

Asset Finance

CASHFAC SECTOR LITERATURE



Introduction

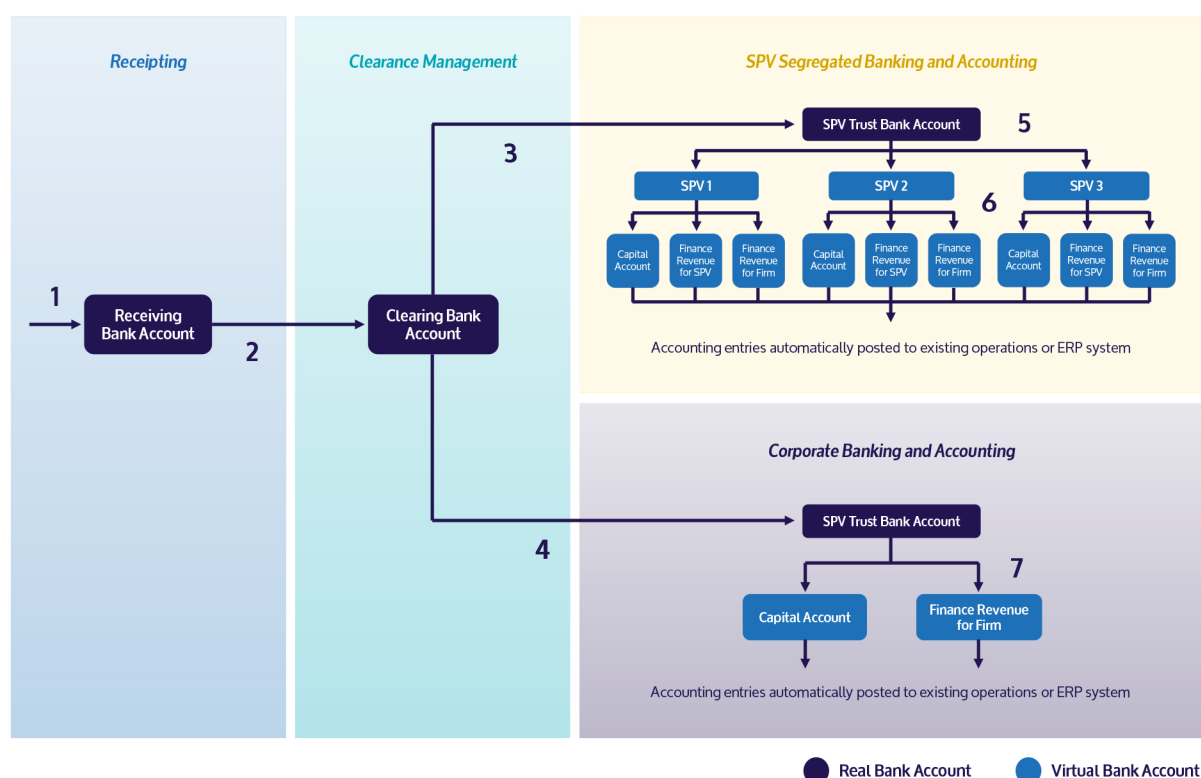
Asset finance is a type of lending that is secured on personal or (revenue generating) business assets such as equipment, machinery and vehicles. It comes in many forms including hire purchase, finance and operating leases, personal contract purchase (PCP) and secured loans.

Asset finance contracts that effectively transfer all the risks and rewards of ownership to the borrower are usually structured where the purchase price and financing costs are repaid in instalments over the life of the contract. Typically, hire-purchase agreements, finance leases and secured loans operate to this model. Operating leases and PCP contracts generally do not transfer ownership of the asset to the lessee or user of the asset and therefore they will generally only pay for the use of the asset during the contract term.

Proven channels to market, efficient processing, high utilisation levels of funding and precise accounting make specialist asset finance managers efficient users of bank funding. Cashfac helps by providing a specialist cash platform that automates cash processing and related accounting for own book and Special Purpose Vehicle (SPV) funded operations that are subject to service level agreements (SLAs) which govern the full utilization of partner funding.

How Can Cashfac Help?

Cashfac offers a full suite of functionality to help asset finance companies improve the efficiency and effectiveness of their cash operations. Here are some of the key features of our solution:



- 1 Funds received by Direct Debit of bank transfer from the borrower
- 2 Funds automatically swept to clearing account
- 3 NET cleared proceeds belonging to SPV automatically identified and swept to SPV bank account
- 4 NET cleared proceeds belonging firm's direct lending automatically identified and swept to corporate bank account
- 5 Cash receipt allocated from pooled real bank account to virtual accounts for each SPV
- 6 Cash receipts matched to analysis of repayment, which is used to automatically split the payment between capital repayment and finance charges. Each element is then posted to virtual account for each element to correctly account for cash balance held by the SPV
- 7 Cash receipts matched to analysis of repayment, which is used to automatically split the payment between capital repayment and finance charges. Each element is then posted to virtual account for each element to correctly account for the corporate's loan book

Efficient Receipting and Protection of Cash

Typically, asset finance companies will operate a receiving bank account structure to control receipting and to protect their main bank accounts from exposure to fraudulent activity. Receiving accounts are cleared down frequently and the funds are moved to other accounts. This best practice process normally requires significant manual intervention and reconciliation.

Our solution completely automates the cash receipting and sweeping processes. Using multi sourced references including interbank message content, Cashfac automatically identifies, reconciles and sweeps all cash from the receiving account at frequencies determined by the asset finance manager.

Clearance Management

Best practise is to hold all direct debits for a clearance period before processing them onto your ERP or administration system. To do this manually requires significant manual effort and reconciliation.

Cashfac completely automates the clearance checking process. It moves the direct debit from the receiving bank account to a clearance bank account but, crucially, it retains a link between the original receipt transaction in the receiving bank account and the transaction awaiting clearance in the clearance bank account. If a direct debit is dishonoured, Cashfac sweeps the proceeds back to the receiving account to fund the dishonour. After three days, Cashfac sweeps the remaining, now safely cleared, receipts from the clearing account to the asset finance company's main bank account for processing.

Virtual Trust Bank Accounts for SPVs

If an asset finance company is writing business on its own account, then the cleared receipts are swept to its corporate bank account. However, in many cases asset finance companies are operating funding pools or special purpose vehicles (SPVs) for third party lenders. The cash receipts belonging to an SPV will need to be segregated from those of the asset finance company and those of other SPVs. Typically, asset finance companies try to achieve this by setting up a separate bank account for each SPV. This can be time consuming, expensive and difficult to set up with the asset finance company's bank.

Subject to SLAs, Cashfac enables asset finance managers to operate a mix of virtual bank accounts and bank accounts operated as pooled trust accounts.

When Cashfac sweeps funds from the clearing bank account to the trust pooled account for SPVs, it uses the reference on the original receipt to identify which SPV owns the receipt and allocates it to the virtual bank account for that SPV, which “hangs off” the pooled account. Virtual accounts can be setup in a matter of seconds for each new SPV without permission from the asset finance company’s bank account. Cashfac’s robust accounting, allocation, sweeping and reconciliation functionality allows the asset finance company, using these virtual accounts, to fully meet the highest standards for segregation of one SPV’s funds from another.

Analysis and Accounting

Whether the funds collected on a finance agreement end up in the asset finance company’s corporate bank account or one of its accounts for SPVs, the receipt now needs to be accounted for and split between capital repayment and income.

An ERP or administration system might handle this. If so, Cashfac can take the expectation or debtor records from these systems and match them against the bank receipt. The solution then uses its API to communicate to the ERP or administration system that cleared funds have been received against that expectation.

If the existing administration systems don’t have this accounting functionality, our solution can take the analysis of the expected receipts between capital repayment, finance revenue due to the asset finance company and finance revenue due to the SPV, split the receipts into their constituent elements and allocate them to another tier of virtual accounts. This 2nd tier of accounts allows asset finance managers to account for each element of the receipt. By doing this, Cashfac gives a general ledger accounting record for the asset finance company’s collection operations and/or for each SPV.

In summary, Cashfac can maintain records and act as the primary operational accounting record, or, it can generate the double entry postings to your ERP or administration systems to account for them there.



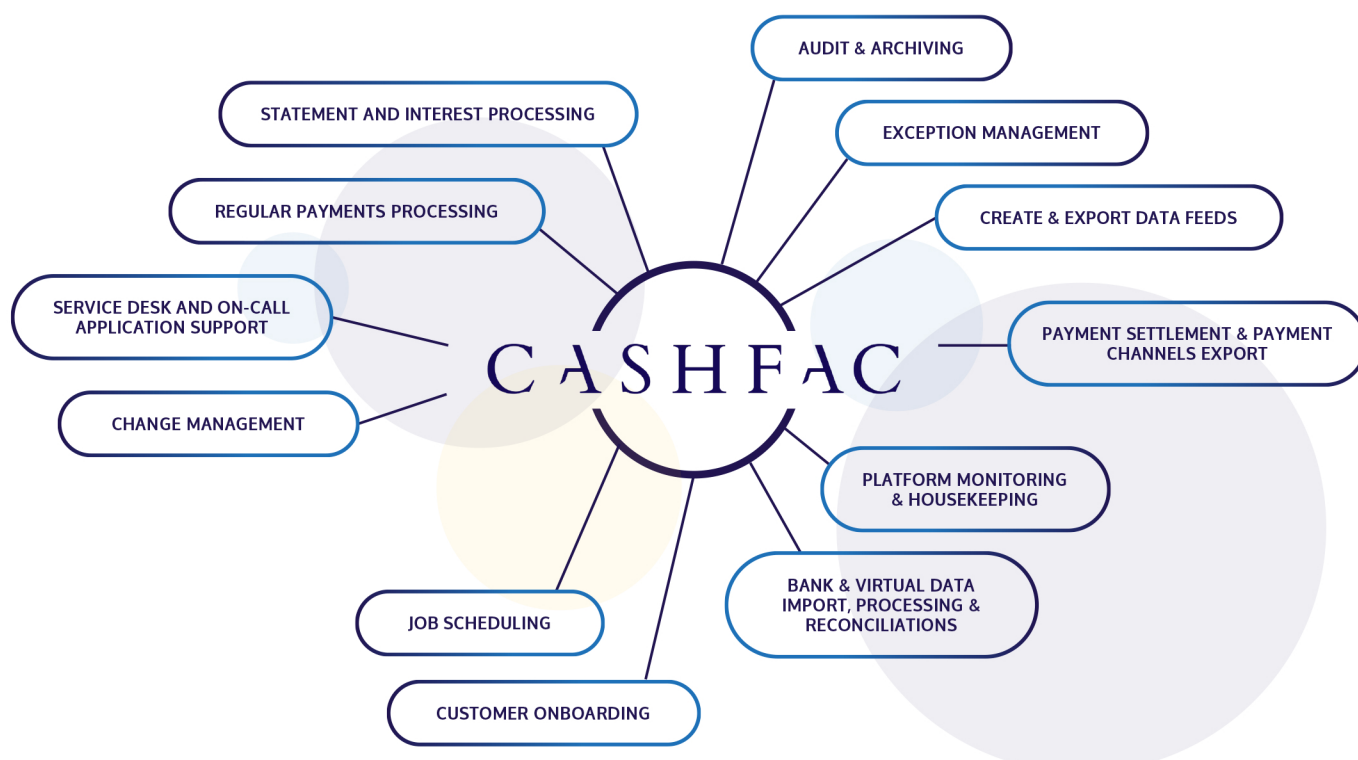
Onward Payment to SPV owners

Once the funds are swept and accounted for in the SPV banking structure. The revenue element of the receipt, due to the SPV owners, can either be swept out by Cashfac in an automatic payment run or, using the Cashfac online portal, the SPV owner can be given access to their virtual bank accounts to draw down the revenue funds due to them by initiating a payment to themselves.

Cashfac's credit control functionality prevents a payment, initiated manually or by automatic sweep, being generated if there are insufficient cleared funds in the account to cover it. To meet tight month end deadlines and deliver a fast close, the credit control functionality on the SPV virtual account can also be configured to include the receipts due for the final day's cleared funds from the clearance bank account to the credit limit on the SPV account. This allows an external payment for the full month's cleared revenue to be initiated to the SPV but still stops the SPV virtual bank accounts at the asset finance company from going overdrawn as the inbound receipt crosses with the outbound payment.

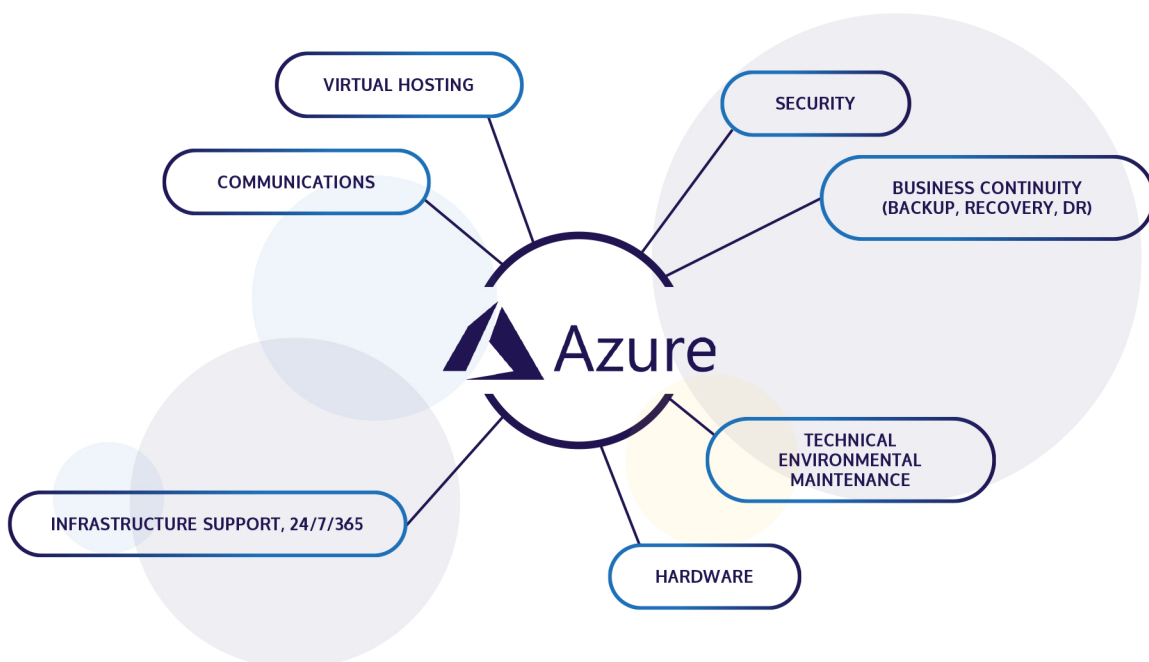
Managed Services

Cashfac Managed Service offers a single point of contact for all support issues, removing the need for employing dedicated customer staff to operate the virtual banking platform and thereby minimising change management and specialist training.



Hosted Services

Cashfac hosts the service via Microsoft Azure infrastructure and manages the entire release and upgrade process, including platform testing before release, and will assist you with your own testing. Our deep knowledge of our product and a detailed understanding of the features that have been enhanced in each release, combined with proximity to the development team, ensure this process is executed with accuracy, knowledge and expediency.





For product information, to request a demonstration or to speak to us about your business needs, please contact us at www.cashfac.com/contact

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