



Help Your Clients Put Their Best Financial Foot Forward

By Brett Rice, CPA

The repercussions of the credit crunch are making it more difficult for qualified business borrowers to get the funding they need to grow and succeed. Today's market underscores the importance of establishing a relationship with a financial institution far in advance of applying for a loan. For small business owners this means anticipating future growth and understanding how to present the most favorable financial picture to a lender.



There are several ways you can help your clients improve their chances of success in obtaining a business loan — from preparing financial statements to educating clients about the factors banks use to help gauge a borrower's ability

to pay.

Most small business owners understand their own businesses but have given little thought to what a lender looks for in evaluating a loan application. For starters, review with your client the three key ratios used to compare assets and liabilities — the quick ratio, the debt-to-equity ratio, and the debt coverage ratio — and explain how each of these reflects on a borrower's status. If any of the ratios falls below a lender's average benchmarks (e.g., 1.0 or greater for the quick ratio), help your client identify other factors — such as a good payment history or a substantial non-cash asset as collateral — that would be seen as positive by the lender.

Remind your clients that even though the ratios seem straightforward, they are only as accurate as the numbers on which they are based. If any of the underlying values is mischaracterized according to the bank's definitions, the ratios can be incorrect, causing the lender to make erroneous decisions. For example, consider a borrower with receivables (current assets) of \$150,000 and an outstanding note (liability) of \$180,000. Dividing assets by liabilities yields a quick ratio of 0.8. But if only \$75,000 is due on the note this year (the current liability), the real ratio is a much more favorable 2.0.

Help your clients avoid mischaracterization and other costly errors by assisting in the preparation of the financial statement before it is submitted to the bank. The level of service will depend on the needs of the client and can range from a simple compilation of the financial statements to a thorough audit. Explain that having a third party vet this financial data adds credibility in the eyes of the lender.

You can also help clients identify disclosures that should be made on the financial statement, such as policies of revenue recognition in long-term contracts, significant future commitments, or even inventory costing methods. A first-time borrower might not be familiar with these standard disclosures and might therefore be concerned that revealing this information will adversely affect the loan application. Assure your clients that, on the contrary, making these disclosures — along with the fact that they were compiled by an independent third party — will add relevance and reliability to the financial statement.

Work with your clients to plan ahead. As their CPA, you should compile a history of financial statements to share with the lender, which will also help influence the bank in their favor. If they think they're going to need a loan to buy an expensive new piece of equipment next year or build a new warehouse the year after that, it's in their best interest to start laying the groundwork now by establishing a relationship with their banker.

One easy way to develop this relationship is for the client to open a line of credit. This allows you to walk your client through many of the steps necessary for applying for a term loan. The difference, as the old saying goes, is that they're asking for the money when they don't actually need it. If they use the line of credit responsibly, and pay it back on time, the bank will likely raise their credit limit — and give them a more favorable interest rate when they do come back for permanent financing.

Despite the challenges the credit market can present, investing the extra time and effort to help your clients prepare well in advance for obtaining a business loan adds credibility to your clients' applications and provides opportunities to develop positive relationships with your clients, which will more than pay for itself when the time comes to sign on the dotted line.



Boost Your Accounting Career

About the Author

Brett Rice, CPA, is a shareholder and senior account manager with Anderson ZurMuehlen & Co. in Seattle, Washington.

His practice includes addressing the financial and reporting requirements of small businesses and developing structured solutions that meet their needs. Brett can be reached at brice@azworld.com.

EmploymentCrossing is the largest collection of active jobs in the world.

We continuously monitor the hiring needs of more than 250,000 employers, including virtually every corporation and organization in the United States. We do not charge employers to post their jobs and we aggressively contact and investigate thousands of employers each day to learn of new positions. No one works harder than EmploymentCrossing.

Let EmploymentCrossing go to work for you.