The Start-Up Offering Credit to Other Start-Ups

By Janet Morrissey

Nov. 15, 2018

When Felix Steinmeyer launched his Fintech start-up Mason Finance in October 2017, he soon faced an annoying — and puzzling — dilemma.

Although the 31-year old had raised several million dollars in financing from venture capital powerhouses like Kleiner Perkins and DCM, and his business was tapping a potentially lucrative piece of the billion-dollar life insurance market, he couldn't get a corporate credit card to handle day-to-day working capital needs.

Credit card companies didn't want to risk extending a card to a new business that had no revenue or cash flow, and whose founder had no history as an entrepreneur.

"I tried at least four credit card companies and had zero success," said Mr. Steinmeyer, Mason Finance's chief executive.

Then Mr. Steinmeyer discovered Brex, a company that teamed with Sutton Bank to offer corporate Visa credit cards to start-ups that have no history or Fair Isaac Corporation (FICO) credit scores to assess risk. "It helped us to grow faster, and definitely saved us a lot of money, headaches and trouble," Mr. Steinmeyer said.

Brex was co-founded by Henrique Dubugras, 23, and Pedro Franceschi, 22, who came up with the idea after finding it impossible to get a corporate credit card while building a previous start-up, Pagar.me, a payment processing company in Brazil. (That company was later sold.)

“This niche is super underserved,” Mr. Dubugras said.

Indeed, only a few entities, like Brex, Chase and Silicon Valley Bank, offer corporate credit cards to start-ups. These entities use nontraditional criteria to assess risk, effectively disrupting the traditional FICO-based credit scoring system for cards.

Brex looks at the investors and venture capitalists supporting the start-up and the amount of money raised when assessing risk. “If investors are willing to give at least $100,000 to the start-up, we’re willing to give them a card,” Mr. Dubugras said.

But, there are conditions: Brex insists the card be paid in full every 30 days, and it monitors the company’s bank account balance daily to ensure the start-up is not recklessly burning through cash. “If they’re spending $50,000 a month and have $60,000 left in their bank account, I know they’re going under in the next month so I’m going to stop giving them credit,” he said.

The automated online application process is fast. “We can issue a card in five minutes,” Mr. Dubugras said. He added that he hadn’t seen a single default.

And investors are clearly optimistic about the company’s outlook: Brex’s latest round of financing last month valued the firm at $1.1 billion, making it one of the youngest start-ups to be valued at $1 billion or more.

Silicon Valley Bank, which has been offering corporate cards to start-ups since 2008, goes one step further than Brex, offering charge cards, whose balances are due monthly, and regular corporate cards with revolving lines of credit.

“We do not use the personal credit history of the founders or FICO scores” to assess risk, said Eduardo Vergara, head of Global Treasury Services at Silicon Valley Bank. “We’ll look at how much capital they’ve raised, who the investors are, who the founders are, and what’s their track record as entrepreneurs.”

SVB also relies on instinct, having extended financing to start-ups for the past 34 years. “We can really see and assess which ones are more likely to be successful — which ones we should be offering credit, which ones to lean in on,” Mr. Vergara said.

Some disrupters require the entrepreneur to personally guarantee the corporate card, said Mr. Dubugras, which means, if the business fails, the entity could go after the founder's home, car and assets to cover the credit card losses.

Chase, for example, looks at a founder's personal credit history to assess risk, and it makes the entrepreneur personally liable for the corporate card, although Mary Jane Rogers, a Chase spokeswoman, said "we would not pursue the liquidation of personal assets to repay debts."

Demand for corporate credit cards for start-ups is booming. "It's one of the fastest growing areas of SVB," Mr. Vergara said.

Entrepreneurs find corporate cards make it faster and easier to cover and track everything from monthly server and software costs to business dinners.

"As a start-up entrepreneur, time and money are like oxygen. Without it, you're dead," said Wole Coaxum, founder and chief executive of MoCaFi, a company that helps people build their credit profiles.

A surging number of companies — many in the payment processing and small business lending areas — are now looking to enter this still niche market. PayPal, for example, has expanded beyond its payment processing business to include small business loans in recent years, and is now considering corporate credit cards for start-ups.

"It's something we're exploring," said Darrell Esch, vice president and commercial officer for Global Credit at PayPal. However, he said he would not favor offering corporate cards to start-ups without taking the entrepreneur's personal credit history into account. "It's a very high risk category," he said.

Indeed, about 21 percent of businesses fail the first year, more than 50 percent by the fifth year, and 67 percent are gone by the 10th year, according to data from the Bureau of Labor Statistics.

Some experts urge caution, noting that none of these entities have seen how the cards perform during a recession.

“The verdict is still out,” said Michael Noble, founder and chief executive of Apruve, which manages B2B credit programs. “Silicon Valley can turn quickly and if that bubble bursts and the market pops, it will be an interesting exercise for Brex.”

Many big banks and entities are sitting on the sidelines watching and waiting.

“The big guys don’t necessarily want to do this until someone else has already kicked the tires,” said David Robertson, publisher of the Nilson Report, a publication that covers the global payment industry. “If the technology works and the idea pans out, they’ll likely buy the company or license the technology from Brex.”

A version of this article appears in print on Nov. 18, 2018, on Page F8 of the New York edition with the headline: Helping Start-Ups Get Started