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Financing Alternatives in the Turbulent Market
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A turnaround is usually defined as a sharp, positive reversal in the performance of a company; but the current market is anything but usual. While economic cycles are anticipated by experienced business executives and investors, the magnitude of the current credit crunch and cascading impact throughout the economy is most extraordinary and ongoing.

With nonaccruals and delinquencies reaching the highest levels in four years (Risk Management Association, May 9, 2008), many credit facilities are being renegotiated with tighter structures, increased pricing, and in many cases, different lenders. While these deals may not meet the traditional definition of turnaround financing, they may be able to seek the necessary capital from an experienced asset-based lender.

Turnaround financing traditionally suits companies that have found themselves in the midst of tough times, have identified areas to improve their financial performance, and have implemented a profit improvement program. Every day, covenants are being breached by companies whose performance is reflective of today's economic environment. To make matters worse, few banks or other traditional lenders want to take on the risk associated with turnaround loans because of the subprime mortgage fallout.

Many deals landing on the desks at asset-based lenders today could be labeled as "broken deals." Whether the prior lender is looking to exit the relationship or the borrower is seeking funding sources for other reasons, lenders with liquidity are still willing to underwrite asset-based deals for those companies that meet certain parameters. The terms are very much like those designated in "turnaround financing." The only difference may be the absence of a specialized team of turnaround consultants.

Asset-based lenders can expect this current wave to continue as businesses seek to renegotiate the terms of their loans or find new lenders. Each of these deals will most likely have some terms or conditions that will look and feel like turnaround financing. Whatever the label, business executives will be tightening the belt a little more and looking for those cost efficiencies to enable their business to emerge safely from this tight credit market.

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