Renegotiation with Creditors Can Effectively Create New Business Cash Flow

By David B. Deutsch

In this economic environment, generating cash flow is a key to survival. Companies that are finding revenue numbers are relatively flat or lower than a year ago must do everything they can to retain cash so that bills and payroll can be paid.

One strategy increasingly being used by businesses is to renegotiate the existing terms of their loans, leases and other expenditures. In fact it is a common practice both locally and nationally. It can be effective and is an acceptable practice if done correctly.

In the past, it was rare that companies would even consider such a practice. However, eliminating additional costs and expenses may ensure a company's financial health during these challenging times.

Unfortunately, renegotiating the terms of a company loan may not always be possible with all banks. If a company is in the automotive-related field (i.e., supplier, manufacturer, etc.), it may have a more difficult time having its loan terms modified by its bank. In extreme cases, banks have even expressed their intent to terminate their lending relationship with an automotive-related company who never missed a loan payment.

A mere violation of a financial covenant by a company has provided the banks with the purpose and intent to terminate the lending relationship.

In theory every lease term is open to a renegotiation. As such the renewal process can be just as complex and time-consuming as negotiating the original lease. In addition to studying the economics of proposed modifications, business owners should detail their economic strengths and prospects, as well as the supply and demand factors of the markets in which their properties are located.

It is important to show that there is a strong probability that a business' revenue situation will improve in the short-term so that the landlord will feel confident that a lease will be eventually paid in full. In many ways, the situation is similar to when a business owner first gets a loan – documentation of your financial picture will help in the case of a renegotiation.

Moreover, banks are taking a closer look at a company's long-term viability and whether its cash flow problem is expected to be a short-term or long-term issue. Banks are obviously concerned about "toxic" loans in this environment, which makes a company's collateral, together with its ability to meet its financial covenants, a critical aspect when a company renegotiates a loan.

Shopping around for other loan options if a lender decides not to work with a company in renegotiating its terms is difficult, but not impossible in this environment. Generally, banks require financial data that foreshadows future cash flow increases.

A company that requires debt relief in the short term is not an unusual case given this economy. Accordingly, it is important that a plan be presented to the bank that debt relief will be less of an issue in the upcoming months and years. If a company meets the banks requirements, it may be willing to consider interest-only agreements or a short-term forbearance, essentially relieving a company from having to pay its loans for an agreed upon period.

When renegotiated terms are accepted, a company's or individual's (owner's) credit should not be adversely impacted provided they comply with the terms of the new agreement.

As with any business decision, there are potential pitfalls that await business owners who want to re-negotiate certain credit terms. Many creditors, especially banks, are looking for a personal guaranty before considering loans in this economic environment.

One crucial mistake of a business owner is having their spouse personally guaranty a loan. Spouses should **never** be part of a personal guaranty, since that would expose all of the couple's personal assets (including their home) in the event of a default. In today's world, there are many situations where defaults can be triggered on loans without the borrower ever missing a payment under its loan.

Renegotiating lease terms is another strategy which a company may implement to improve its cash flow. Landlords may be in a more agreeable position to negotiate with a company due to the high percentage of available commercial and industrial space available for lease in Southeastern Michigan.

Many companies have been able to renegotiate their current lease and/or extend their lease term in exchange for a smaller lease space in the landlord's building. Similar to the lending situation, a business owner (and spouse) must be aware of personally guaranteeing the lease payments.

Some of the keys to making this strategy work is to provide evidence to creditors that your business is fundamentally healthy and that the need for cash flow is a short-term concern. Failing companies are not likely to receive this consideration.

It is also important to remember that this is a negotiation. There are no set terms for how many months your terms should be renegotiated for or how much of a loan will be forgiven in the short-term. It is advisable to work with a law firm that specializes in such business negotiations so that terms that are acceptable to both sides can be developed.

Regardless business owners should be aware that negotiations are regularly being updated and such practices are more common than ever before. In summary, if a company is in need of additional cash, negotiating bank loans and lease terms are a great planning opportunity to be considered. For such companies, the goal is self-preservation, and trying to survive what is expected to be one of our country's toughest economic times.