



<http://www.crainscleveland.com/article/20100412/SUB1/304129984/1006&Profile=1006>

Monday April 12, 2010

Lenders more amenable to altering manufacturer loans

Banks don't want to be stuck with 'illiquid' assets

By DAN SHINGLER

There's never a good time to default on your bank loan, but for many manufacturers now might be a better time than most when it comes to convincing a lender to renegotiate terms on loans teetering on default.

That's because the assets a bank would seize in a foreclosure — namely a manufacturer's plant and equipment — aren't easily sold in today's depressed market. So, experts say, faced with the prospect of either renegotiating a loan or taking ownership of assets destined to be sold at a loss, many banks are more willing to work with borrowers than they might be in better economic times.

“The logic is obvious ... you're dealing with a bank that doesn't want to own the property,” said Jean Robertson, chair of the business restructuring and bankruptcy practice at Cleveland's Calfee Halter & Griswold law firm.

“For them, it's the lesser of two evils to negotiate,” said Ms. Robertson, who noted that most manufacturing assets are “essentially illiquid.”

Ken Latz, a turnaround consultant with Michigan-based Conway MacKenzie Inc., agrees. Mr. Latz came to Cleveland at the end of last year to establish a local

presence for his firm, which has about 70 other professionals working on turnaround situations, mostly at automotive-related companies.

Mr. Latz often is brought in by a lender trying to make the most of a troubled loan in order to provide help to a manufacturer struggling to make payments. A turnaround of the bank's client could mean that the client either becomes profitable with new terms on its loan or is acquired. The last outcome the bank wants to see, Mr. Latz said, is a repossession and subsequent sale of the client company's assets at a loss in today's environment.

Many times, Mr. Latz said, he is hired by a company because its lender has stipulated that he or some other turnaround expert be brought in, both to help the company's management and to keep the bank abreast of the company's ongoing situation. Banks are trying to be flexible, but also want to watch the situation closely.

“They're not foreclosing on companies as much as you might think, given the perceived distress” of the economy and financial markets, Mr. Latz said. “They're looking at the liquidation recoveries in this market and seeing how bad they are.”

The time is right

Now, early in the year, is a time when many banks are being hit with requests to renegotiate — or when they find out the true condition of a troubled borrower. That's because companies operating on a calendar year have 90 days to turn in year-end financial statements to their lenders, said William Beaufait, a shareholder at the Cleveland accounting firm Maloney + Novotny who specializes in working with manufacturing firms.

“Many companies are working with their banks to restructure their loans, which would include changing loan amortizations, discounting, changing or adding collateral and/or guarantees,” Mr. Beaufait said in e-mail correspondence on the issue.

“Waivers of loan covenant violations are at an all-time high,” he added, because banks don't want to take over businesses they don't know how to run, nor do they want to try to sell them in a market where there is no demand and little financing to buy them.

But it's not all good news for distressed borrowers. While banks don't want to take on assets they can't sell, they also don't want to make more loans upon which they won't collect — and that includes not only loans to new customers, but existing lines of credit with the customers they already have, Mr. Latz said.

“They'll say, "Let's reduce our future exposure by cutting off the debt,"” he said.

That response puts many borrowers in a bind, Mr. Latz said, because they often rely on lines of credit to buy inventory, or even to make payroll. But banks, already saddled with bad loans, do not want to throw good money after bad by investing in a company that can only make payroll by borrowing more money, say those working with both borrowers and lenders alike.

Representatives of Cleveland's two largest lenders, KeyBank and PNC Bank, both declined to discuss the matter but said they treat each borrower as a separate case.

Keep it quiet

Some who work on behalf of manufacturers said they see the phenomenon as well, including Daniel Berry, CEO of the Cleveland manufacturing advocacy group, Magnet. It's no surprise to him, though, that banks aren't advertising their leniency.

“After talking with some bankers who are active in lending to manufacturers, it does appear that some banks are exercising a bit of flexibility in how they are dealing with their current troubled loans,” Mr. Berry said in an e-mail discussion. “However,” he added, “this is not something that is going to be widely advertised.” Mr. Berry also echoed the banks' view that each loan is considered individually.

“In the event the quality of a loan to a manufacturer begins to deteriorate, a specific workout plan is developed and an analysis of collateral would be conducted as part of the process,” Mr. Berry wrote. “In the case of manufacturing equipment, an outside appraisal would typically be ordered based on an "orderly liquidation' value.”

From that point on, Mr. Berry and others say, banks are working to minimize their losses on each loan. That still may mean a foreclosure and sale of assets — but the attractiveness of that option is minimized when sale prices for those assets are low.