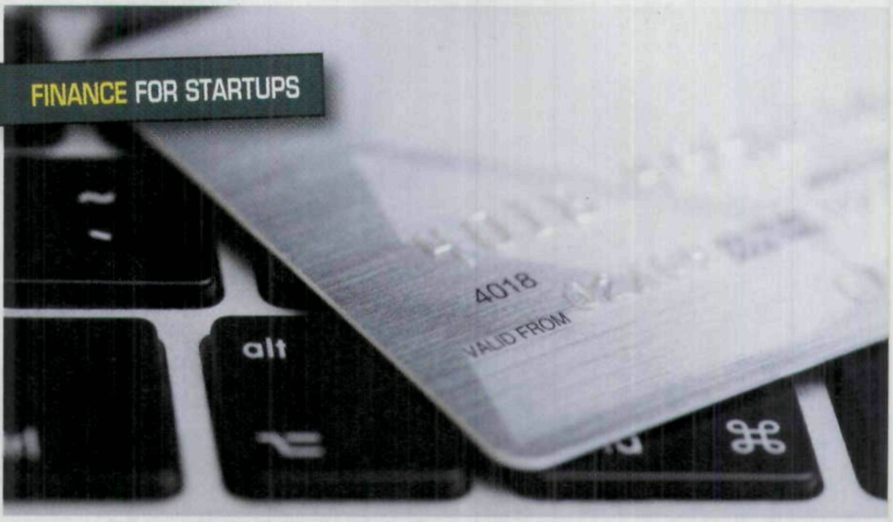

FINANCE FOR STARTUPS

Is that a business credit card in your wallet?

If it is, forget the Credit Card Act—you're as vulnerable as ever to sky-high rates, erratic billing and unexpected fees

HOW IMPORTANT ARE CREDIT CARDS to small-business owners?

According to the SBA's annual report to the president, they represent about 70 percent of small-business lending by the nation's largest banks.

More than 85 percent of small businesses use at least one credit card for business, according to a 2009 National Federation of Independent Business report.

And a National Small Business Association poll showed credit cards as the top source of small-business capital.

So, passage of the Credit Card Act last year—a bill designed to stop the unfair and deceptive practices by many of the largest card issuers—should spell relief for small businesses, right?

Wrong. If that's a business credit card in your wallet, you're still fair game to credit card companies on the hunt for income opportunities. The new regulations stipulated that card companies report recommendations on protecting small businesses to Congress by April, but according to the small-business group, that deadline came and went without any action.

In the meantime, the pillaging continues. A whopping 75 percent of small-business respondents have been socked with higher interest rates, lower credit limits, or higher fees in the last six months, the association reports. More than a quarter of them are paying more than 20 percent interest—more than six times the prime rate. Nearly 60 percent reported receiving bills after they're due. And almost half say their due date randomly changes. Polls by the independent business federation showed that almost 15 percent of those who'd been hit with a change in card terms suffered the worst change of all: outright cancellation.

This is exactly what happened in the consumer market. "Between its passage and when the law went into effect in February of this year, banks seized the window of opportunity to engage in a shameful frenzy of gouging," says Lauren Bowne, staff attorney for Consumers Union.org. "Even customers with perfect bill-paying records were targeted. Being a day late or a dollar short on a single payment could trigger \$35 to \$40 in late fees and a 20-point rate hike—overnight a cardholder could go from paying 10 percent interest to over 30 percent."

So where does all this leave the small-business owner? In a word, vulnerable. Sure, you could use personal credit cards, but your accountant would advise against it: It could lower your personal credit score and complicate an audit. Your lawyer would be against it, too: Commingling personal and business funds can threaten corporate protection.

Even if Congress does step in on behalf of small business, history suggests that credit issuers won't lay down their guns until the eleventh hour. Schwark

Photos: Veer/Francesco Carucci

Satyavolu, CEO of BillShrink.com, offers one glimmer of hope, noting that some business card issuers, such as Capital One, are voluntarily doing the right thing and adopting some Card Act provisions.

If you're wondering how your business plastic stacks up, dig out your old fart glasses and read the fine print in your card agreement. Based on the Fed's reading of the biggest abuses, here's what you want to see:

Reasonable notice of rate or fee increases. Consumer issuers are required to provide 45-day notice of important changes in terms and give the cardholder the option to cancel the card.

Increased rates apply to new charges only. Before the reform, unannounced rate increases—often as high as 25 percent in a month—applied to carried balances, not just new charges.

Restrictions on over-the-limit fees. Consumer issuers must notify borrowers if a transaction will exceed their limit.

Limits on when rates can go up on new cards. Rates and fees, except those in teaser deals, cannot change for 12 months from the date of issuance unless a consumer is more than 60 days in arrears.

Rules about billing dates. Consumers must receive their bills on the same day of each month and 21 days before due.

Stipulations about how payments are applied. Before reform, many issuers chose to apply payments first to the portion of the bill with the lowest interest rate. Now they have to do just the opposite.

Rules about what balances are subject to interest charges. The new law prohibits a "two-cycle average daily balance method" of calculating finance charges—expensive if you carry a card balance only occasionally. *—Kate Lister*

Kate Lister is a former banker, small-business investor and veteran entrepreneur. Her books and websites include *Finding Money: The Small Business Guide to Financing* and *Undress For Success: The Naked Truth About Making Money at Home.*