

# Navigating the Choppy Waters of Covenant Violations



# Background

Interaction with your lenders, whether they be banks and/or bondholders, can be intimidating even when things are going well. When your organization is facing operational, occupancy or financial challenges, these conversations take on even greater significance and can become more contentious.

Particularly in situations where you have violated debt covenants or are seeking modifications to the terms of your debt, being adequately prepared with the appropriate knowledge, resources and information can be the difference between a positive and negative outcome.

Sawgrass Partners has advised numerous organizations in responding to debt covenant violations and renegotiating debt terms with lenders. Provided on the following page is a “Top Ten List” of key things we’ve learned from our experience that can hopefully help you successfully navigate your way through these challenging situations.

While we hope this list is informative, it just scratches the surface of the complexities of dealing with lenders during difficult times. We’d welcome the opportunity to share more of our knowledge and help you achieve the best possible result. Please contact Mark Streicher at (773) 525-7347 or [mstreicher@sawgrasspartners.com](mailto:mstreicher@sawgrasspartners.com) to discuss how we can assist you.

# Covenant Violation Top Ten List

1. Despite how lenders may push you, you're still in charge – understand your rights and engage counsel and other advisors as appropriate
2. Resist, if at all possible, the requirement to bring in a Chief Restructuring Officer
3. Understand that letter of credit banks and fixed-rate bondholders may have very different objectives and make sure you deal with each accordingly
4. Ensure your board is fully aware of and engaged in the situation, and make sure your lenders know that
5. Make sure you have adequate analysis and financial projections supporting the impact of the consultant's recommendations, as well as any covenant revisions or changes in business terms you are requesting
6. Develop a Management's Response/Action Plan for the consultant's recommendations
7. Embrace the consultant's recommendations, but determine which are optional and which are mandatory
8. Make sure the consultant hired meets the lenders' approval and has the requisite experience and expertise to advise on your particular challenges
9. Get out ahead of potential violations and begin corrective action before the violation occurs, if possible
10. Communicate, communicate, communicate