

Cautionary Advice About Small-Business Credit Cards

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A small-business credit card can be hugely helpful when you're launching a business or have one up and running. But new investigations into potentially aggressive and misleading sales practices of American Express' card for entrepreneurs made me think this is an apt time to share advice on how business owners — especially the self-employed with home businesses — should choose and use plastic.

"Small-business owners and even those with a side gig may benefit from a small-business credit card," says Gerri Detweiler, education director for [Nav](https://www.nav.com/) (<https://www.nav.com/>), which supplies free credit research and tools for small-business owners. "It can help them keep track of spending and make tax-time easier." And, Detweiler added, the cards often offer lucrative rewards.

Another bonus is that a small-business card can help an entrepreneur build business credit.

The American Express Small-Business Card Investigations

Before I tell you Detweiler's tips, let me explain what's happening with the American Express small-business cards.

Back in March 2020, The Wall Street Journal published a story called "AmEx Staff Misled Small-Business Owners to Boost Card Sign-Ups." It talked about questionable sales tactics to keep some of its small-business card holders after Costco ended an Amex-Costco co-branded card partnership. Over a dozen

current and former American Express employees told the Journal that AmEx salespeople pushed owners into signing up for the cards, sometimes misleading them about rewards and fees and issuing cards customers hadn't sought.

In January 2021, the Journal followed up, saying that inspectors generals of the U.S. Treasury Department, Federal Deposit Insurance Corp. and Federal Reserve were reviewing whether AmEx strong-armed business owners and whether small-business customers were harmed.

American Express has since acknowledged that it has received a grand jury subpoena and a civil investigative demand from the federal Consumer Financial Protection Bureau. It also is responding to a regulatory review led by the U.S. Office of the Comptroller of Currency and Department of Justice.

"We are cooperating with all of these inquiries (<https://d18rn0p25nwr6d.cloudfront.net/CIK-0000004962/0dc0103f-bd50-40bc-83fd-8a741f073c15.pdf>) and have continued to enhance our controls related to our sales practices," American Express said in its regulatory filing.

Consumer Protections Missing for Small Business Cards

If you're a small-business owner or hope to become one, it's important to understand that small-business credit cards are *not* covered by the Credit CARD Act of 2009. That law protects consumers from gotchas like anytime, any reason interest-rate increases and exorbitant penalty fees. Congress exempted business credit cards when drafting that law.

"Most [small-business card] issuers have voluntarily adopted at least some of the protections consumers get under that law," says Detweiler. "But almost all reserve



the right to raise the interest rate to a higher default rate if the cardholder is even one day late with a payment. They can't raise rates that quickly on consumer cards."

This may be a time when small-business owners need to be especially discerning about card offers they receive. The "credit card [issuers] really tightened up on marketing and approvals in March 2020, but they've been getting back into the game," Detweiler says.

She's right. Card issuers have been sending out eye-popping offers. I know; I've gotten some.

The Fine Print of Business Card Offers

For instance, I recently received a tempting promotional email with "benefits built for business owners." "Earn \$750 Bonus Cash Back AND UNLIMITED 1.5% CASH BACK ON EVERY PURCHASE" was the top line. And, the offer said, there'd be no annual fee and a 0% introductory APR (annual percentage rate) on purchases for the first 12 months.

I could also request a card for an employee at no additional cost, set their individual spending limits and "earn rewards faster."

Then I drilled down.

I'd only get the welcome bonus cash back after spending \$7,500 on purchases made with the card in the first three months after account opening. After 12 months, the 0% interest rate would switch to a variable rate of 13.24% to 19.24% depending on my creditworthiness and the prime rate.

And the rate could soar to 29.99%, the offer noted, "if you fail to make any minimum payment by the date and time due."

Such high variable rates are not uncommon these days. That might explain, in part, why [small-business customer satisfaction has declined sharply](https://www.jdpower.com/business/press-releases/2020-us-small-business-credit-card-satisfaction-study) (https://www.jdpower.com/business/press-releases/2020-us-small-business-credit-card-satisfaction-study) from 2019, according to the J.D. Power 2020 U.S. Small Business Credit Card Satisfaction Study.

To get a small-business credit card, you'll likely need a credit score in the mid-600s or higher. And a card issuer will evaluate your personal credit when deciding whether to grant you a business card.

3 Tips for Getting a Small-Business Card

That said, if you want a small-business card or might want to switch from one you have, how should you do it wisely? Here are Detweiler's three tips (her Nav.com site recommends a few cards for business owners; just bear in mind that those cards are often partners of Nav):

If you plan to let one or more employees use your small business card, look into which kinds of controls the issuer provides.

1. Understand your motivation.

If you anticipate you'll use your credit card as a line of credit, then the interest rate will be paramount. But if you are confident that you'll pay the balance in full to avoid interest, look for cards with rewards regardless of their interest rate.

Which rewards? Cash back is always popular with small business owners due to its flexibility; some cards are now offering 1.5% or 2% cash back on some purchases. But some cardholders want to load up on [travel rewards](https://www.nextavenue.org/6-money-saving-travel-secrets/) (https://www.nextavenue.org/6-money-saving-travel-secrets/) or may prefer lucrative sign-up bonuses in the form of travel points or rewards.

Some small-business cards, like the [Brex Card for Start-Ups](https://www.brex.com/product/corporate-credit-card/tech/) (https://www.brex.com/product/corporate-credit-card/tech/), are charge cards and not credit cards. That means the balance is due in full each bill cycle, so there's never any interest. These cards are typically for growing businesses with revenues and employees, Detweiler says. Brex, for instance, requires a \$50,000

bank balance to qualify, according to the personal finance site Nerdwallet.

These types of cards often provide expense management and cash flow tools. Other examples are [Divvy](https://getdivvy.com/) (https://getdivvy.com/), [Ramp](https://ramp.com/) (https://ramp.com/) and [Expensify](https://use.expensify.com/card) (https://use.expensify.com/card).

2. Grasp how the card could affect your credit.

Some small-business credit card issuers don't report usage to personal credit bureaus unless the card holder defaults; others do. Nav.com has a [useful table comparing policies](https://www.nav.com/blog/which-credit-cards-can-help-me-build-business-credit-25633/) (https://www.nav.com/blog/which-credit-cards-can-help-me-build-business-credit-25633/) on this.

Most small-business card issuers, however, will help you build business credit.

3. Think about who will use the card.

If you plan to let one or more employees use your small-business card, look into which kinds of controls the issuer provides. Can you limit spending to specific types of stores, for example? Can you set individual card limits? Those features may be helpful for minimizing fraud.