Coronavirus alert hub

How to manage financing issues (1)

Assessing and managing the risk of failure to meet financial obligations

Access to liquidity

- For committed lines, eg revolving credit facilities (**RCFs**), assess available headroom and conditions to drawdown. Are there any existing defaults which cause a drawstop (see 'Risk of default')?
- Does drawing the RCF pose any other issues for the loan documentation, eg compliance with a springing leverage covenant or a clean down?
- Are other uncommitted sources of financing available, eg incremental facilities, new liquidity lines or (for private companies) shareholder funding?
- How are the lenders likely to react to a drawdown request or a request for a new facility?
- Are the directors subject to particular duties when considering drawing under an existing facility or putting in place new financing arrangements in difficult market conditions? Note that in some countries there is lender liability for extending financing to a company in distress.
- Have you considered ways to preserve cash and maximise liquidity, eg deferring capex spend?
- Is funding available under government initiatives?

Risk of default

- Have you checked timing of upcoming payment dates? Is there a risk of a payment default?
- For new loans and rollovers, can you select longer interest periods (six months if possible)?
- What does your MAC/MAE definition say? Is there a risk the lenders will call a MAC/MAE?
- Have you reviewed all repeating representations and general undertakings? Can these still be complied with, taking into account carve-outs and qualifications?
- For information undertakings, any issue delivering financial and other information on time, eg due to staff absences? Does the current situation require additional information to be disclosed?

Coronavirus alert hub

How to manage financing issues (2)

Assessing and managing the risk of failure to meet financial obligations

- Does the economic impact of the crisis for your business poses any risk of financial covenant breach at the next testing date (or future testing dates)? Check financial definitions and terms of any relief (eg equity cure).

- Have you reviewed events of default, and considered whether any have been, or could be, triggered? Remember you are obliged to notify the agent of any default.

- Bear in mind that a potential event of default is usually a drawstop for new loans and an actual event of default may be a drawstop for rollovers (in addition to giving the majority lenders the right to accelerate).

- Check if lenders can transfer freely without your consent where an event of default is continuing?

- For all of the above, consider whether you need to ask the syndicate for a waiver or amendment. Consider lender voting thresholds, 'snooze and lose' timing and availability of any 'yank the bank' rights.

Other issues

- The definition of 'business day' will commonly refer to banks being open for business in particular cities. Have banks closed in those cities?

- Have you checked contingency plans with the agent for continued operations, eg during staff absences?

- Consider logistics for signing documents, including notices and requests. Are signatories available? Can electronic signatures be used?