

# Commercial Finance

## Frequently Asked Questions



### 1. Does DWC lend to businesses that banks may be more adverse to supporting, and is DWC able to compete with bank funding?

- DWC provides a funding source for applicants outside of the mainstream banks and financial institutions channels. By its very nature, the “normal” Distribution Applicant to DWC is likely to be a party that does not have access to funds via the traditional banking and finance company channels.
- There are limited funds available for distributions, so if a client has access to bank funding, then DWC would prefer to utilise the available funds elsewhere.
- However, if the Applicant has a compelling business case which has significant benefit to the West Coast (employment/economic), then DWC will assess the application on its merits.

Noting the above, additional considerations are:

- The Applicant will likely already have a relationship with a bank and have previously met their Anti Money Laundering & Countering Finance of Terrorism (AML) requirements and have security in place.
- If the Applicant is a new customer to DWC, there will be much more ‘discovery’ and AML and security documentation to work through compared with their existing bank.
- Interest rates offered by DWC will generally be comparable to bank market rates.
- As for a bank, application fees and legal fees borne by DWC will be charged to the customer.

### 2. Why would an organisation want to use DWC?

- Access to DWC’s panel of business advisers, mentors, and management and staff to support an applicant’s business planning and implementation process.
- Links and referrals to organisations DWC works alongside, including local councils, Iwi, and other community and business groups.
- Competitive finance rates.
- Flexible lending terms, including interest only and concessional interest rate periods and more flexible equity and security requirements.
- Interest received from clients is able to be invested back into the region .

### 3. Why won’t DWC re-finance bank loans?

There are limited funds available for distributions, so if a client has access to bank funding, then DWC would prefer to utilise the available funds elsewhere.

Also, re-financing is unlikely to meet the Objects of the Trust (employment/economic growth) since that should have already been achieved with the original bank funding.

However, DWC will look at a compelling business case. But it will be the exception rather than a rule. DWC’s offer is likely to be comparable with the current bank terms, but with the added requirements of AML, credit checks, security and legal documentation to be worked through.

### 4. What level of interest rates does DWC charge?

DWC interest rates will be in line with major bank lending rates on the day. Rates are usually based upon the Official Cash Rate (OCR) plus a margin (taking into consideration the type of lending and assessed risk). Client loan interest rates are reviewed annually.

### 5. Is there a particular sector/ business/ type of loan that strategically DWC wants to target?

Not specifically. DWC considers every application on its merits and takes into consideration the local and regional environment, natural competitive advantages, opportunities for development of new industries or sectors for the region, and, in particular, employment opportunities.

### 6. Does DWC provide Community Distributions?

As long as the distribution meets the Objects of the Trust Deed, a commercial loan can be considered by DWC to a community organisation.

### 7. Does DWC provide community grants?

Not directly, but DWC provides an annual contribution to the West Coast Community Trust (WCCT) to fund community projects. The annual amount is currently circa \$200,000 per annum and is linked to DWC’s financial performance over a 3-year rolling period. Organisations seeking community grant funding are welcome and encouraged to apply directly to the WCCT. This DWC funding is managed through the WCCT’s own internal application processes. Projects receiving support through the WCCT from the DWC funding stream are still required to meet the objects of DWC’s deed to promote employment and economic benefit for the West Coast region.

### 8. Please explain the need to meet DWC objects – sustainable economic benefit and employment opportunities.

Under the Trust Deed, the Trust Fund may be applied and used **exclusively** by the Trustees for the following general purposes (the Objects):

- To promote sustainable employment opportunities in the West Coast Region; or
- To generate sustainable economic benefits for the West Coast Region; or

- *To support projects which are not the ordinary day-to-day running, maintenance and upgrade of the infrastructure that is normally the responsibility of the local authorities or central government, provided such projects meeting paragraphs (a) and (b);*

*provided that any private benefit conferred to any person (other than a charity) is incidental to these overriding objects.*

The Trustees would be operating outside the legal directives of the Trust Deed if distributions did not meet the Objects of the Trust, so they cannot be ignored and, after considering the above factors, the Trustees make the final decision on any application.

## 9. Supporting information for your application.

The following information is sought at a minimum for any application:

- Details of the proposed use of the funds.
- A detailed business or project plan.
- Financial forecasts showing the anticipated profitability, cash flows, and financial outcomes or balance sheet of the project or enterprise. Notes and relevant work papers should be included with the financial forecasts to explain the assumptions and to allow scenario analysis.
- For existing businesses, historical financial information for the last three years.
- Details of the business, and management experience of the Applicant or principals of the Applicant that can confirm the Applicant has the necessary skills to successfully operate the business or complete the project.
- Details of any security or guarantees that are being offered to support the Distribution, including a statement of financial position for any guarantors or valuation of assets being pledged. Trustees have an obligation to protect the Trust Fund therefore adequate security is required to support any distribution.

The 'narrative' included in an application should demonstrate how the application will support the primary needs of the Deed – specifically promoting economic benefit and/or employment for the West Coast region. Emphasising these benefits (such as using local contractors, ongoing purchases from local suppliers, business is owned by local shareholders, employment, etc) is a critical part of the application proposal.

## 10. Length of process – how long before I get a decision?

### Expression of Interest **Less than one week**

DWC encourages people to first submit an expression of interest which enables DWC to provide an initial view as to whether the project meets the objects of the Deed and likelihood of its success).

### Full application **Up to four to six weeks, but this may vary**

The period for assessing and making a decision on an application is dependent on the complexity of the project and level of lending being sought.

## 11. Loan Terms and what happens at the end of the term if the loan isn't paid off?

DWC loans are typically for terms of up to five years and this is determined during the assessment of the application taking into account the business maturity and financial forecasts.

If loan payments fall into arrears leading to a 'default' on the loan, DWC will work with the client to determine appropriate solutions on a case-by-case basis. DWC encourages clients to communicate openly and as soon as they are having or may have difficulty with loan repayments so that solutions can be put in place before a situation becomes an issue. DWC has business advisors that can sit down with clients and talk through any areas that a client may be finding challenging in their business. DWC's aim is to help businesses succeed and we acknowledge things are not always smooth sailing.

## 12. What do you mean by flexible lending terms? On the website it says flexible lending terms, including interest only and concessional interest rate periods, more flexible equity and security requirements.

Each application is reviewed on its merits and DWC can provide flexibility in lending terms and security requirements if necessary. A client's ability to service the loan, the nature of the security available, cashflow timing of the project, risk assessment of the project and proposed benefits to the region will all play a factor in what flexibility might be available. Trustees make the final decision on any flexibility that might be available.

## 13. Information supporting a personal guarantee – Statement of personal assets and liabilities.

Obtaining adequate security over a distribution is the default position of DWC and this generally includes seeking Personal Guarantees (PG). In their obligation to protect the Trust Fund, Trustees have a responsibility to ensure distributions have adequate security in place that protects DWC's financial exposure should anything go wrong.

A PG security is only as good as the personal assets and liabilities backing it, so a statement of personal assets and liabilities is required to assess the level of security the PG will provide for the distribution. This information is in addition to financial information specified in Section 9.

A schedule of personal assets and liabilities includes all assets/liabilities in the name of the applicant(s) (i.e. this would normally include personal home, mortgage, other property and loans against that property, Kiwisaver, hire purchase & credit card debt, etc.). The value of all assets that an applicant could sell for cash/liquidate, less any debts that would need to be paid from that cash, is the effective amount of security available.

## 14. Security – what will DWC accept?

As mentioned above, DWC's default position is to obtain 'full security' over a distribution. Full security may include (ranked in order of security strength):

- a) 1<sup>st</sup> ranking mortgage over real estate (i.e. ahead of other parties such as banks).
- b) 1<sup>st</sup> ranking General Security Agreement (GSA) – a document that takes security over the general assets of a business. This will depend on the circumstances of the loan. Often other parties will have a security interest ahead of DWC (normally the main trading banks). DWC would typically look for security by way of mortgage (land and buildings), a GSA (assets) and, depending on the loan type, a Personal Guarantee.
- c) Specific security over any asset being purchased.
- d) Lower ranking mortgages or GSAs (behind other secured parties).
- e) Third party guarantee.
- f) Personal Guarantee.

## 15. Referees – personal or professional?

Professional referees are preferred to substantiate a client's general business dealings e.g. do they pay their debts on time.

## 16. What does it mean by any private benefit is incidental to the overriding object of DWC's Trust Deed?

Most businesses will have some form of private benefit (eg, profit for the shareholders). When assessing an application, Trustees must be satisfied that any private benefit conferred to any person as a result of a distribution is incidental to the wider benefits to the West Coast region. For example"

*ABC Ltd is seeking a loan of 50,000 which results in the company increasing their profits by \$100,000. The funds would enable the business to purchase equipment and create 5 new full time jobs. The benefit to the region of having 5 new full time jobs may be considered greater than the increased profit for the company, therefore the private benefit would be considered incidental.*

*An applicant is seeking finance of \$500,000 to refinance existing debt they have with a bank to gain a better interest rate. There is no employment promoted and no known economic benefit to the region while the company looks to benefit through interest savings. The value of the interest savings is not significant however it is more than incidental given there is no identified benefit to the region. There is also an opportunity cost on the use of DWC funds on this application as these funds could be used for another business that is promoting real benefits for the region.*

The interpretation of incidental and application of this requirement remains with the Trustees who make the final decision on any application.