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## **Unreasonable Loan Covenants? Review Key Performance Indicators**

**San Jose, Calif. – March 5, 2012** – "If you feel that your loan covenants are unreasonable, the problem may be that your bank does not understand what drives your business," says Carol Wagner, a principal at the Silicon Valley accounting firm of Abbott, Stringham & Lynch. Wagner advises, "Review your business' key performance indicators with your accountant or management consultant in relation to the loan covenants. If there is a disconnect between what the bank is expecting and your key performance indicators, go to the bank and request a review." Wagner says that loan covenants based on inappropriate key performance indicators can adversely affect a business' line of credit, constraining cash flows and reducing investments.

According to Wagner, key performance indicators vary among businesses and industries. "Work with an accountant or management consultant to determine which key performance indicators will help you truly understand your business, make better management decisions, and manage the expectations of your bank and stakeholders."

"For example, one of my clients, a closely held business, had a line of credit subject to five loan covenants. They were constantly charged with waiver fees as they were in violation of a loan covenant," said Wagner. "However, upon inspection, we realized that the covenant was based on a key performance indicator that was inappropriate for the client's industry. We provided the bank with the necessary support to re-negotiate the problematic covenant, enabling the client to avoid future waiver fees."

### **About Abbott, Stringham & Lynch (ASL)**

Abbott, Stringham & Lynch (ASL), founded in 1977, is one of the leading CPA firms in the Silicon Valley. ASL provides emerging and mid-market private companies and their executives with accounting and audit, tax, estate and wealth planning, and consulting services. ASL's clients include construction, technology, and real estate businesses among others. ASL is a member of PKF North America, a network of independent CPA firms.

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