

## Informal Reorganization of the Financially Distressed Firm and Bivalent Policy of Refinancing Rates

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### Abstract

This article deals with the bankruptcy problem. Three main questions are tackled in this research work. Firstly, we consider the property rights reallocation problem. Secondly, we analyze the question of the refinancing cost of the distressed firm under the hypothesis of a new debt financing to face the lack of equity financing. Thirdly, we wonder about the length of the renegotiation period and how it impacts the debt refinancing conditions. We suggest founding the reallocation of property rights, debt rights are supposed to be exchanged for equity rights, on the marginal contribution of new owners (initially debt-holders) in the reorganization process. We do not base this reallocation on the seniority degree of the old claims or on the relative debt corresponding to the status of initial claimer. Thus, we propose to use the Shapley value which is based on the marginal contributions of new shareholders. The analysis points out that the refinancing rate depends on the expected economic profitability and on the synergy effect generated by the new shareholders.

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### I. Introduction

TO SOLVE ITS problems, the firm in financial distress has to choose between formal bankruptcy procedures or informal renegotiation processes. In lot of countries, formal procedures lead to frequent liquidations (in more than 90% of the cases in France, for instance)<sup>1</sup>. That can be a reason, for the debtor-in-place and the main creditors, to engage the firm in an informal renegotiation process if the reorganization value is positive. Another rationale for pursuing informal renegotiations comes from the fact, as underlined by Couret and *ali.* (1995), that such processes are more adaptable.

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