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## NOVEMBER 2008

### Helping Clients Navigate Tough Times

A total of 11% of small business owners reported credit "harder to get" in September, according to a survey by the National Federation of Independent Business, even before October's rocky stock market ride began. In polls taken by the NFIB before and after September 15, small business owners' expectations of higher real sales dropped precipitously, as did their hopes for improvement in the economy. They were also less optimistic about the outlook for credit conditions or their chances of increasing their capital outlays. Six percent said they had trouble finding the financing they need, although 33% said they had been able to meet all their borrowing needs.

Even before the most recent stock market upheavals and banking crises, bankers were reporting a crackdown on lending. According to the Federal Reserve Board's latest quarterly Senior Loan Officer Opinion Survey on Bank Lending Practices, released back in July, about 65% of domestic banks, up from 50% in an April survey, said they had tightened their lending standards on commercial and industrial loans to small companies in the year's second quarter. "Significant majorities of domestic respondents indicated that they had tightened selected price terms on C&I loans to firms of all sizes," according to the Fed.

While some companies have seen their credit frozen or subject to stricter limits, according to a *U.S. News & World Report* article, "Many entrepreneurs are finding that it takes more hard work to get credit but that it is still out there if you try." In this challenging business climate, many small business owners will be turning to their CPAs for advice on how to position their companies to remain strong in an uncertain economy.

## Timely Questions to Ask

If you're not sure how clients are faring in the midst of a credit crisis and a weakening economy, now is a good time to check in with business owners to gauge where their companies stand and find out what advice they may need. A good resource for opening the dialogue about the credit situation is a client communication letter that can be found [here](#). It was prepared by PCPS to be sent to clients to give them an overview of issues to consider in the current economic and lending climate. In line with the points covered in that letter, here are a few of the kinds of questions that CPAs can ask clients to open a conversation about how to respond to economic uncertainties.

- ***Do you expect changes in sales and revenues?*** This is a good time to help clients project possible declines in sales and to review their ability to meet their budgets. If they are experiencing a drop in revenues or expect to do so in the near future, assess how this will affect the business and how long it might last. CPAs can also help clients consider cash flow needs for the short and long term and the adequacy of their cash reserves.
- ***Has the bank changed your credit terms? If not, is it likely to do so?*** As credit tightens, clients may be surprised to find that their credit lines are diminished or frozen. Remind them of the need to remain in compliance with the terms of their credit lines and to find out whether credit terms are likely to change in the near future.
- ***Is it possible to cut expenses?*** In response to disappearing credit, clients can scrutinize their own spending and reconsider the credit terms they offer their own customers. These steps can minimize their own financing needs.
- ***What's the status of your cash deposits and investments?*** While it's important not to engage in hasty liquidation of any investment positions, this is a good time for clients to review their deposit accounts to ensure that they are secure and to examine investments to determine if changes are needed in the midst of market fluctuations.
- ***What's the status of your insurance coverage?*** Again, it's a good idea for clients to double check the security of their insurance coverage and make any adjustments needed.

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## Reassurance in Uncertain Times

Clients who remain calm during rough economic times are in a better position to make the best decisions for their companies. Small business owners will welcome reassurance from their trusted business adviser that there are workable solutions to the problems they face. Using the PCPS client communication on the credit crisis — and the related questions in this Brief — CPAs can reach out to small business owners and help them navigate an uncertain economy.

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