Plastech finds creative solution with bankruptcy loan; Free Press turns to McTevia

Customers could bail out Plastech
Credit would keep supplier running

BY JEWEL GOPWANI • FREE PRESS BUSINESS WRITER • April 3, 2008

Plastech Engineered Products Inc. could finalize a bankruptcy loan this month that would allow the struggling auto supplier to keep operating through the summer.

The lenders in this case aren't banks or private equity firms.

Instead, they are the company's customers.

Johnson Controls Inc., General Motors Corp., Ford Motor Co. and Chrysler LLC -- Plastech's four largest customers -- are expected to offer the supplier a line of credit of as much as $80 million so Plastech can keep its business running.

It isn't too unusual in the auto industry for a customer, such as an automaker or a large supplier, to offer a supplier financial help. A parts shortage from one supplier can quickly shut down an assembly plant -- costing time, money and sales.

But bankruptcy experts say it's an example of the alternatives that reorganizing companies are turning to as more traditional lenders tighten their lending and require more onerous terms for bankruptcy loans.

The credit crunch has already made it difficult for firms in bankruptcy to find loans to exit court protection, leading to longer stays and greater need for financing while in the system.

Despite the stigma of Chapter 11, bankruptcy loans, known as debtor in possession or DIP loans, have long been viewed as safe investments because they are typically the first to be paid and are secured by the reorganizing company's assets, such as inventory and incoming revenue.

But now, the nation's credit crunch has made it more expensive to secure loans.

It has started with smaller companies, which face higher interest rate loans -- 3 to 5 percentage points in some cases. That same trend, bankruptcy experts say, could be on the way for larger companies.

"The markets are just exhausted," said restructuring consultant Jim McTevia.

The loan -- up for a final hearing at the end of the month -- from Plastech's customers comes after several extensions on financing that have allowed Plastech's bankruptcy case to stretch into its third month.

The company filed for Chapter 11 protection on Feb. 1, after Chrysler LLC said it would cancel its contracts with the Dearborn supplier of plastic interior parts, such as consoles and door panels, and engine components.

What the company will look like at the end of the bankruptcy is still in question.

Other Plastech lenders are in talks with the supplier's largest customer, Johnson Controls Inc., to have JCI buy Plastech's interior component operations.

As for the credit line from its customers, in return, the supplier has agreed to cooperate as customers prepare for the possibility of Plastech's liquidation.

Plastech would build a bank of parts for its customers in case it must go out of business.

It's worth it for the automakers, said Michael E. Baum, partner and bankruptcy expert at the law firm Shafer & Weiner PLLC in Bloomfield Hills.

For an automaker, the cost of a bankruptcy loan is likely less than what it would cost to stop production on an assembly line, he said.

Loans to pay for bankruptcy exits are even more affected by the tightened credit markets.

Delphi Corp. and Dura Automotive had to delay their Chapter 11 exits because they had troubling finding exit loans.

But that only perpetuates the troubles with finding bankruptcy loans, said Kimberly Rodriguez, a director of Grant Thornton's automotive practice.

As companies struggle to find exit loans, they need to extend their bankruptcy loans. Extending those loans, she said, is becoming more costly, making the entire bankruptcy process more expensive.

Jack Williams, resident scholar at the American Bankruptcy Institute, said the high cost of finding bankruptcy loans may push more companies to sell rather than reorganize.

"What you'll be seeing then," Williams said, "is bankruptcy being used more regularly as an acquisition tool."