dennis Zink: How would that be different from their personal credit?

Ty Kiisel: Well, you know, there's lots of differences. Your personal credit score is reflected in a fairly universal single score. For example, if you've got a 700 personal credit score, that pretty much means the same thing regardless of the credit bureau you'd go to. Your business credit profile is actually a collection of scores and information about your business and it's really pretty different. If you take the three biggest business credit bureaus, Experian, Equifax, and Dun & Bradstreet, they all look at your business a little bit differently, with a little bit different focus. You need to know a little bit more than just a simple score to understand your business credit profile.

Experian and Equifax also have business credit bureaus. TransUnion is tied into the bank's credit system so they get a lot of information about your business credit cards and any business loans that you have. Dun & Bradstreet probably focuses more on the credit relationships that you have with your vendors, and Experian is kind of a ... You know, they all report on the same type of thing.

Experian is probably the hybrid of the two but all of them are going to report on your business credit usage, the relationships you have with your vendors and those kinds of things, but all three of them weight that data differently so you're going to get a different score, depending upon ... or a different profile, depending upon the bureau that you go to.

A good business is going to be reflected well, regardless of the credit bureau. Those are just the big three. There are other business credit bureaus as well, but those are the three big ones.

Dennis Zink: Which one does OnDeck use?

Ty Kiisel: OnDesk uses several. Experian is one that OnDeck uses, as is PayNet. PayNet isn't one of the big three but PayNet is a bureau that we use. They all have data that OnDeck uses when they evaluate your business credit worthiness.

Dennis Zink: What's included in your personal credit score? I'm assuming checking credit for a loan, obviously. OnDeck makes loans. What number won't you look at them?

Ty Kiisel: First off, let's talk a little bit. You've got two questions there: what makes up your personal credit score? The three big credit bureaus, Experian, Equifax, and TransUnion, these are the personal credit bureaus. They pretty much ... You look at data the same way. The payment history is about 30 percent of your score. The amount of credit owed is 30 percent of your score. The length of your credit history is about 15 percent of your score, and the type of credit you use is about 10 percent.

For example, if you have a mortgage, an auto loan, some kind of a revolving credit, they are all not the same type of loan. The mix you have that you demonstrate you can service well, that makes a difference. New credit inquiries are roughly 10 percent of your score. Those are the things that the credit bureaus look at.

Dennis Zink: Sorry, I think you are 5 percent short. What happened to that last 5 percent?

Ty Kiisel: I might have said 30 percent. Payment history is 35 percent of your score, so that should all add up to 100 now.

Dennis Zink: We're good.

Ty Kiisel: As a lender, as a small business lender looking at a small business owner, a traditional bank, for example, they want to see a credit score of 700-ish. However, in some instances, they may drop to 680. If your credit score is below 680, you probably won't find success at a bank. The SBA, for example, has a different threshold. If you've got a credit score of 650 or better, you'd have success at the SBA. A credit score below 650, you probably would not find success with the SBA.

Online lenders like OnDeck will work with a borrower who has a little bit lower credit score than that, provided they have a healthy business and can demonstrate that their business is healthy and able to repay the loan. Some lenders will even go as low as a credit score of 500, depending upon the circumstances.

Now, realize that, if you're a borrower and you have a 600 credit score, you will likely pay more in interest than you would if you had a 700 score because you can't go to the bank and get a lower-interest loan from the SBA or from the bank, so, depending upon your credit worthiness, the interest you pay is likely going to be greater.

That's not the only factor that determines how much you're going to pay. In the previous podcast, we talked about funding and having a greater access. That's also going to be a consideration. Even if you have a 720 credit score personally, if you need money tomorrow, the ability to access that capital quickly is going to come at a premium as well.

Dennis Zink: Ty, during the recession, banks were holding on to their money and not making loans. At least that's what the word on the street was. It just seems that the floodgates have opened, in terms of more access to capital. Obviously, small businesses still have to qualify. Is that comment accurate?

Ty Kiisel: With a caveat: small business lending as a percentage of bank lending generally started declining before the financial crisis of 2008. That crisis didn't help. In 2009, we saw lending to businesses increase, but they were bigger businesses lending to the small businesses like the local merchant or the dry cleaner or the mechanic. Those main street-type businesses that most of us associate with small business, from traditional sources like the bank, access to capital for them has not rebounded like it did for bigger businesses.

However, because of the influx of non-traditional lenders like online lenders has provided more capital access to small business owners. Part of that is because we're looking at the small business owner a little bit differently. We're lending in the loan amounts that those businesses are looking for. For example, a traditional bank wants to lend half a million or a million dollars. They don't want to get into a 50,000 dollar loan where online lenders do a lot of, you know, 30, 40, 50,000 dollar loans. We've covered the loan amounts that most of these main street-type businesses are looking for.

From traditional sources, I don't think it's rebounded. However, I think that online lenders and others have made it possible for small business owners to actually access capital to fuel growth and build healthy businesses. I guess the answer is, yeah. I think that it's a good time for small business owners right now.

Dennis Zink: Do you deal a lot with franchises?

Ty Kiisel: We don't do as much franchise lending as some lenders do but the SBA has a franchise program that's really pretty good. In fact, they have a list of approved franchises that it isn't necessarily they won't lend to your franchise if you're not part of this list but the process may be a little bit easier. There is funding available for franchises.

Dennis Zink: What if a business is pretty flush with cash and they're generating their own cash but ... Is that a good idea for them to take out a loan as a line of credit?

Ty Kiisel: I think that a lot of business owners probably think, "I've never had to borrow and I'm really proud of that. I don't need borrowed capital. I can work on my cash flow." I think that that is something laudable. However, if you never borrow, if you never access borrowed funds and a situation comes up, maybe you're seven or eight years old now, you've never borrowed money, you have absolutely no credit profile that a lender can look at.

Let's say you've been in business for seven years. You have an opportunity to expand to a new location but you need a million dollars to do it. If you've never borrowed, there's no way for a lender to evaluate whether or not they're going to loan to you. They pull up your credit profile and they see no history. Basically, lenders are ... They are looking at your past performance to make a judgment about what you'll do in the future.

I'm not advocating that you should just borrow to borrow. However, I think it makes sense to get a line of credit and use it and pay it back. What lenders want to see is that you're able to use credit appropriately and repay a loan or a line of credit as you should in a timely fashion, so that, down the road, if the opportunity comes and you do need to borrow, you've spent some time building a credit profile.

You know, another thing you can do to build a credit profile is work with your vendors. Most vendors and suppliers offer credit to their best customers. Now, it might not be a hundred thousand-dollar loan but that 30 or 60-day terms repaid appropriately in a timely fashion, it helps you build your credit too, provided that supplier or vendor reports to the credit bureaus.

If I was a small business owner and I was evaluating suppliers, one of the things I would be asking is, "Do you offer payment terms?" And, "Do you report my good credit history to the credit bureaus?" Because, if they don't report to the bureaus, basically you're building a good credit history with them but it's not doing anything to build your credit history with the bureaus for down the road, when you actually may need a loan.

Dennis Zink: Ty, I've always been a big believer in ... and personally I've done this, where I've got lines of credit in case I need it down the road, even though I didn't need it right away because I knew that, typically, a banker will give you an umbrella on a sunny day but, as soon as it rains, they take it away. I would say it's a good analogy to borrowing money and it's good to have that cushion that, if something happens, when you really, really need it, you may not be able to get it so you need to line it up in advance.

Ty Kiisel: I look at this way: let's say you are a landscape contractor and you need to purchase equipment. The time to apply for a loan is not in the transition season. It's when the business is healthy and cash is flowing through the business. Time to borrow if you're a seasonal business is when the business is in full swing and not necessarily in between seasons. In that regard, I agree with you.

Fred Dunayer: Ty, two questions, or one question and a comment. The first is related to just what you said. Is it normal to go to a lender and set up everything for a loan but not actually take out the loan and have the paperwork sit there for some number of months until you're actually ready for the financing?

Ty Kiisel: You know, I think that would probably depend upon the lender. If you were to come to OnDeck, for instance, and fill out a loan application today, we're evaluating you based upon the health of your business today, but if you were going to wait and come back in six months, you'd have to go through the process again because we're trying to evaluate you based upon the health of your business today and your circumstances could have changed. I wouldn't recommend completing the paperwork and anticipating that you're going to hold on to it for six months to a year.

Fred Dunayer: I think that both what Dennis was talking about and what we're talking about here demonstrates the need for a business owner to really understand their business. There's a lot of situations in which the lack of capital is the constraint to growth. In other words, if you can sell and you're not selling because you've got something that's holding you back in the way of supplies or equipment or something like that, borrowing money is a big leverage factor. If you don't really understand your business and you don't know that that is your limit, then you don't know to go out there, get that capital, and make your business grow.

Ty Kiisel: I agree with that. In addition to understanding the business, I think you also need to understand your credit situation and how easily it's going to be for you to access capital. Nav is a company that does credit monitoring and they did a survey recently and they found that, if you pay attention to your credit profile, the odds of getting a loan are exponentially better.

For example, I used to recommend to people that they check their business credit profile at least once every quarter. Levi King from Nav recommends that you check your business credit profile every month. I said, "This seems kind of simplistic to me," when I was talking with him. He said, "You know, I think it's human nature that we impact what we pay attention to. And so, if you're looking at your business credit profile once a month, odds are, the behaviors required to improve your profile are going to ... They're going to be at top of mind and you're going to do that."

It's not necessarily a simple thing but it's relatively straightforward to improve your business credit profile. Just like your business credit score, paying your bills on time is probably the single biggest impact to whether your score is going up and down. If you spend time every month in your profile and you're paying your business obligations on time, it won't take very long for your profile to improve. It's just a matter of how many good credit notations do you have, versus negative credit notations, and, as you get more and more positive impact, positive input, into your business credit profile, your profile is going to improve and you're going to be more credit-worthy.

Not only do you need to understand your business and what your business requirements are, you just have to understand how business credit works and how that business credit profile is going to impact your ability to access capital when you need it.

Dennis Zink: You know, I couldn't agree more about checking your profile even monthly. It sounds like a lot but there's an old saying that I love. That which we measure improves, and you're right. If you're paying attention to it, you said the odds are far greater to be able to get a loan if you're on top of your credit profile.

I also wanted to comment on, as a business owner, in the past, I've used debt to grow businesses where, if I didn't, I couldn't have. The intelligent use of some debt is definitely a component of success for many small businesses. If I have a stronger profile, how do I make it stronger? I guess paying on time, etc. Does that guarantee a loan?

Ty Kiisel: Not going to guarantee a loan, but it is going to give you more options. There are lots of things that lenders look at when they look at your business and your business credit profile is one of them, but if you have a good profile, that's going to allow you to go to more lenders that like ... For example, a poor business credit profile is going to rule you out of some places that a positive profile is going to allow you to maybe find success. It's not necessarily a guarantee but it provides you more options and makes it possible for you to find financing when you otherwise wouldn't be able to.

Dennis Zink: What kind of advice do you have for a new business? I mean, someone who just opened up. Do they have a shot at getting any kind of a credit line?

Ty Kiisel: You are in that first year of business. My advice to you is to look at opportunities to build a business credit profile. For example, if you've got suppliers who offer payment terms, take advantage of that. If you don't have suppliers that do that or you're in a business that doesn't do that, go to Home Depot or Staples or one of these places that offer the standard business supplies that pretty much every business uses, establish a business credit account there, purchase your supplies, and make timely payments.

Do those things in that first year or two. They're going to help you build a strong business credit profile. You know, business credit cards are relatively easy to get. A business credit card could be a good way to do this too, but if you spend the time in that first year or two to ... a strong business credit profile, then, when you really need capital to fuel growth in your business, you'll have a better chance getting it because you would have built a track record.

Fred Dunayer: Ty, back in the day, they used to tell you, "If you wanted to build credit, don't pay off the bill entirely. Allow a little bit to carry forward from month to month and keep paying it off and pay a little bit of interest." Is that true with a business credit?

Ty Kiisel: I think it depends upon the type of credit. I think that that advice is regarding some kind of a revolving credit, like maybe a credit line or a business credit card. Most lenders who offer a business line of credit today want to see that credit line paid down completely at some point doing the term of that credit line. For example, at OnDeck, if you've got a hundred thousand-dollar credit line for a year's term, at some point during that year, we're going to want to see that credit line paid down.

Every different type of business credit is going to look at that a little bit differently. Your vendors, for example, they're going to want you to pay your balance from last month in full every month. It depends on is it a revolving credit. Is it a loan? I would suggest that you understand what the terms of that particular business credit product is and meet those terms.

Dennis Zink: Ty, you mentioned improving your business credit profile and paying your bills and establishing that first year. Does it also help to do the same personally? Maybe you haven't taken a lot of credit over the years. Maybe you should. Should you then maybe get some different credit cards for store, department stores or something, and then pay those back so ... Because you're going to sign personally, they'll look at your personal credit, so does it pay to do both?

Ty Kiisel: It kind of depends upon your individual situation. If we back up to when we were talking about what makes up your personal credit score, 10 percent of your credit score is new credit inquiries. Every time you apply for a new credit card, for instance, let's say you go to Home Depot and apply for a Home Depot card, and then you go to Sears and apply for a Sears card, and then you go to Macy's and apply for a Macy's card, every new credit inquiry is going to ding your credit a certain amount. You're going to lower your score a little bit. You want to be careful that you're not applying for a whole bunch of credit all at once.

Now, if you're looking for an auto loan, for example, they know that you're probably going to be shopping rates. You're going to be going into several different auto dealers and they're probably going to run your credit and it will likely ... They will likely ding your credit one time but they understand what's going on so, every time you look at a different auto dealer, for instance, it's not going to be another hit on your credit.

You just need to be smart and be careful and realize that slow and steady wins this race. I don't think there is an overnight fix to build a really strong credit profile, personally or business-wise. It just takes time and there's no quick fix. If you've got a bad credit profile, it's just going to take some time and consistent effort and paying attention. That is going to build your score.

Now, if you don't have any credit whatsoever, it makes sense to apply for a credit card and some of those things, but you want to be wise and I wouldn't apply for three or four credit cards all at once because that's going to have a negative effect on your credit.

Also, if you're trying to rebuild your credit because you have a bad credit score, I wouldn't necessarily apply for four or five credit cards at the same time because it's going to hurt your credit even more. The amount of credit you use versus the amount of credit you have available to you is 30 percent of your score, so if you have, let's say, 5,000 dollars available to you and you're using 4,500 dollars of credit every month, that's going to have a negative impact on your score. You want that percentage of use on your personal credits to be probably closer to, you know, 15 or 20 percent because that's going to be what builds up your personal credit score.

Dennis Zink: Ty, what happens in the situation where a business owner had a prior bankruptcy with a business? Where does he or she stand?

Ty Kiisel: You know, bankruptcy makes it tough for just about every lender. Most lenders, including OnDeck, want to see a resolution of the bankruptcy of at least two years. Basically, you have to consider that you're starting all over. You've got to spend time rebuilding your credit and, typically, it's going to be with people like your vendors, who are willing to offer you payment terms and those types of things.

It's not impossible to get a loan if you've had a prior bankruptcy but if definitely makes it tougher, and if it hasn't been at least two years, it's even more difficult.

Fred Dunayer: Ty, we're going to wrap up this conversation. Is there anything that you would like to re-emphasize or anything we didn't talk about?

Ty Kiisel: Building a strong business credit profile is an important part of finding the right business loan. You know, we mentioned this last time when we talked. You should be asking yourself, "Why am I looking for a loan? Which loan terms best fit my situation? How much money do I need?" And, "What does my credit profile look like?" Those four things are fairly key to your ability to get financing and it just makes sense to pay attention to what your credit profile is. If you're not familiar with what your profile looks like, you can go to Dun & Bradstreet, Experian, or Equifax. They all provide a way at low or no cost for you to learn about what your profile is.

I often have businesses ask me, "Does it make sense for me to build a relationship with the credit bureaus?" My answer is, "Absolutely, yes." Not only does it allow you to look at the credit profiles of your customers and potential customers, it allows you to have access to your profile so that you can pay attention to it every month and know exactly where you are and feel the satisfaction of building a strong business credit profile.

Dennis Zink: Well, I'm going to send a box of chocolates to the credit bureau. Ty, thanks for being our guest today on Been There, Done That and enlightening our listeners on small business credit.

Ty Kiisel: Thanks for inviting me. It was a pleasure to come and be with you again. Thank you.

Fred Dunayer: Thank you, Ty.

Fred Dunayer: You've been listening to the SCORE small business success podcast Been There, Done That. The opinions of the hosts and guests are theirs and do not necessarily reflect those of SCORE. If you would like to hear more podcasts, get a free mentor, view a transcript of this podcast, or would like more information about the services we provide, you can call score at 800-634-0245 or visit our website at www.score.org. Again, that's 800-634-0245 or visit the website at www.score.org.