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THE MONEY GAME

## Built on Plastic

*Credit cards may be the only source of financing these days for many start-ups. But they may not be the firmest foundation.*

By ROB JOHNSON

ROANOKE, Va.—The gift boutique that Donna Bollinger opened here in the shadow of the Blue Ridge Mountains in November 2008 is her first entrepreneurial effort, already profitable—and financed on plastic.

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### The Journal Report

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"Credit cards made this possible," says Ms. Bollinger, who put about \$30,000 in start-up costs on credit cards.

For Ms. Bollinger to put all that money on plastic may seem risky, but she illustrates a financing trend running strong through many small businesses these days: With other sources of credit hard to come by in the wake of the financial crisis, more entrepreneurs are financing their new ventures with credit cards. According to a survey by the National Small Business Association in April of last year, 59% of those responding said they had used credit-card financing for their businesses in the past 12 months, up from 49% who said they had done so in a December 2008 poll.

To be sure, says association spokeswoman Molly Brogan, "there's a perception that credit has eased some" since last April, which might reduce credit-card use by entrepreneurs, but her group found in a December 2009 survey that 39% of those questioned said they still couldn't find "adequate financing"—up from 38% five months earlier.

So, credit cards still seem to be an important option for many small businesses. But basing a small business on credit-card debt is shakier than in the past because card limits and rates can be so volatile.

"It's so easy for a business owner to start planning on credit cards for cash flow," says Steve King, a partner in Emergent Research, a small-business-financing consulting firm in Lafayette, Calif. "Then one month, if you get overextended and miss a payment, the credit-card company jacks up the rate or cuts the limit that you were counting on to meet expenses next month—and things tend to spiral down quickly."

## No Interest



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Asia Kepka for The Wall Street Journal


Developer Steven Sack uses a slew of cards for cheap financing and says he never misses a payment

Yet some entrepreneurs insist that loading up credit cards with business expenses can be advantageous if you shop for good deals. "I have several cards from Home Depot and Lowe's and a limit that probably totals close to \$100,000 at zero percent interest," says Steven Sack, owner of Pinehurst Partners LLC, a real-estate-development firm in Lexington, Mass. He furnishes the carpenters and other workers who build or refurbish his condos with gift cards on which they can charge against his no-interest credit.

What's more, Mr. Sack says, he has a "drawerful of Visa and MasterCard," most of them selected from unsolicited offers in his mail. He keeps those offering the lowest interest for the longest periods.

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Mr. Sack, who says he makes sure to never miss a payment to keep his credit scores up, says his reliance on credit cards dates back to 1985, when he founded his company using about a dozen of them.

## Cautionary Words

Even in the current economic environment, credit-card companies are eager to issue new cards to small-business owners. "We are committed to them," says a spokeswoman for [American Express Co.](#) Still, earlier last year the company issued some cautionary card-use guidelines for entrepreneurs, such as advising them to avoid "bad debt, such as buying a new computer when yours is working well."

And lately some lenders have begun to balk at working with small-business clients who want to use credit-card borrowing to represent their share of funding in financing a start-up or expansion.

Bob McGee, president of Southwestern Business Financing Corp. in Phoenix, and a 39-year veteran of commercial lending, says, "The stories about people starting businesses with credit cards over the years are wonderful, but today the uncertainty of that source of credit is a problem for us."

Mr. McGee is currently working with an entrepreneur seeking financing for a new building. But the project recently stalled after Southwestern checked the loan applicant's financial statement. "We learned that the borrower used several credit cards to put up his 10% of the equity," Mr. McGee says.

He says that he'll require the would-be borrower to pay off the credit cards and provide cash for his share of the financing package.

How fast can credit-card cash flow evaporate? Tyler Wood, owner of Home Artisan Authority, a remodeling company in the Dallas area, says that American Express slashed his gold card limit to \$9,000 from \$22,000 in June 2009 on the same day his Chase Marriott Visa's maximum tumbled in half to \$7,000. The card companies decline to comment on specific accounts.

Mr. Wood, who says he hadn't been late with payments on either card, recalls getting a "courtesy call from Chase in May last year, kind of checking in and asking how the economy was affecting us." The Visa's limit fell despite his assurances, but Mr. Wood says he understands: "This economy can make you paranoid."

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