Managing Your Bank Relationship: What to Do If You See Trouble Ahead
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In this challenging economic climate, many companies are experiencing difficulty meeting their loan obligations. Worse, some concerned lenders are calling loans that are in most respects performing. Is there anything a company can do to protect itself? In many cases, the answer is yes. Here are a few steps a company can take to head off disaster:

Understand your loan documents. Review your loan agreements and know your obligations and your rights. Make every effort to comply with the covenants (promises) contained in these documents. If your loan agreements require you to provide financial statements, budgets, tax returns, and the like, deliver these on time (if that's not possible, call your lender and explain why there will be a delay and estimate when you will be able to comply). These actions will demonstrate your good faith to your lender.

Promptly disclose potential problems. If you believe that you will be unable to make your next payment, contact your lender sooner rather than later. Although the conversation will no doubt be uncomfortable, it is better to ask for help than to skip the payment and wait for the bank to take action. Work with the bank to try to restructure the loan. Think about additional collateral you can offer the bank (unencumbered assets, a personal guaranty, etc.). Explain the steps you are taking to improve your business. Perhaps you can request an interest rate reduction or extended term to make monthly payments more manageable.

Understand your loan officer's position. Banks are concerned with the overall health of their loan portfolios. They answer to a higher power: the federal or state bank regulators (depending on their charter). They are required to report non-performing loans. Consequently, they seek to avoid categorizing loans as non-performing. This is why banks are often willing to restructure troubled loans so they can move them into the "performing" column. That said, you will still need to persuade your loan officer that a loan workout is appropriate, so you should be prepared to offer additional collateral or otherwise offer some assurance that you will be able to meet the restructured obligation.

Don't avoid your lender's phone calls. Refusing to take a bank officer's calls is a red flag that the company is in trouble and a surefire way to make him or her angry and less likely to consider any restructuring request.

<u>Continue to pay your trade debt</u>. If possible, continue to pay your suppliers to avoid having them place you on COD status, which would strain your cash position and your ability to conduct your business. But keep in mind that a secured lender may object to you paying your unsecured creditors if you are not also paying your secured obligations.

<u>Explore other financial resources</u>. If your company's financial health is still somewhat strong, other lenders may be willing to refinance your debt. SBA lending programs may be available, depending on your company's creditworthiness. The SBA has temporarily eliminated certain loan fees and expanded loan availability as part of the American Recovery and Revitalization Act of 2009. Businesses in Bucks County may also qualify for funds under its loan program.

<u>Sell assets not critical to your core business needs</u>. You may be able to raise funds by selling non-essential assets. Note, however, that many loan documents contain provisions that require the lender's consent to sales of assets outside of the ordinary course of business. Be certain to check your documents before making a sale.

<u>Consider injecting cash into the business</u>. Think about investing additional funds in the business, either in the form of equity or a shareholder loan. Check your loan documents before extending a shareholder loan, however, because many loan agreements prohibit the company from incurring additional indebtedness (regardless of who is lending the money).

Of course, every situation is different, and there is no "one size fits all" solution for financially distressed companies. Much will depend on the nature of the existing borrower-lender relationship (have there been prior defaults?, is the loan very new?, etc.), the collateral package (how valuable is the collateral?, are personal guaranties involved?), the bank involved (is the bank itself experiencing financial difficulties?), the borrower's business (is it a high risk industry such as real estate investment?), to name a few. Nevertheless, the suggestions listed above provide a starting point for evaluating your situation. The key is to be realistic about your relationship with your bank and creative about possible solutions.

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