Vol. 10 Issue 1
October 2008
10th ANNIVERSARY
BOSTON WOMEN'S BUSINESS
Covering Massachusetts, New Hampshire and Rhode Island
THE PROFESSIONAL AND BUSINESS WOMAN'S JOURNAL • $4.00

FINANCE RESOURCE GUIDE

To restructure debt, build a stronger banking partnership

Text by LINDA A. SWERLING

Bankers and other types of lenders have a financial interest in having their clients' businesses remain strong and healthy. When businesses fail, lenders are faced with large write-offs, which negatively impact their own bottom line.

Banks are facing the same challenges as everyone else today. They:

• Have far less capital available to loan, so are much more conservative about granting loans,

• Require stronger credit history to qualify,

• May dictate more stringent loan terms,

• Want clients who want relationships – not low-cost transactions,

• Expect their clients to regularly communicate both good news as well as bad,

• Will continue to require personal guarantees with very few exceptions.

Because of this, they are often open to restructuring loans – especially if you have maintained the relationship and demonstrated you have done the needed work and planning.

Preparing for restructuring

Don't be too quick to think that your easiest path is just to change banks. One bank is unlikely to take on another bank's problem.

You should consider changing banks only if it's clear that your bank is too large to provide the attention you require or too small to handle your business needs.

Shopping for lower rates these days may also be counterproductive. Instead, spend the time strategizing and planning how to build a productive partnership with your bank.

To prepare for your restructuring, the first step is to create a three-year business plan that includes the following:

• Make conservative assumptions based on historical performance and future plans (cushioning the assumptions with higher expenses and lighter sales over a longer time frame);

• Include, at a minimum, staffing plans, balance sheet, income statement and cash flows in the financial model;

• Use historical performance for base assumptions and build in significant changes and their benefits, e.g., cost cutting, personnel changes and new sales and marketing strategies;

• Describe the management team, focusing on their strengths and how they help the business in the short and long term;

• Identify top customers and target markets and include them in the plan;

• Describe how you differentiate your company from the competition.

Once the plan is ready, contact the bank to set a face-to-face meeting to begin building the knowledge, trust and confidence that will allow the bank to consider restructuring the loan.

One of the meeting objectives might be to show the bank that although your company may have made mistakes, it not only reacted to create positive change, it also learned from them.

This should set the stage to moving forward to restructure your debt. If all goes well, the bank will restructure the debt, taking into account your company's performance to date, new plans and cash flow, making the loan payments affordable

Internal due diligence

Read your bank's loan documents carefully to understand your obligations. In addition, include your accountants, lawyers and CFO to ensure that you understand your commitments and don't miss important requirements:

• Meeting deadlines, e.g., providing reviewed or audited financials within 120 days following the end of your fiscal year;

• Annual pay off of your credit line.

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Credit lines are not loans. They usually must be at a zero balance for a certain period of time once every year. Plan to do that as soon as your cash flow projection indicates you'll have enough cash;

- Track your covenants as part of your monthly close activities. If you haven't met them, then you'd be in default and need to adjust immediately;
- Be prepared for more fees. Read the bank's notices;
- Plan for the possibility of field exams in addition to reviewed or audited financial statements;
- Invest in maintaining accurate and timely financial records throughout the year.

Ongoing banking relationship

You also need to solidify and build on the work you have done:

- Schedule regular meetings throughout the year to discuss progress, successes and obstacles as well as future plans. Once-a-year dog and pony shows won't work;
- Update your banker with important news in between scheduled meetings;
- Share financial statements and projections on a quarterly basis;
- Bank deposits count. They help build your bank's assets and demonstrate your business strength;
- Keep your personal financials up to date as it is likely you will need to provide them for new loans as well as renewals.

Banks often rely on their clients' accounting firms to help keep the banking partnership strong.

Be sure you are getting the maximum horsepower from your accounting firm.

They should file your taxes on time and not allow extensions to become the new deadlines.

They should return phone calls promptly and respond to your questions or need for information quickly.

If this is not happening, it may be time to explore a new relationship with a firm that will pay more attention to you.

It might be to your advantage to restructure your debt, but if you have a strong relationship, do the right kind of planning and keep your financial relationships strong, you can manage your debt in order to allow you to work toward growth and profitability.

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