Managing Financial Issues Before the Bank Comes Calling – Proactive Steps to Manage your Business Credit

Author : Darren Bieganek, QC

It is no secret that the economic downturn is affecting business across the province. Revenues and asset values are down and investment and lending practices have tightened up considerably. In times like this, it may be tempting to ignore financial issues and hope for better economic news. However, it is far better to be proactive in managing the financial aspects of your business, maintain open communication with your lender, and seek professional assistance early—even if it is just to identify potential problems.

Creditors' Rights 101
Most credit facilities are reviewable annually and, if they are with a bank, payable on demand. Contrary to what you might think, the right to demand can be, and often is, triggered by something other than failure to make a payment. In addition to repayment terms, your credit agreement will usually include positive and negative covenants; the things a business must maintain, do, or not do. These include:

- Financial covenants that must be maintained: debt service ratio, tangible net worth ratio, and debt to equity ratio.
- Reporting requirements—monthly operating figures and annual financial statements.
- Restrictions on capital expenditures and payments to shareholders and related entities.

So, first and foremost, maintain good communication with your lender; report on time and provide consistent information. It is a good idea to test your covenants before you submit the reports. If necessary, engage your accountant to assist you in the calculations.

Be Proactive and Put a Plan in Place

If issues arise, do not bury your head in the sand. Work with your professional advisors to develop a plan and provide it to your banker both verbally and in writing. Remember, the person you deal with at the bank is often not the ultimate decision maker. They usually have internal reporting obligations to someone else who will be the ultimate decision maker.

Lenders are willing to look at options that reduce or eliminate their risk. Banks, as a rule, do not like defaults, so approach the bank early and attempt to engage them in a discussion about covenant adjustments that will help your business avoid a default.

Consider other potential solutions. Have your hard assets valued. Are they bankable? How well secured is the lender? Take a look at the cash burn for the business. Is it sustainable in the short, near, or long term? What can be done to address it? Is downsizing an option? Can surplus assets be sold or re-tasked?

Special Debts or Asset Management

These are groups within the lending organization that are tasked with fixing credit issues from the lender's perspective. If you are advised that your loan is being transferred to this group, it generally means that the lender has deemed your risk significant enough that it must be managed more closely with a view to having it eliminated. If you have not already, now is the time to seek professional advice. It is usually this group that issues a demand for repayment. This group will still work with you, but the reporting and communication requirements will be more onerous.

The message to take away is this: be proactive in managing the financial aspects of your business. Maintain open and frank communication with your lender. And seek qualified professional advice early. Do not wait for issues to overwhelm you; put a plan in place now to protect your business for the future.

Darren Bieganek, QC