

10 Considerations to Secure Capital and Gain Relief in Light of COVID-19

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While the pandemic has slowed economic activity for the near term, there are ways you can improve your organization's financial position and potentially access loan capital. As we shared in a recent [blog](#), the Small Business Administration (SBA) is making [Disaster Loans available](#). In preparation for a credit application, it is a good time to take stock of your organization's financial position, capital structure and cash flow. Consider these action steps to preserve your capital and access new sources of funds.

1. **Prepare a current set of financial statements.** This will reflect your organization's financial position.
2. **Create a detailed schedule of your liabilities and other obligations.** List on-balance sheet and off-balance sheet obligations. Be sure to include your legal and regulatory commitments and obligations and anything that could have a monetary consequence.
3. **Rank your obligations.** Give the highest priority to those obligations that the counterparties require you to pay on a set schedule. For others you may have some flexibility. Some obligations may be contingent on an event happening. Estimate the likelihood of occurrence and the potential dollar amount you'll have to pay. You might be able to place obligations that are due a few years from now toward the bottom of the list; this is called "structural subordination."
4. **Review your business processes and operations.** Take this opportunity to reduce extraneous costs and expenses. Sell excess inventory and idled assets. This will free-up working capital.
5. **Review your loan agreements and, in particular, loan and other financial covenants and restrictions on your business.** Make a list of the obligations and assign a dollar value if the dollar amount is not specifically stated.
6. **Calculate the financial ratios based on the new financial statements.** Where do you stand? Will you be able to meet your obligations?
7. **Review your customers' credit profiles.** Make an assessment of the possible negative impact of the coronavirus on their ability to pay your invoices. The "Domino Effect" applies. When a problem negatively impacts your customers, this could strain their cash flow which, in turn, could reduce the likelihood they will pay your invoices and/or delay when they will pay.
8. **Update your business and cash flow forecast.** Revise your financial projections, as applicable, and recalculate those financial ratios. Create a downside case, in the event the economic slowdown caused by the coronavirus impairs your business' cash flow. Keep your expenses constant. At the same time, reduce your revenue and cash collections. Create a number of scenarios, for example reduce revenues by 10%, 15% and 20%.
9. **Consider renegotiating your debt financing agreements as necessary.** In an evolving world where many businesses may face a cash crunch and may trigger a default in their debt agreements, it's typically positive to be proactive and work with your lenders and other financing parties. A restructuring could help you avoid going into default.
10. **Consult the experts.** Meet with your advisors, credit providers and investors to manage your financial obligations and commitments.

Contact Us

PKF O'Connor Davies can help you prepare your company and the documents necessary to obtain loan financing. We can also help you restructure your loans and business. For more information, please contact either of the following:

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For additional information on Disaster Loans, contact the SBA disaster assistance customer service center. Call 1-800-659-2955 or e-mail mdisastercustomerservice@sba.gov Or, visit SBA.gov/disaster.

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