



E. COHEN

AND COMPANY, CPAs

Building Profitable Ideas

Checklist for Businesses During the Credit Crisis

How Did We Get Here?

- Mortgage Bankers
 - Approved loans to people with little or no money down at adjustable rates.
 - Sold these mortgages to bigger mortgage lenders Fannie Mae and Freddie Mac.
- Wall Street
 - Packaged the Fannie Mae and Freddie Mac mortgages as collateralized loans with ratings of A – AAA for sale on the market mainly to pension funds.
- Insurance Companies
 - Provided insurance on the collateralized mortgages.

How Did We Get Here?

- Supply v. Demand
 - Over supply in the housing market and building industry caused a much needed “real estate adjustment”
- Economic Slow Down
 - Interest rates began to rise, including adjustable rate mortgages
 - Consumers could no longer afford their mortgage payments and began to default
 - Mortgage Banks and Insurance Companies could no longer fund the collateralized loans sold on the market and went under
 - Banks slowed down lending due to defaults

Where We Are Now

- Government to the Rescue
 - Bailout Bills for Wall Street & Banks
 - Biggest economic crisis of all time
- Time for Consumers and Businesses to Adjust
- Reminder of the Importance of Having a Sound Business Strategy
 - A clear vision of your goals with a plan of how to achieve those goals in both the short- and long-term
 - Tools to measure your performance and identify your strengths, weaknesses, problems and opportunities

ECC's Checklist for Businesses

1. Review Cash Position

- Is cash in line with short-term needs?
- How much risk can you tolerate?
- Have you been meeting your budgeted projections? If not, why? What can you do to meet projections or do you need to adjust the budget?
- How much of a drop in revenue can your business withstand and for how long?
- What are your cash flow needs for the next 90 to 120 days?
- Do you have sufficient cash reserves for the next 30 to 60 days?

ECC's Checklist for Businesses

2. Refocus On Your Balance Sheet

- How much credit are you extending to your customers? Review your largest and riskiest accounts.
- Determine whether credit constraints or economic slowdown will affect their ability to pay.
- Consider adjusting your pricing policies and engagements with retainers and progress billing.
- Keep an eye on your accounts receivable. Follow up on slow payments immediately. Keep receivables aging current at all times.

ECC's Checklist for Businesses

2. Refocus On Your Balance Sheet (cont'd)

- Check on the status of your credit terms. Ensure you are in compliance with their terms.
- Will your bank renew their commitments at similar amounts, rates & terms?
- Eliminate your reliance on credit by disciplining your spending.
- Manage accounts payable more closely. Consider forfeiting early pay discounts to preserve cash.
- Keep payables aging current at all times because it's an important tool for managing cash.

ECC's Checklist for Businesses

3. Manage Key Relationships

- Meet with lenders to discuss how the current economic crisis has affected your business. Discuss how you are managing the impact on your business. Upfront discussions with your lender in both good and bad times enhances their level of trust.
- Consider meeting with vendors and working out a schedule of partial payments if your credit lines are frozen or at their maximum limits to allow continued delivery of critical materials and supplies.
- Contact your good customers. Even casual discussions can lead to new business opportunities.
- Calm your employees' fears about how this crisis will affect the company, their jobs and their retirement or other benefit plans.

ECC's Checklist for Businesses

4. Analyze Your Expenses

- Determine which ones can be controlled.
- Can you reduce spending in any areas to put less burden on your cash flow needs? Communicate the need to tighten spending with staff.
- If you are a manufacturer, review inventory management and opportunities to reduce your on-hand inventory.
- If you are a service company, make sure you are billing contractual items and pass thru expenses such as third party services and travel expenses.
- Consider ways to pass your increased costs onto your customers.

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5. Take a Strategic Approach – Be Proactive!

- Look into alternative types of financing such as loans on life insurance policies, loans from key customers that rely on your business, loans from local development agencies or the U.S. Small Business Administration.
- Check the safety of your cash deposits. FDIC Insurance was temporarily raised to \$250,000 thru December 31, 2009. If you have more than \$250,000 in one bank, consider CDARs (Certificates of Deposit Account Registry – see handout) to spread the risk of short- to medium-term cash.

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5. Take a Strategic Approach – Be Proactive! (cont'd)

- Review all your insurance coverage, particularly from companies with weak balance sheets. Be careful not to surrender a policy, as securing new coverage might require underwriting that can affect your coverage.
- Don't engage in panic selling of your investments. Make sure that your portfolio is diversified and in line with your risk tolerance.
- Plan NOW to respond to future declines in revenues, before they actually occur. Re-think your business strategies and update projections.

ECC's Checklist for Businesses

6. Remain Focused on Your Advantages

- Review your product service lines to identify the most profitable items and determine how to leverage for future growth in profits.
- How is the current economic crisis affecting your competition? Can you capitalize on their situation?
- What is your competitive advantage?
- By remaining calm and being proactive in your business approach, you can turn this economic storm into an opportunity.

We understand the business challenges you face during these turbulent times. We have the expert advice on how to maintain your company's success.



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