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How To Use Business Credit Cards with Extreme Caution

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Despite the credit crunch many businesses have experienced, credit card issuers are starting to extend credit to some. However, business owners should be careful of some potential risks in obtaining credit cards for their business.

Here are the list of some of the most important potential risks:

1. REPORTING YOUR BUSINESS DEBT ALONG YOUR PERSONAL DEBT

Some credit card issuers report what you owe on your business account alongside and in the same manner as your personal debt. This has the effect of giving the impression you have overextended your credit limit. As you know, how much you have used your credit has a direct and profound effect on the amount, rate and terms of credit you become eligible for. In fact, if a highly utilized business credit card appears on your individual credit report, a lender might close one of your credit cards and cut your credit card limit.

This practice could be legal as long as you gave your permission to credit card issuers to check your personal credit. Typically, many business credit card applicants grant such permission.

For instance, Let's say you have a personal debt of \$10,000 and were approved for a business credit card in the name of your business for \$20,000. You use \$15,000 of your business credit line. Credit card issuers are very likely to report your personal debt to credit bureaus as \$25,000 not \$10,000.

Note

However, some credit card issuers report periodically your business credit card status to commercial credit bureaus including D&B and Experian's Small Business Services. These credit card issuers say they only report your business credit card information to consumer credit bureaus such as Equifax, Experian and TransUnion only if the business account becomes delinquent.

2. PERSONAL LIABILITY

Although business credit cards carry more favorable rates and more generous credit lines, they include a personal liability waiver in their terms and conditions. In fact, by opening and using the account you agree that the issuer could come after your personal assets for the balance. This provision includes using the card by your authorized designates and employees of your business.

3. CARD ACT

As you might know, the consumer friendly CARD Act comes into effect on February 22, 2010. However, CARD Act *ONLY* applies to consumer credit cards and not business credit cards. Therefore, credit card issuers could hike your interest rates even if you already have a business credit card.

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