

# The critical element

How businesses can obtain financing in a tough economy by using a CPA firm

If you've tried to obtain or increase bank financing lately for your business, and been turned down, you're not alone. The "word on the street" is that bankers' lending criteria continue to be stringent. So what can you do to improve your chances? Obtain the assistance of a CPA who knows how the process works.

"Through including a CPA firm in the relationship between your bank and business, you can increase your chances of success and reduce the frustrations of the application process," says Jeff Hipshman, partner, HMWC CPAs & Business Advisors in Tustin.

"Your CPA can also work with you throughout every phase of the process to help solve your company's needs and meet your objectives," says Curtis Campbell, a partner at HMWC CPAs & Business Advisors.

*Smart Business* spoke with Hipshman and Campbell to learn more about how business owners can benefit from the assistance of a CPA firm in securing bank financing, whether the economy is in a recession or going strong.

**What is the role of financial statement reporting?**

Accounting firms prepare financial statements for businesses, which are typically required by lenders and investors. Bankers analyze your company's 'capacity' to repay a loan from these financial statements. This is one of the criteria that bankers use in evaluating debt repayment ability (the others commonly referred to as character, capital, collateral and conditions).

Your balance sheet and income statement, when accurate, provide a testimony over the years as to your ability to manage the business. Cash flow can be evaluated from your financial statements so that the banker can analyze your debt repayment. Collateral is demonstrated on the balance sheet and, along with notes, UCC filings and other documents, will provide the banker with key information. Your company's equity is also an essential element that is critical for evaluation of debt repayment. It is important, therefore, to select a CPA firm that understands your business and can prepare financial statements meet-



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ing the highest quality standards.

**My company should ask for the highest amount possible, right?**

One of the easiest ways to let a banker know that you don't really understand the lending process is to ask for an unreasonably high loan amount. This happens all too often, for example, when a business owner will ask for a \$500,000 line of credit based on \$300,000 in assets and minimal profitability. A CPA can help you to evaluate your needs and ask for the appropriate amount based on a banker's perception of your company's debt capacity. Your CPA can also project the cash flow cycle that your company may experience under a variety of scenarios. You will then have a better idea of your needs for outside financing.

**What type of financing should we seek?**

Your CPA can help to determine whether your business needs an operating capital line of credit or a loan or lease for a fixed asset. Sometimes this isn't too clear to the business owner, who may only see that there isn't enough internal cash flow to satisfy needs. An accountant can also do various analyses to compare costs of different financing options and your ability to repay each in a timely manner.

**JEFF HIPSHMAN** and **CURTIS CAMPBELL** are partners at HMWC CPAs & Business Advisors ([www.hmwc CPA.com](http://www.hmwc CPA.com)) in Tustin. Contact them at (714) 505-9000 to discuss how your company or client could benefit from HMWC's services.

**Are there options beyond traditional commercial bankers?**

The typical business owner has a higher opinion of the company's ability to repay a loan than does a banker. Bankers have regulatory and internal lending policies that limit their ability to extend credit. For example, banks tend to frown upon a company that has not shown consistent profitability or is highly leveraged in assets to liabilities. They also have other financial ratio criteria that must be met, may stipulate certain collateral, and might even have internal policies regarding lending to specific industries.

As such, your business may not qualify for traditional bank financing. An accountant who is experienced with such matters can help steer you toward other types of financing. While such financing might be more expensive, it may also be more useful in meeting your cash flow or expansion requirements.

**Do we need a business plan?**

The banking business, from a lending perspective, is all about managing risk. They lend a significant amount of money for a relatively low return, so bankers need to be convinced that your company is a good credit risk. They need to know why you want the money, how you are going to use it and how you will repay it. Your business plan should help the banker to start putting together the pieces of this picture. An effective business plan portrays your company's objectives, management team, marketing strategy, operational structure and financial history and projections.

Accountants who have prepared business plans will know when one is needed and what should be in it. Count on your CPA to help you prepare the information needed to provide appropriate answers to a lender's questions. <<

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