Is now the worst time to refinance for the last five years, or the best time to refinance for the next five years?

How is the loan market reacting to the economic environment, and how should borrowers respond?

Refinancing timing

"Go now or go later" is currently the big debate for borrowers. Is it better to refinance now (perhaps earlier than necessary) or to wait until next year (but what if finance is less available or terms tighten further)? Some lenders are pulling back from signing new facilities this year, but others remain open for business. For some borrowers it may be better to extend existing facilities for a year, rather than undertake a full refinancing. We can help you plan your refinancing strategy.

Consider different forms of finance

If EBITDA is under pressure in the current economic climate, and traditional bank debt is unavailable or expensive, then other types of lending may work better. Consider receivables financing, borrowing base facilities or other types of asset-based lending.

Tenor

Nearing maturity without a clear refinancing plan can unnerve stakeholders and raise concerns for auditors, who are taking an increasingly conservative approach to going concern sign-off. Many companies are now choosing to lock in longer tenors on refinancings, considering the higher price worth paying for longer-term certainty. For term debt, private placement lenders are willing to consider longer maturities, although this comes at the cost of flexibility due to make-whole payments for early repayment.

Successful credit applications

All transactions are taking longer to get through credit these days, and committees (understandably) want more detailed analysis of underlying business plans, sustainability, and the impact of rising interest rates, energy prices and wages bills. Borrowers should have responses ready up front and, if necessary, work with advisers to build a credit case.

Consider pensions in the United Kingdom

Recent changes in legislation mean that even more thought should be given to the effect of any financing (or other activity) which may have an impact on defined benefit pension schemes.

Covenant compliance

Rising interest rates will impact financial covenants based on interest / debt service cover, and rising energy, labour and production costs will impact EBITDA. Borrowers should forecast future compliance with financial covenants, including sensitivities to show how the business will cope with changed circumstances. If covenant breaches are possible, it is normally best for borrowers to engage with financiers early, before the covenant breaches become inevitable.

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