

Ireland's General Counsel Forum 2010

Refinancing

December 2010

A&L Goodbody



REFINANCING – IN THE CORPORATE BANKING MARKET

SPEED READ: KEY POINTS

1. Key areas of focus in the current market – “Back to Basics” – maintain existing and develop new relationships; focus on business planning and financial projections; and ability to raise new equity
2. Why? – need to access cost-effective diversified and flexible funding arrangements to meet business needs in an evolving financial environment
3. Consider all options – secured lending, bond issuance, the emerging hybrid loan / bond issuance structure

Contact details:

Catherine Duffy	Direct line: 01-649 2244	email: cduffy@algoodbody.com
Seamus O’Croinin	Direct line: 01-649 2255	email: socroinin@algoodbody.com
Ciaran Rogers	Direct line: 01-649 2204	email: crogers@algoodbody.com
Adrian Burke	Direct line: 01-649 2240	email: acburke@algoodbody.com
Barbara Cotter	Direct line: 01-649 2207	email: bcotter@algoodbody.com
Peter Murray	Direct line: 01-649 2606	email: pmurray@algoodbody.com
Maireadh Dale	Direct line: 01-649 2629	email: mdale@algoodbody.com
Peter Walker (London)	Direct line: +44 207 382 0820	email: pwalker@algoodbody.com

1. Maintaining existing and building new relationships

As the banking market contracts and with potential limitations on the nature of funding products available for customers, it is important for borrowers to not only maintain their key banking relationships but to develop new long-term business relationships with new entrants to the market to ensure that the business can access the correct diversity of funding arrangements best suited to its requirements.

Relationships formed and developed outside the context of an immediate funding requirement will facilitate borrowers access to the right funding with the right lenders at the right price when the funding need does arise.

In 2009 we saw a number of top corporate credits seeking “forward start” arrangements to meet their 2011/2012 refinancing needs. These have proven to be costly and not to have provided the certainty initially sought.

2. Consider all options

It is essential to consider the immediate, medium term and long term financing needs of the business and to secure funding that meets those needs in a cost-efficient and flexible way.

Increasingly, we are seeing the emergence of hybrid loans/bond structures to create the blend of pricing and funding term needed by businesses to meet their business needs. This of itself has thrown up some interesting and complex legal and documentation issues. As the traditional senior lender priority in the security and control over enforcement gives way to security sharing and ceding partial control over security triggers, some interesting contractual arrangements have emerged.

3. Strength of business case and financial projections

A strong business case with clear and, as far as possible, accurate, supportable financial projections for the short, medium and long-term and the ability to bring in new equity to match funding requirements are and will continue to be key in negotiating favourable and flexible terms in a refinancing. We have watched the tension develop between banks and their borrowers as banks try to pull five year facilities back to three years against the borrower needing the longer term certainty. Financial covenants have become tighter with less “wriggle room” for the borrower and fewer cure rights. A strong business case and good financial projections will enable a borrower to negotiate greater flexibility into the terms and pricing of its refinancing and to control the level of oversight into its business by the financiers. From the financiers perspective, a customers strong business case and financial projections enable it to price appropriately and competitively and to tailor its facilities to meet the clients’ business needs.