

## Focus On Initial Interest Rate May Be Adversely Affecting Small Business Financing Decisions

### Recent Survey Indicates Gaps in Entrepreneurs' Understanding of Credit Card Payments

**SCARSDALE, NY (March 20, 2007)** – According to the results of an early 2007 survey of small business owners, 61 percent entered this year with increased optimism regarding the health of the economy and their 2007 business outlook. Survey respondents anticipate increased business expenditures and plan to use credit cards to make these purchases. The survey results also indicate that half of small business owners are unaware of the potential costs of financing their businesses with credit cards. As a result, they are not using other products that could be more beneficial for their business.

This research report is the second in a series titled "Capital Access Network Small Business Barometer" and was commissioned by New York-based Capital Access Network, Inc. (CAN).

#### Survey Highlights

The survey was conducted nationally among small business operators who accept credit cards as a form of payment. It revealed compelling data about entrepreneurs' outlook on spending as well as a lack of understanding regarding minimum monthly credit card payments and cumulative long-term costs.

- The majority of business owners (61 percent) are more optimistic about the economy and the overall success of their businesses in 2007.
- As a result, 61 percent plan to increase their overall business expenditures this year, with 64 percent planning to begin using, or increase usage, of their credit cards for business expenditures in 2007.
- However, only 50 percent understood the actual long-term costs of a \$5,000 credit card charge if only minimum payments over a five-year period are made.

#### True Costs of Using Credit Cards

One objective of the CAN Small Business Barometer survey was to determine how the use of personal or business credit cards fits into the overall financing decisions of small and mid-sized businesses. The results indicate that 72 percent use their personal or business credit cards for purchases over \$5,000 two or more times a year. Survey respondents also said they thought they had a strong understanding of their current interest rates and knew they might be subject to increased rates with as little as one late payment (92 percent awareness). According to a recent report from the US Government Accountability Office, 35 percent of active US accounts were assessed late fees and 13 percent were assessed over-limit fees in 2005, causing some credit cards to charge penalties in excess of 30 percent. These costs can be significant. A 2004 bankruptcy case in Virginia showed that over a two year period, the debtor made only \$236 in purchases on the account while making \$3,058 in payments including finance charges, late charges, over-limit fees, bad check fees and phone payment fees.

Although business owners may know that these charges can occur, they may not understand how much they will actually pay. One half of the small business operators surveyed in today's study responded that they did not understand the actual long-term implications of a \$5,000 credit card charge while making only minimum payments over a five-year period.

According to data from the Federal Deposit Insurance Corporation (FDIC), the true cost of using a card for this type of purchase is extremely high, even though it may seem like a reasonable monthly minimum payment. An initial charge of \$5,000 with an 18 percent annual percentage rate can amount to an actual cost of more than \$18,000 and would take nearly 46 years to pay off if only the minimum monthly payment was made (assuming that the minimum is two percent of the outstanding balance). Of the respondents in today's small business survey, more than half indicated they are currently using a card with an interest rate ranging anywhere from 10 percent to as high as 20 percent, with the median rate falling at 14 percent, which is inline with the current average rate according to [Bankrate.com](http://Bankrate.com) which is just under 14 percent.

Starting Balance	Interest Rate (APR)	Monthly Payment	Years to Pay Off	Total Interest Paid	Total Cost
\$5000	18%	The minimum (\$100 the first month, then gradually declines)	46	\$13,926	\$18,926

Source: FDIC 2003

These results suggest that business owners may be foregoing financial options that are more cost effective in the longer term due to lack of information and awareness of alternatives.

### Growing Awareness of Alternative Sources of Cash

In addition to credit card usage and spending priorities, this survey asked respondents to identify preferred methods for acquiring the capital needed to maintain and grow their businesses. Topping the list was a traditional, collateral-based bank loan, (57 percent) followed by obtaining an advance on future sales (23 percent), also known as a Merchant Cash Advance. Other methods, including second mortgages, loans from friends and family and loans co-signed by friends and family, were the least appealing choices, accounting for only 20 percent of responses.

Merchant Cash Advances enable a merchant to employ their future credit card sales, an asset unrecognized by most traditional financial institutions, to raise working capital. The survey responses illustrate an increased market awareness for Merchant Cash Advances (30 percent) and 16 percent of those responders had, in fact, obtained a Merchant Cash Advance previously. However, the small business market is still not fully educated on alternative funding products, with many small businesses still unaware that they can sell their future credit card sales in exchange for working capital.

Generally, Merchant Cash Advance providers purchase fixed amounts of future credit card sales at a discount. Collection of the purchased credit card sales occurs automatically through the merchant's credit card processor. The Merchant Cash Advance provider receives a fixed, predetermined percentage from each credit card sale made to its customers. Since it is sent a set percentage and not a fixed dollar amount, the provider only gets paid when the business does, helping manage cash flow throughout the year. No fixed payments or application fees apply. Unlike other financing products, the owner knows upfront exactly what the total cost of the funding will be – it will never exceed the amount of the credit card receivables sold.

### Capital Access Network Small Business Barometer

The CAN Small Business Barometer is commissioned by [Capital Access Network](#) with the purpose of capturing and reporting data that will continue to support the growth and viability of small businesses across America.

### About AdvanceMe, Inc.

AdvanceMe, Inc. in Kennesaw, GA is the nation's leading provider of Merchant Cash Advances to small and mid-sized businesses. Since 1998, AdvanceMe has made more than 40,000 advances, providing almost 20,000 business owners in all 50 states with close to \$1 Billion dollars in working capital. Owners use AdvanceMe capital to renovate, purchase new equipment and supplies, fund advertising, manage unexpected expenses and seasonal downturns and free themselves from second mortgage liens and personal guarantees associated with loans. For more information about AdvanceMe's innovative working capital solution, call toll-free 1-866-700-6486 or visit [www.AdvanceMe.com](http://www.AdvanceMe.com).

### About Capital Access Network

[Capital Access Network, Inc.](#) (CAN) serves the small business market through its wholly owned subsidiaries. CAN is engaged in the business of generating and maintaining high yielding short-term assets by leveraging leading edge data, systems and technology that is married to a unique, highly effective collection methodology. Founded in 1998, CAN currently employs 300 people in five main locations in New York, Georgia, Massachusetts, Minnesota and Costa Rica.