

SHARPEN YOUR BUSINESS LOAN NEGOTIATION SKILLS – COURSE CHEAT SHEET

Note a stand alone, best used after taking the course, **Sharpen Your Business Loan Negotiating Skills**, which contains the full explanations. The course was created and taught by Stephen Priddle, www.practicalpd.com

General

Use good business logic in negotiations and negotiate wording
Figure out hills to die on
Small borrowers, bank will want to stick closer to template wording
Come up with a range of options
Protect borrower & shareholders
Remember Collateral & CashFlow, the two Cs
Hold fees and rates for one year, not subject to change all the time
Review engagement or less only, consider special engagement on procedures on...
There should be major and minor events of Default with less implications for the latter
Fight against minor, unreasonable events of default
Use family investments leverage if applicable
Meet their credit people if you can
Consider non-bank financing
Committed facilities are better
Need provisions for getting out of default
Don't want default if default on any minor payment
Loans term matching useful lives of assets
Negotiate strong after good financial years
Use federal Small Business Loan program of EDC support if applicable
Avoid this clause: *"if, in the sole opinion of the Bank, a major undesirable development in the financial condition, operation or ownership of the Borrower"*
Line revolving should be to the nearest \$, not \$10K etc, to reduce interest

Pass-through legal costs

Ask for estimate
Get them capped
Veto rights on firm used
Use your lawyer
See actual bills

Veto rights on dividends

Debt to equity, controls dividends, you should not have veto rights
Notice will be provided only
Bank approval above a certain amount
Total shareholder remuneration and dividend cap
Such approval not to be unreasonably withheld

Interest rates

Interest should not float for long-term borrowing
Can hedge floating with a swap
Tier based on amount borrowed
Lower rate if X happens
Use swap if floating

Covenants

Stress-test before accepting
Less frequent testing
Exclude bank debt and soft liabilities from current ratio covenant
Bench-mark 1.4 current ratio, 2 for debt/equity
Net worth, debt/equity, seek more inclusions in equity
Convert some debt to equity
Exclude postponed shareholder amounts
Get breach cure clauses, borrow can cure breach within X days
Avoid income statement covenants or ensure they are checked on a rolling 12 month basis so bad months or quarters don't result in violation

Personal guarantees

Value them by asking for removal
Reduce or soften
Time them out
\$ limit
Avoid joint & several
Principal residence exemption
Exclusion of property owned jointly with spouse
Add new collateral
Drop if/after X, eg equity in business
Comfort letter from parent co substitute
Covenant trade-off

Margining A/R & inventory for a line

Margin A/R of all kinds, inventory and bond
Ensure understand foreign A/R treatment
Consider credit insurance to get higher %
Get exclusions based on age versus payment term, not date issued

Less than 10% overdue, still have the right to margin all
Margin blue chip clients higher, or with Moody type credit rating
Will they margin at higher than cost, especially for high gross profit inventory