

FINANCE AND THE LOGGING INDUSTRY

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1 APPLYING FOR FINANCE

An accountant recently asked me whether I would consider financing 80% of the purchase price of a commercial property with a month by month lease.

He wasn't serious but suggest this request as an analogy to the logging industry where financiers are regularly asked to finance to similar levels on depreciating items of plant.

In order to say "YES" to these requests, financiers are looking for enough information to gain a sharp clear picture of the applicants operation, his background, and where he's going.

The purpose of this paper is to give contractors a better idea of what information financiers look for and what's available to logging contractors in the way of finance.

In essence a lender will consider the following:

- i Affordability 'Your capacity to pay'
- ii Collateral for the advance
- iii Aspects of credit and character of the borrower.

AFFORDABILITY - YOUR CAPACITY TO PAY

You need to prove beyond reasonable doubt that you can afford to meet the loan commitments.

FINANCIAL STATEMENTS are usually required and disclose to financiers a number of important points. The more up to date the better. Keep your records up to date and demand from your accountant quick service after balance date. Most accountants now have the facilities to provide regular reporting on a monthly, quarterly or six monthly basis.

Need financial accounts.



CASHFLOWS/BUDGETS if its a new operation or youre changing your current one (i.e. thinnings to clear fell). This is going to be most important. Again, if last years accounts don't accurately reflect the budget for what can be achieved this year with a new machine, then include a budget or cashflow. Rule of Thumb - Be conservative.

SUPPORTING INFORMATION *- necessary*

- Logging Managers/Supervisors
- Manufacturers Specifications
- L.I.R.A Research

How to achieve an increase for example.

COLLATERAL OR SECURITY FEATURES

Generally a minimum of 20-25% equity is required although on second hand gear this may be 30-40% or more. Each financier have different criteria and it pays to check. Remember, a financier always works on a GST exclusive value.

There are ways in which you can boost your equity. Some suppliers or manufacturers will consider funding the GST for 2-3 months, the bank manager may also look at this. Of course other assets can be added to the security schedule. You will need to supply written valuations on these generally on a 'trade-in' or value basis rather than a retail one. These valuations should also be addressed to your proposed financier. If you require the GST to be funded by the finance company, a letter from your accountant confirming your GST position as current or up to date is a good move.

The other aspect of security that will be looked at is the make and model of your proposed purchase. Is it a common machine with parts and service back-up and potential re-sale? Is it suited to your operation and for what reasons?

Remember financiers are seldom experts or machines, so do include supporting information on the reasons for your purchase.

ASPECTS OF CREDIT AND CHARACTER

We will run a credit check on you and possibly check with trade suppliers as well.

DO

- Disclose any problems you've had in the past and reasons why.

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- Tell us your current loans and approximate balances (including the bank).
- Supply a statement of assets and liabilities.
- Obtain a reference from your logging manager or supervisor.

This information is important and good credit counts if you've built up a good relationship with financiers and your creditors, everything becomes easier.

2 AVAILABILITY OF FINANCE

All lending institutions are becoming more flexible and more competitive. The contractor should consider the following before accepting an advance:

- i Interest Rates.
- ii The terms and conditions of the advance.
- iii How flexible is the transaction.
- iv Service and advice from lending institution both before and after the deal is done.

Remember the rule that cheapest is not always best.

WHAT IS AVAILABLE?

HIRE PURCHASE

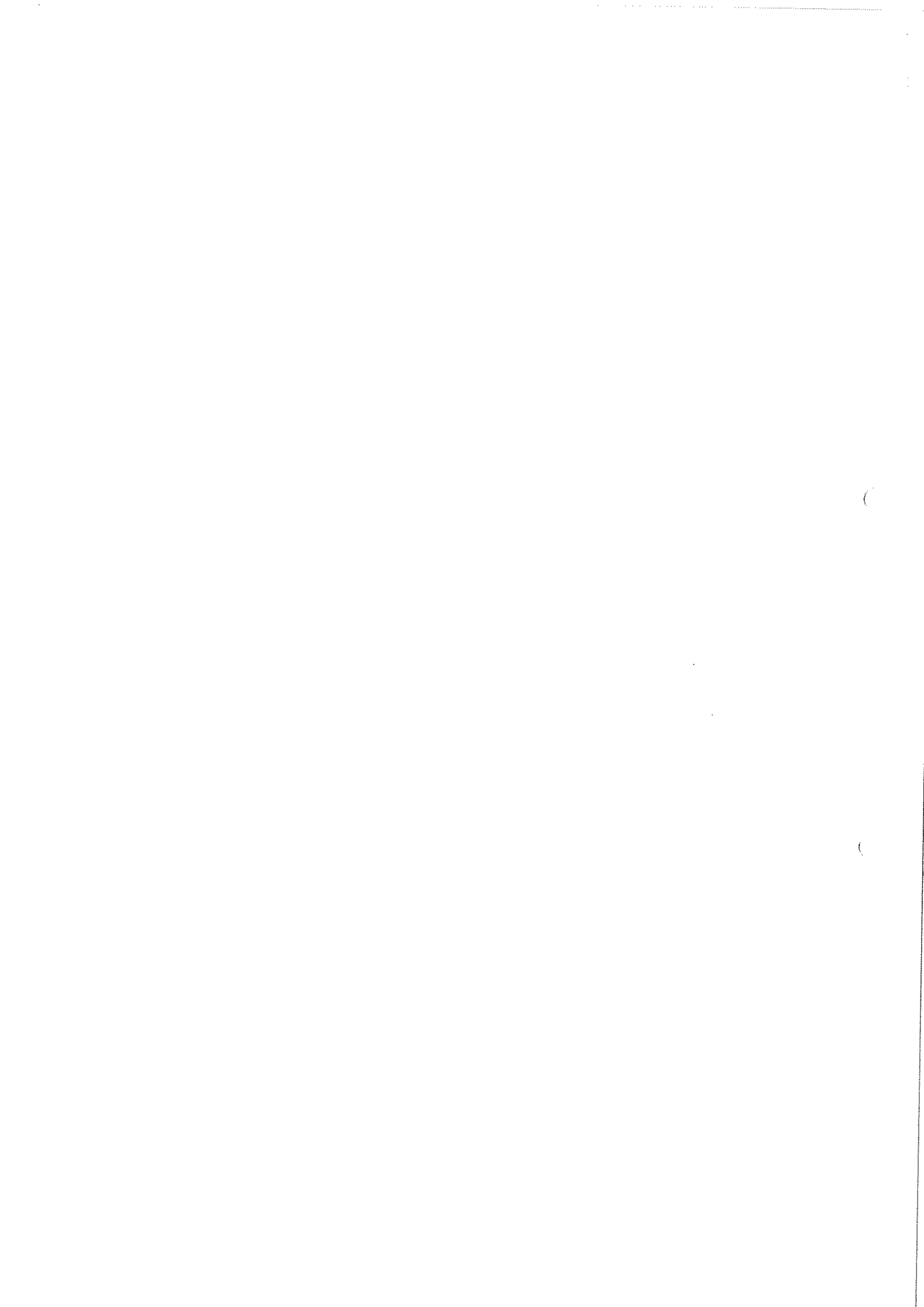
Generally repaid over 12-60 months at a fixed payment per month. There are certain advantages and disadvantages in HP's.

FOR

- You can fix your costs in budgeting
- Inexpensive to set up.

AGAINST

- It is somewhat inflexible.



250000 @ 16% over 3 years
 (1) HO - 8666/month Total Interest = 66,413
 (2) Term Loan Basis
 69,448.80 principal/month, Interest on reducing
 principal balance. Total Interest 61,894.
 No early settlement penalty.

REVOLVING CREDIT FACILITIES

(3)

These are facilities set up where the contractor has an established credit limit dependant upon the security provided.

As the machines are paid off, the available credit increases i.e. Good for capital replacement. These facilities are ideal for fleet operators with \$200,000 borrowed or more.

These is only one repayment per month and a detailed monthly statement is provided.

There are a number of repayment options which are based on interest costs on **only what is used** i.e: not subject to Rule ? of 78.

The key point of explaining what is available is for the contractor to realise that tailor made advances to suit individual requirements are available e.g. balloon payment HP's, Seasonal payments.

3 THE FUTURE

Forestry is now NZ's third largest earner of export dollars with annual receipts exceeding \$1.5 billion. Medium to long term predictions are for steady growth based on strengthening export markets, particularly in the Asia/Pacific area.

This of course gives finance companies a certain amount of confidence in lending to logging contractors and ensures continuity and stability in the industry. Logging is quite unique in this respect and all participants in the industry share the responsibilities of maintaining this position.

The forest owners have the largest responsibility in ensuring that contractors rates are maintained to sufficient levels to allow on-going capital replacement programmes, without this, confidence in Investment will soon dry up.

Equally contractors will need to ensure they remain in touch with machinery and harvesting developments in order to achieve peak efficiency in production and profit. Finally financiers have a responsibility in ensuring lending is based on sound principles and good information.

Will all of this in mind contractors can expect more competitive and flexible financing in the 1990's.

