

As credit lines fade, credit cards come into play; Loan Alternatives; Entrepreneurs squeeze

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Just as the slowing economy has made access to cash a higher priority for a lot of small businesses, banks have become more reluctant to extend traditional lines of credit they have been offering 'small business' credit cards.

Bank cards and lines of credit offer money when it is needed, but there is a fundamental difference. Lines of credit have low, fixed interest rates or slow-moving rates that can jump unpredictably.

Small-business cards have fundamentally replaced lines of credit, said Alan Carsrud, executive director of the Global Entrepreneurship Center at Florida International University.

While Bob Seiwert, head of the Center for Commercial Lending and Business Banking at the American Bankers Association, had no hard data he agreed that credit cards today because bank credit lines are tougher to get because banks have

tightened credit in the past six to 12 months, he said. Lenders may adjust card rates and limits as the perceived risk of lending to the borrower increases.

Entrepreneurs have long used personal credit cards to help bankroll new ventures, said Scott Shane, a professor of entrepreneurial studies at Case Western Reserve University.

The small business cards often differ from personal credit cards in that some offer benefits such as product discounts and extended payment terms. But they are also liable for revolving balances that grow exponentially as interest rates rise, and lenders may sometimes raise rates and reduce credit limits at any time for

A recent survey of 500 owners of small and medium-size businesses, the National Small Business Association, a lobbying group in Washington, found that 28% of owners used credit cards; 44% said they had used cards to meet capital needs in the previous six months; and 57% said their card terms had worsened in the past year.

'I don't fault banks for charging high interest rates on cards because so many small businesses fail,' said Marilyn Landis, the group's chairwoman and a 30-year veteran who desperately need the ability to enter contracts with card providers that are predictable, understandable and stable.' Ms. Landis, who owns a company in Pennsylvania growing businesses, said the introductory rate on her small-business card had risen to 27.9%, from 3.9%, after the lender said a mailed payment had arrived late.

Stephen Strachan, a flower importer in York, Pa., told members of Congress this spring that rate increases on business and personal cards had forced him to make cutbacks. He made his remarks at hearings for a bill pending in Congress, the Credit Cardholders' Bill of Rights.

Beginning in late 2001, Mr. Strachan said, the only new bank credit lines he could find had interest rates higher than those on his personal and business credit cards. 'Card lenders originally offered me very high limits at very attractive rates because of my excellent credit profile,' he said in an interview. 'But over

time, they raised rates. In 2003, he said, one bank raised interest rates to as high as 30% from as low as 3% on four cards with a total balance of about US\$150,000. The lender said he was missing payments, as the cause. Mr. Strachan said that whenever he had received statements, he had always mailed payments 'well before their due date

and in full. Entrepreneurs get the most out of cards when they regularly pay off their balances. 'Many of my clients use them, but in a limited way in the early stages,' said Strachan, an entrepreneur in Boston.

Timothy Ferriss, author of 'The 4-Hour Workweek' and a business consultant in San Francisco, began his career selling a sports nutritional supplement. He said he had to make customer commitments when he put US\$10,000 in manufacturing costs on personal cards in 2001--charging about 70% to an American Express card with a high introductory rate. He paid off the cards that he paid off within three months. 'I avoided depending on self-discipline, which entrepreneurs often overestimate.'

Entrepreneurs may pay dearly if they fail to understand their small-business card agreements. Victor Patenaude, a collections lawyer in San Diego, said he had seen entrepreneurs who could not pay their business card debt. 'Last week, an attorney called up, guns blazing, and said we will lose at trial if we think her client can't pay. She filed her application and pointed out the small print, she fired her client and suggested he pay us.'

Color Photo / Banks are becoming more reluctant to extend traditional lines of credit to small businesses but are offering them alternative credit card deals. / Stephen Strachan, a flower importer, says increased credit card rates have forced him to make cutbacks. ;

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