

Flexible financing for bankruptcy situations

When a company files for bankruptcy, it's the start of a time that is stressful and uncertain, whether the bankruptcy is voluntary or not. Yet, it's also a time where a company may have an opportunity for a fresh start. Debtor-in-possession (DIP) financing is an option that allows companies to realize that opportunity. DIP financing can provide the liquidity a company needs to successfully restructure; asset-based lending and accounts receivable financing are two potential forms that DIP financing can take.

Asset-based lending

An asset-based loan is revolving line of credit and/or term loan that is secured by assets, such as accounts receivable, inventory, machinery, equipment, real estate, and others. This kind of financing can provide a company funds quickly, and bolster its cash flow on an ongoing basis.

Benefits of an asset-based loan include:

- *Fewer covenants.* An asset-based loan often lacks the financial performance covenants imposed by traditional cash-flow loans
- *Flexibility.* The loan can alleviate short-term cash flow challenges

Accounts receivable financing (Factoring)

A factor, or an accounts receivable financing company, can buy a company's receivables and quickly give that company a percentage of the money it is owed. This kind of financing can be ideal when a business needs cash quickly, or even requires a steady flow of working capital.

Benefits of factoring include:

- *Timeliness.* Typically, a company can quickly secure financing for supplies, rent, payroll, and other business needs when it faces fluctuating (or seasonal) sales or a sudden growth spurt
- *Nothing to pay back.* Because the factor converts a company's accounts receivable to cash, there is nothing to pay back, and the company will not have a loan on its balance sheet

