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The Recession – Keep an Eye on Your Lender!

With lenders trying every device to maximise their income, it is worth thinking about your banking facilities and what the future might hold.

Existing Loans and Overdrafts

The renegotiation of loans and overdrafts has been getting more difficult for some time, with lenders seeking increased margins, additional security and reductions in their exposure. One common gambit is to propose that the interest on a loan or overdraft facility should be based on a margin over LIBOR (the London Inter-Bank Offered Rate), rather than bank base rate. LIBOR is quoted for overnight rates, 3 month rates and 12 month rates. All of these rates have one thing in common: they are traditionally well above base rate, a fact that lenders may fail to highlight.

Future Loans and Overdrafts

It is not uncommon for a verbal agreement regarding the ability to draw down additional funds to be countermanded, so it is unwise to rely on anything which is not formally contracted in writing. In addition, if the lender becomes insolvent, all bets could be off regarding extensions of loans or facilities.

Other Facilities

The same logic applies to revolving facilities, such as stocking loans and factoring arrangements. The big downside here is that the reduction or withdrawal of funding may be sudden, leaving the business little time to make alternative arrangements – an outcome which may be catastrophic. It makes sense to review the terms of any revolving finance as a matter of urgency and to consider the possibility that access to it may be cut.

As a general rule, it is also now more risky to breach a banking covenant, as this may provide the lender with an excuse to review your agreement with it, to your disadvantage.

Contact us for assistance in all matters to do with the negotiation of funding and finance contracts.