# Charting a Course Through the COVID-19 Debt Landscape

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The COVID-19 emergency has had an abrupt and chaotic impact on businesses of all sizes across regions and industries. Companies that have been model borrowers – making timely payments and comfortably complying with financial tests – are now confronted with looming defaults or the need to make extraordinary changes to sustain operations. As the dust settles from the initial impact of COVID-19, we discuss the steps borrowers can take to position themselves to collaborate with creditors in the coming months.

### Dust Off Your Loan Documents

When everything has been smooth sailing for years, a business can lose sight of the nuances in its loan documents. Before any situation reaches a boiling point, borrowers should revisit key provisions:

*Collateral and Guaranties:* Borrowers in this lending environment should have a complete picture of the security in play, both to assess risk to a particular set of assets and to ascertain where accommodations, such as additional guaranties or new collateral, might be offered to a nervous creditor. If a path forward entails a disposition, the business must be clear as to which of its assets are encumbered.

*Reporting and Financial Testing:* Tax deadlines have been extended as businesses assess the implications of COVID-19 legislation. Borrowers should be proactive in approaching their lenders about extensions on reporting before deadlines are missed, keeping in mind that defaults resulting from a failure to submit timely financial reports often carry minimal or no grace period. Similarly, borrowers should run projections to obtain a sense of where they stand with respect to their financial covenants. Lenders will want to understand whether any noncompliance will be a blip or a long-term issue.

*Consents:* Critically, businesses must be aware of the consent requirements under credit facilities with multiple lenders. A potential solution can quickly fall flat if a borrower needs to track down 100% lender consent versus a simple majority.

*Covenants:* Borrowers should review all of their covenants in light of their proposed actions. For instance, do the loan documents permit the sale of an unprofitable subsidiary, and are there restrictions on the sale proceeds? Compliance with certain covenants may invite advice from a specialist (such as changes to pension plans), or require evidence of consent from a regulatory agency – the earlier the borrower becomes aware of these needs, the better chance of avoiding critical delays.

### Steer the Ship

By digging into the analysis above with its advisors, a borrower can steer the conversation with its lenders towards a solution that is a good fit. For a one-time or short-term issue, a waiver or consent should suffice. If the company necessitates permanent adjustments, then an amendment may be more appropriate. Finally, if defaults seem inevitable, a forbearance agreement or other workout document might be on the table. Taking stock of its current deal will help a distressed borrower set milestones that can be fulfilled until long-term solutions take shape.

### Refinancing

Finally, a volatile time in the market may present an opportunity for refinancing on better terms. Borrowers should consider cost savings over the course of long-term products given current interest rates. If a borrower has undergone significant resizing during the crisis, refinancing will ensure a good fit in terms of both loan size and covenant flexibility.

Coming to the negotiating table in a panic can lead to poor results or a solution that does not fit the problem. A proactive approach will allow borrowers to collaborate with lenders on a well-informed strategy, which their creditors will appreciate in light of months of COVID-19-driven fire drills.

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