

Appendix B - Rate calculations (promoted commercial loans)

Commercial loan rates will be determined using a combination of:

- 'EC market rates' which take into account the risk of the loan based on the customers creditworthiness and how much collateral they can provide as security.
- The rate at which WLDC can borrow.

The table below illustrates the EC Market rates that will be used.

Table 1 - EC Market rates

| *Creditworthiness | **Collateralisation | | |
|---|----------------------------|-------------------------|---------------------|
| | High 60%+ | Normal 31% - 59% | Low 0% - 30% |
| Strong | 0.60% | 0.75% | 1.00% |
| Good | 0.75% | 1.00% | 2.20% |
| Satisfactory | 1.00% | 2.20% | 4.00% |
| Weak | 2.20% | 4.00% | 6.50% |
| Potential Financial Difficulties | 4.00% | 6.50% | 10.00% |

* Creditworthiness assessed externally - WLDC will make prior assessment to see if worth moving forward as the external assessment will come at a cost

** Collateralisation assessed externally - WLDC will review, external will verify for the value of the proposed collateral

The rates in table one are purely base rates that quantify risk, WLDC would then apply the relevant PWLB rate based on length of loan to the above for the rate we would provide.

The PWLB rate is the rate at which WLDC can borrow at (to be updated to rate applicable at the time of loan).

For example

| | |
|----------|-------|
| Years 1 | 0.94% |
| Years 2 | 0.99% |
| Years 3 | 1.06% |
| Years 4 | 1.16% |
| Years 5 | 1.28% |
| Years 10 | 1.90% |
| Years 15 | 2.33% |

A combination of the two rates will determine the rate which will be applied to the loan. For Example: Company request a loan over 4 years. Their creditworthiness is Strong and they have offered 50% collateral against the loan. The loan rate applicable will be 2.16% (EC market rate 1.00% + PWLB 4 years 1.16%).

Costs associated with each loan include not only the rate that WLDC can borrow at but also the costs associated with the due diligence of each application. WLDC need to ensure that the rate used recover all these costs.

The costs will include (but are not limited to) Finance and Economic development officer time assessing the application and also the cost of external resources for assessment/value of collateral and also creditworthiness (if WLDC assessment is positive and proceed to this stage).