**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?
2. What securities are being offered and what are the terms?
3. What is the purpose of the funds raised?
4. What is the minimum deposit?
5. What are the risks to the lender?

Go to page 4 of the prospectus.

6. How much have investor’s invested into General Finance in 2015? Hint: Debenture stock.

7. How much cash does General Finance have in 2015? Why do they hold cash?

8. How much has General Finance Loaned out in 2015? Hint: Loan receivables.

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.

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.

11. Find the page that indicates how much General Finance Ltd is hoping to raise. State the amount.

**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/)

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

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

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

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