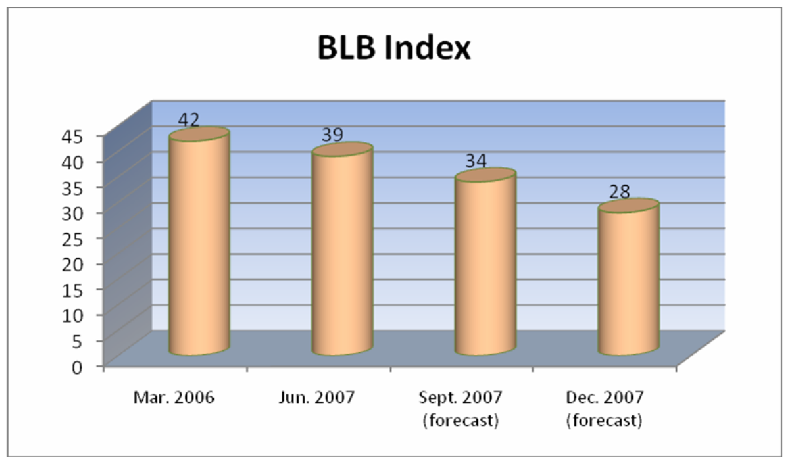
Bank Lending Barometer:

The Spigot is Tightening Further

Lending to small business continues to tighten as personal mortgage defaults rates continue to rise. Banks are upping their debt service coverage ratio (income/debt service payments) to an average of 1.3 from levels of 1.15 six months ago. What does personal mortgage defaults have to do with small business loans? In most cases the two are not related; however, senior credit executives in banks can get spooked by anything and tighten lending standards even though their exposure from business loans is minimal. It is like your neighbor got sick eating cucumbers and then you stop eating all the vegetables in your house including the canned ones.



Score	Lending	Description
76-100	Jackpot	Here's the Money! We'll do the paperwork later.
51-75	OK	Let's see what we can do.
26-50	Tight	I would lend you the money, but underwriting is killing most of my deals now.
0-25	Very Tight	I know you have 100% cash pledged for the loan, but we don't have the money.

QUESTIONS AND ANSWERS

Q: To make sure we do not over-spend we will establish a budget and this will solve our problem, is this correct?

A: Establishing a budget using a personal accounting program like Quicken is a good first step. It will enable you to track where the over spending is occurring. However, setting up a budget is only 25% of the battle to reign in spending. The other 75% of the battle comes from sheer will power in deciding not to spend. I see many people set up a budget that tracks the over spending and then they stop following the budget because they do not want to address the behavior that caused the spending.

The expenses that get out of control I see in many of my clients is money spent on entertainment, meals, clothes, household electronics. These expenses are for the most part impulse expenses. Thus, if you control the impulse you can control the over-spending.

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EDITORIAL

Intuit (QuickBooks) Company Support Crashes

QuickBooks (QB) users take caution: The Intuit Company, makers of the popular accounting program and some other related products, is going through some tough times, and product support has suffered as a result.

The company went on an acquisition binge a few years ago and acquired some other products. They integrated these products as their own, and the product and its support were very good. Intuit ventured into the traditional payroll processing industry (Paychex & ADP) with the acquisition of Complete Payroll. The product was very good, and they have a feature that would automatically download the payroll entries into QB. Paychex and ADP said they could do this download, but their process did not work very well.

Intuit decided in early 2007 that it would sell part of its Complete Payroll accounts to ADP. It is uncertain how the accounts were selected for sale and whether Complete Payroll was going to be phased out, leaving users in a quandary. Following the announcement of the sale, customer service crashed from good to poor. I am developing a plan to switch clients from Complete to other payroll services.

The communication from the company was horrible. Calls I made to the upper management were unanswered. I still cannot get information on plans or a time-line – if any – they have to phase out Complete Payroll. I suspected a sale in the fall of 2006 when management was very evasive. Also, the company acquired Master Builder, advanced software for contractors. Then they disposed of it three years later.

The service from the company was so bad that I would have rather dealt with a government agency. At least if I received poor service through the government I could call a politician, and then they would get me to the responsible party who has power.

As a result, I will not recommend any new products or services from Intuit. I will also provide a list later of questionable services or products that I suspect the company will shed from its offerings.

Despite the drama over the Complete Payroll program, the QuickBooks software, QuickBooks payroll and merchant services (credit cards) are excellent products and the support for them has been very good. ■

INSIDE:

TECHNOLOGY

Microsoft Office 2007: Are We Cornered?

This is not déjà vu. Last month I spoke against purchasing Microsoft Office 2007 (Excel, Word, etc.) The program is very difficult to use, and could take two weeks of training to use it. Who has this time to stop their business and learn this program?

Wait, it gets worse. Now I have found out that you have to purchase Office 2007 if you want Microsoft Office at all. Moreover, the Office 2003 version can no longer be purchased at retail stores.

If you want to keep up with the latest computing technology yet not deal with the hassle of Office 2007, you have another option. You can order a new computer without any Microsoft Office products, and then install Microsoft Office 2003 from your old computer on the new computer using the Vista operating system.

More bad news: If you save an Excel 2007 file and send it to somebody else who has Excel 2003, they cannot open the file.

Microsoft needs a better ‘help’ for Office 2007 interface than what they have now. I remember when Excel first came out – it was at a time when Lotus 1-2-3 ruled the spreadsheet world. In the Excel help menu was a screen where users could type in the Lotus commands, and then the program would detail the steps to complete the same action in Excel.

You can get a demo online for Office 2007 via http://office.microsoft.com, go to the “Today on Office Online” then select “Try 2007 for Free.” Also, there is training online in the same section – “Get Training” – 2007 Basics.

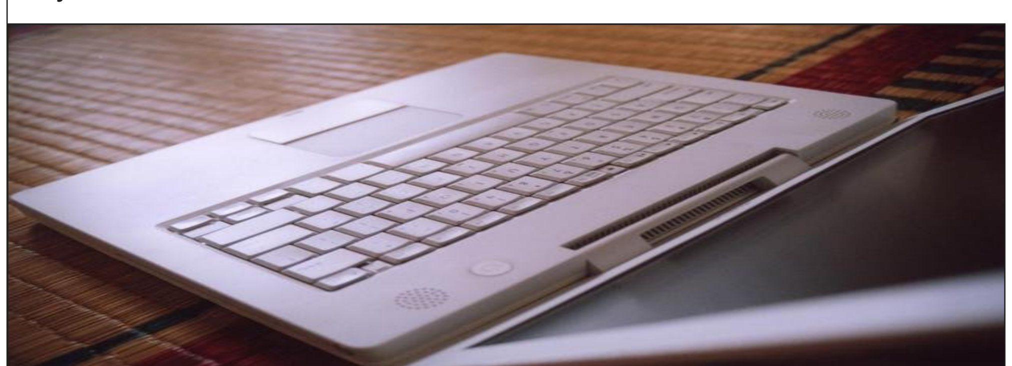
Fast Fact

Office 2007—No Way.

Vista—Be Careful.

The Vista operating system seems to be a good operating system, but be careful – some programs will not work with Vista. Before you make the switch, be sure to check whether your programs will or will not work with Vista so you are not left in a lurch. If you think it will cause more harm than good, you can still order new computers with XP operating system. Purchase only the XP Pro operating system.

Carefully consider how your choice of Office 2007 will not only affect how you operate inside your business, but also how others outside your business may or may not be able to read your Excel or Word files. ■



TAX TIPS

Reduce Your Tax Liability

You’ve worked hard to build a successful, profitable business. Success comes with other challenges. When your business is making big profits and you’re facing a huge tax liability, what can you do to reduce the tax liability? Here are some options:

- Retirement - Maximize the amount of money you put into a retirement plan and modify the plan to put away more dollars.
- Spouse - Put your husband or wife on the payroll and put all of his or her salary to retirement (401(k) s and simple IRA plans). A salary of $10,000 is reduced by $10,000 into a retirement plan; hence, not taxable to the person but the corporation gets a deduction for $10,000.
- Children on payroll - Put children on the payroll, as their tax rates are lower than yours. Pay them for work they actually do; however, do not get greedy with this.
- Parents on payroll- Put parents on the payroll. As with children, parents’ tax rates are lower than yours; pay them for work they actually do.
- Business club dues- A portion of these are deductible.
- Group term life insurance – The first $50,000 in benefits is tax free to employees; companies get 100% deduction.
- Travel costs – Travel costs, lodging, and meals can be deductible for travel to conferences and trade shows as long as there is a business purpose. Spouses’ travel costs can be deductible, as well.
- Disability insurance – Deductible by the company; however, benefits received later will be taxable to you.
- Business investment – Invest in another business that is expected to produce losses in the first few years.
- Sports events- Tickets to supporting events, seat licenses, skyboxes, etc. can be deductible.

You’ve worked hard for your money – these tips will help you keep as much of it as possible. ■

PERSONAL FINANCE PLANNING

Mutual Funds: Focus on Core Mission

When buying into a mutual find, investors have a choice to purchase mutual funds from different fund families. For example, Vanguard is a family that has many mutual funds under it.

Some mutual fund families started out as mutual funds as their primary business, and others started out as mutual funds as their secondary business. For example:

Mutual Funds as Primary Business	Mutual Funds as Secondary Business
* T. Rowe Price	* Merrill Lynch - Stock Brokers
* American Funds	* Morgan Stanley - Stock Brokers
* TIAA-CRFF	* Hartford - Insurance
* Fidelity	*BB&T - Banking
* Vanguard	

I researched these fund families to find out what families had the best rate of return and the lowest cost for domestic stocks. Listed below are my findings:

Fund Family	Return Score*	Avg. Cost (%) **
TIAA-CRFF	4.0	0.35
T. Rowe Price	3.8	0.79
American Funds	3.7	0.69
Vanguard	3.6	0.20
Fidelity	3.4	0.74
Smith Barney	3.0	0.83
Merrill Lynch	3.1	1.22
Morgan Stanley	2.8	1.10
BB&T	3.1	1.05
Hartford	2.7	1.07

**Morningstar ranking 1 to 5 score:*
- *2.5 and below: poor returns;*
- *2.5 to 3.5: average returns;*
- *3.5 and above: above average returns.*

***Expenses are a percentage of net assets and do not include sales commissions.*

Thus, the moral of the story is to seek out fund families where mutual funds are the primary business. Your savings will benefit from their focus. ■

CASH FLOW ENHANCEMENT

Use Unemployment to Pay Yourself

The slow down in the economy has affected a number of businesses and industries, especially contractors. Brace yourself, because the economy will probably be slow for awhile. It’s time to make plans for paying you-Mr. Business owner when the going gets tough.

Your business is running out of cash and you have not paid yourself and do not see when you can pay yourself, what can you do? You should file for unemployment benefits. You can do this by temporarily laying off yourself for up to 10 weeks, file for unemployment, and collect an average of $275 a week.

That sounds like great supplemental income; however, the caveat to doing this is that you cannot pay yourself any compensation during the time that you receive unemployment benefits. You can still work in your business – just not pay yourself.

Some owners are reluctant to do this, perhaps as a matter of pride. It’s important to remember that you have paid unemployment tax on yourself for so many years – you may as well take advantage of it.

Another option for yourself and other employees is “work share.” Employees receive reduced unemployment benefits based on their percentage reduction in hours and pay. The only downside to this is an increase in your unemployment rate because of the increased benefits; however, this is a good trade off. It will take about a year for your new rate to kick in. ■