Financial Distress by Covid19 Pandemic Crisis

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Since early 2020, covid19 has led to a pandemic crisis that has brought an upheaval in our lives, and most nations and governments have faced difficulty responding to such an unprecedented crisis. To prevent the spread of viruses, the U.S. government has restricted people's activity to reduce their interactions. Individuals are obliged to follow a social distancing policy and a quarantine system, and some states go through a lockdown to limit travel to and from foreign countries. People are required to do most activities at home, including work and study, and also to restrain non-essential activities.

The limit on people's activities caused tremendous harm to most businesses. Non-essential businesses fall, such as those related to leisure activities or travel. As people do not actively go out, their consumption has declined, which also have decreased demands and supply in markets and productions in factories. Eventually, companies go bankrupt as they do not have enough budget and profit to maintain their business.

The devastating fall of businesses by the covid19 crisis has impacted society in many ways, including a decrease in employment and an increase in debt. One of the difficulties is that companies cannot afford the money they lend. A debt covenant is a contract in which a bank lends money to firms to expand their business in exchange for constraints on its operations and interest rate. Due to covid19, most companies no longer have enough profit and budget to sustain their operations and cannot repay the bank's lent money. As a result, my independent study for Spring 2021 will focus on adjusting the debt covenant as a result of the on-going pandemic crisis.

In my independent study, I will examine the impact of financial distress on US corporations by analyzing the adjustments in debt covenants. I will analyze how adjustments should be made to respond to covenant violations and technical defaults by the covid19 crisis from the perspectives of both banks and businesses. Specifically, I will also examine the role of waivers and renegotiations. The research on financial distress and debt covenant is not only limited to the covid19 crisis but also has significant importance in preparing for the future pandemic crisis. It tackles how fragile the debt covenant has been and creates a thoughtful discussion on how the structure and form of debt covenant should be changed to prepare for a sudden crisis and to stabilize firms and banks.

SOURCES

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