**Finance Companies**

After 1987 there were only two categories of financial institution: registered banks and non-bank financial institutions. The main distinction between the two is that banks have to be registered with the Reserve Bank and are the only institutions which can use the word ‘bank’ in their name.

Finance companies offer a range of lending services. Finance companies will often make loans when banks believe the risk is too high. The interest rates finance companies charge are generally higher than those charged by banks as the risks associated with finance companies lending to customers is HIGHER.

Finance companies raise the funds they lend through the issue of **debentures** to the public. The public will receive a higher interest rate than they would if they deposited their money in a bank because the risk to them is higher because of the type of lending made by finance companies. To attract people to invest in a finance company they are **legally** required to issue a prospectus or product disclosure statement (PDC). The prospectus will contain information that will help the investor decide whether they wish to invest in the finance company. It will include financial statements, information on what the money will be used for and information about the major shareholder experience.

Click on the link below and then on the link [Prospectus, Investment Statement and Investment Form dated 12 August 2015](http://www.general.co.nz/Attachments/Prospectus_v12_final.pdf) answer the following questions.

<http://www.general.co.nz/prospectus.htm>

1. Who is the issuer? *General Finance Ltd*
2. What securities are being offered and what are the terms? *Secured Debenture Stock (“Deposits”) for a range of terms from at call, for At Call Deposits, and from six (6) months to five (5) years, for Term Deposits.*
3. What is the purpose of the funds raised? *The funds are being raised to grow our lending operations, in which we lend to borrowers requiring advances secured against their residential property, generally enabling them to complete some short term transaction, such as preparing a property for sale, bridging a property acquisition, or funding a business purchase or expansion*.
4. What is the minimum deposit? *minimum of $5,000*
5. What are the risks to the lender? *Deposits are not guaranteed by any party. If General Finance Ltd lose money on the advances they make, due to poor lending, borrower failure, inadequacy of security or economic events causing changes in property values. The result General Finance Ltd may not be able to repay Deposits or interest.*

Go to page 4 of the prospectus.

6. How much have investor’s invested into General Finance in 2015? Hint: Debenture stock. $7,789,704

7. How much cash does General Finance have in 2015? Why do they hold cash? $1,838,618. *This cash is held to pay back call deposits and term deposits that become due. It will used to pay interest on the deposits also.* *Some of the cash is also held for market uncertainty i.e. for situations where investors want their money back early.*

8. How much has General Finance Loaned out in 2015? Hint: Loan receivables. $9,330,444

Go to page 6 of the prospectus.

9. Explain what a No-financials Loan is and why this is a reason for General Finance offering higher interest rates to investors.  *No-Financials loans are those for which the borrower does not provide full financial information. With no-financials loans the risk of the loan not being repaid is a higher as loans could be given to people who can’t afford them. Loans wouldn’t have been given to them if their full financial information had been disclosed. The risk of non repayment from these loans increases the risk that investors (debenture stock holders) won’t get their money back, so the higher interest rate investors receive is the reward for this higher risk.*

10. What is meant by the following …. Our performance is affected by the number of loan advances that we make, the margin that we make between our borrowing and our lending rates, the losses we make on loan advances. *How profitable General Finance Ltd is will be determined by the difference in the interest rate they charge people that borrow from them and the interest rate they pay investors, the number of loans that are made and by loans being made to customers who can’t pay back what they owe. The bigger the margin the higher the profit e.g. General Finance charges 11.95% for somebody to borrow from them and pays investors 6%. The margin is 5.95%. The more often loans are made with this margin the more total profit generated. The profit generated from this margin will be reduced by losses made on loan advances i.e. loans where the repayments are made.*

11. Find the page that indicates how much General Finance Ltd is hoping to raise. State the amount. *Page 10 and $20m.*

**What do Finance Companies Finance?** <http://www.goodreturns.co.nz/article/976491961/finance-companies-does-risk-equal-return.html>

Finance companies have traditionally provided finance for commercial and personal chattels. Examples include finance for machinery such as logging trucks for the forestry sector, restaurant equipment for the hospitality sector, or finance for household chattels such as whiteware. The motor vehicle industry has also been a major source of business with a substantial portion of New Zealand’s motor vehicles being purchased with motor vehicle finance.

Over recent years, new finance companies have been established essentially to finance property developments, to lend in circumstances where finance for developers may not be available from the major trading banks.

Due to the inherent risks associated with these transactions, those finance companies that have been able to raise funds at slightly higher rates than mainstream deposit rates have been able to make substantial profits where the borrowers have repaid the principal and interest on the loan on time.

**What are Consumer Finance Companies?**  <http://genevafinance.co.nz/who-is-geneva-finance/#sthash.hmUh58FP.dpuf>

A Consumer Finance Company (CFC) is a limited liability company that makes loans to members of the public.

**A CFC’s key features are:**

* The company makes loans to members of the public, NOT to other organisations e.g. companies, trusts, or partnerships etc. and as a consequence the consumer finance company is required to comply with Credit Contracts and Consumer Finance Act 2003. (CCCFA).
* The company is not a bank. Banks have their own stricter legislative requirements that they are required to comply with. These rules address all of the matters covered by the CCCFA and many other issues.
* The company borrows money from others to make the loans. We do not offer financial services.

Listed below are some finance companies in NZ. For each finance company write a description of the finance services/ products they offer. Also list what fees they charge.

[http://genevafinance.co.nz/#](http://genevafinance.co.nz/)

*Car finance; personal loans;*

*Loan establishment fee - $50 - $695 depending on loan amount and applicant profile*

*Loan administration fee = $2 per weekly instalment*

*Interest from 11.95%*

***PERSONAL LOANS*** *(including broker introduced)*

*Interest rates vary between: 11.95% – 29.95% per annum*

***MOTOR VEHICLE LOANS*** *(including broker introduced)*

*Interest rates vary between: 11.95% – 28.95% per annum*

***HOMEOWNER LOANS***

*Interest rates vary between: 11.95% – 28.95% per annum*

*Personal properties securities fee - $10 registration*

*Referal fee $1000 no fee if go direct to Geneva*

*Prepayment fee $ 40*

*Modification fees*

<https://www.gemfinance.co.nz/>

*Loans- debt consolidation, travel, home renovation, car loan, wedding; personal loan*

*$240 establishment fee*

*Interest 12.99% to 29.99%*

*Credit cards*

*Insurance*

<http://www.flexicards.co.nz/index.php/products>

<https://www.udc.co.nz/index.html>

<http://quantumfinance.co.nz/services/>