

Things to consider when seeking financing

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As credit markets finally begin to loosen and while interest rates are still at historic lows, now might be a good time to re-evaluate the financing needs of your business. In doing so, you might choose to stay with an existing lender or entertain the thought of establishing a new relationship. In either case, there are a number of important things to keep in mind besides the usual focus on interest rates, borrowing limits and repayment terms. Consider these other noteworthy items:

- Personal guarantees
- Financial reporting requirements
- Interest rate swaps

Personal guarantees

While most business owners are aware of a bank's desire for them to provide a personal guarantee, they may not be aware of things to consider that might eliminate or limit the need to guarantee business debt now or in the future. In some cases, placing additional, but reasonable, restrictions on the borrower may reduce or potentially eliminate the guarantee requirement. While this might create a need for additional equity to be provided to the business, it may be a desirable option. This can be especially true in the case of multiple owners with different financial capabilities. Asking the lender for a proposal without personal guarantees and/or limited guarantees will help understand the options even if it is not pursued at this time.

Financial reporting

With the recent challenges in the economy, it is expected that financial institutions will continue to

require companies to provide periodic financial statements from their CPA firm. With this in mind it's important to talk with your bank about the "level of assurance" they require. Do they really need an audit of your financial statements or will reviewed financial statements satisfy their needs? The price difference between an audit and a review can be substantial.

Another important detail to keep in mind is the timing of the financial statement. Can the bank work with you by accepting your internal financial statements within a shorter timeframe after year-end and then have more time to submit the audited or reviewed financials? This additional time can often be important so that your internal accounting personnel can handle the maximum amount of the financial statement work possible, as well as save some time and cost with your CPA firm. With this in mind, it is recommended that you look for more time than the standard 90 days after year-end to deliver your financial statements to the bank.

Finally, for certain companies, it can be beneficial to provide your financial statements on a method of accounting other than GAAP (generally accepted accounting principles). The most common option is to use the income tax basis method of accounting instead of GAAP. With the ever-increasing complexity of the economy and financial system, professional standards to comply with issuance of GAAP financial statements have grown substantially. For some businesses, income tax

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basis can save substantial time and money with little or no difference in the reporting results. Since the income tax basis methodology must be applied for income tax reporting anyway, this type of financial statement can avoid some duplication of a CPA's work. This type of change must be agreed to and included in the terms of the loan documents. It is also very important to note that this methodology is not appropriate in all cases and should be evaluated carefully with your CPA firm before proceeding.

Interest rate swaps

Interest rate swaps have become more and more popular in recent years and, even with derivatives getting a black eye in the current financial crisis, it is doubtful that they will become any less common. Recently, several instances have occurred where companies have been strongly encouraged by their financial institution to have an interest rate swap, unfortunately with adverse financial results. Conversely, there is much speculation that interest rates will be on the increase in the near future and therefore now might be a good time to consider such a transaction.

Most importantly, gain a thorough understanding of all the terms of the agreement and the impact on the financial statement in order to properly evaluate what is best in the particular situation. Again, this should be discussed with your CPA firm prior to entering in to such an agreement.

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