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You May Have to Lend to Yourself If the Bank Won't

Have you faced a capital call at your firm recently? Are your partner distributions being reduced? Media reports indicate that a number of top law firms are asking their partners to increase their capital accounts and/or are reducing the partner distributions, all in an effort to raise more cash for the law firm. At least one such firm has "invited" income partners to make a capital contribution to the firm in exchange for equity.

The increased efforts of firms to raise capital from their partners indicates a new focus on reducing law firm debt and increasing liquidity in an era where banks are restricting their loan portfolios, even for "favored customers." With revenues and profits constricting, law firms have no choice but to review their debt structures.

Law firms do have credit lines, but credit line terms can fluctuate substantially, however the bank dictates. Banks often set formal credit line amounts, such as three times the monthly expenses excluding partner draws. The bank also usually prefers that the law firm borrower be out of debt for at least 30 to 90 days each year. The firm may be able to borrow and repay at will up to the amount of the credit



**Collecting
Your Fee:
Getting Paid from
Intake to Invoice**

By Edward Poll

(6x9", 143 pages + with CD of forms soft cover, ISBN: 1-59031-153-1, Published by American Bar Association, 2003)

The CD contains forms for intake, engagement letters, status report, budget, sample bills and collection letters, accounts receivable aging reports and more.

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line. However, the line of credit is reviewed regularly by the bank and extended, cut or terminated as circumstances warrant.

When the law firm cannot open the bank's loan window, or doesn't want to abide by the many restrictions and covenants that are attached to any bank loan, the firm will look to partners. And, for those partners who are themselves financially thin, they may have to be the ones asking the bank for help in order to satisfy the capital call. To get the personal loan needed to fulfill the capital call, the lawyer may have to mortgage his or her home, pledge other assets as additional collateral or even get guarantors.

To survive tough times such as we currently are experiencing, reduced debt and a reservoir of savings is essential to survival. The firm that borrows for operating expenses in the hope that collections and revenues will materialize to cover the loan may well find that hope to be illusory. The result for the firm and its individual partners can be a damaged credit rating, not to mention civil and potential criminal penalties. Seen in this light, a partnership requirement to contribute more to the firm may well be the lesser of evils.

Personal Commentary

At the end of June, I'll be speaking at two different Los Angeles-area legal events. On Wednesday, June 24, 2009, I'll be speaking at an event held by the Los Angeles County Bar Association. I'll be speaking on the topic of "Small Firm Success Strategies in a Troubled Economy" from 9 - 10 am, PT. And then on Thursday, June 25, 2009, I'll be speaking at the LegalTech West Coast 2009

What Readers Are Saying...

"Ed Poll has done it again. He's created a down-to-earth guide for lawyer to collect his or her unpaid bills. The book is full of practical advice such as, 'if you don't create a collection policy, your clients will

Incisive Media event at the Staples Center from 3:45 - 4:45 pm, PT. I'll be giving a talk entitled "Diagnosing Strengths & Weaknesses: Updating Financial and Billing Software to Analyzing Practice and Partner Profitability." Hope to see you at one or both events!

Our LawBiz® Forum is open and growing! Please join us in the conversation...and start your own, new thread. We'd love to have you join us.

Best wishes,

Ed Poll

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"The book offers lots of good advice on engagement letters, detailed bills, fee agreements and intake forms. Plus it's loaded with useful forms.

"If you read this book, you'll have a lot less trouble getting paid for your work."

-Larry Bodine, Web and Marketing Consultant

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