

GUIDE TO FINANCIAL ELIGIBILITY



MASTER BUILDERS
FIDELITY FUND

WHY IS THERE AN ASSESSMENT PROCESS?

The builder assessment process aims to ensure businesses applying for cover from the Fidelity Fund (the Fund) can financially support and effectively manage the level of home warranty cover sought from the Fund. There are two separate parts to the independent assessment process - the entities trading history and the most recent year financial statement. Assessments are undertaken on an annual basis and in some cases bi-annually, they are also undertaken when a builder applies for an upgrade to existing cover.

BUILDER ELIGIBILITY

To be eligible to enter the Fund, there are three key financial benchmarks, all of which must be met by builders applying to join and remain in the Fund:

1. The business applying must have positive Net Tangible Assets;
2. The business applying must have positive Working Capital; and
3. Any trading and operating losses incurred in the last three (3) years must be explained

If an applicant or company fails to meet any of these criteria – even if the business is already a member of the Fund – they have failed to meet the minimum financial standards for Fund membership.

Net Tangible Assets is calculated using the formula:

BUSINESS ASSETS (LESS) LIABILITIES (LESS) INTANGIBLE ASSETS

The following are considered Business Assets only if held in the name of the business:

- Property
- Cash or money held in bank accounts
- Trade Receivables (if collectable)
- Inventory (work in progress, raw materials and finished stock)
- Shares in Listed Companies
- Plant and equipment
- Tools of trade (to a maximum of \$15,000)
- Motor vehicles (60% of value)

Common examples of Intangible Assets are:

- Goodwill
- Rights of indemnity
- Inter-company loans (unless the related entity is also available to be assessed)
- Shareholder loans
- Intellectual property, such as trademarks and patents
- Formation expenses
- Borrowing expenses
- Shares in unlisted or related companies

Working Capital is calculated using the formula:

CURRENT BUSINESS ASSETS (LESS) CURRENT BUSINESS LIABILITIES

The most recent signed financial statements prepared by an external accountant are reviewed to determine Working Capital. The Working Capital Statement prepared in the application form is also reviewed and, where required, bank statements and other evidence is sought to prove the balances reported in the Working Capital Statement.

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ANNUAL TURNOVER ASSESSMENT

Once Builder Eligibility has been established, the level of turnover requested is reviewed. To determine the level of annual turnover, the Fund's independent assessor looks at the following measures:

1. Value of Net Tangible Assets;
2. For smaller businesses, the value of Owner's Assets is also considered;
3. Value of Working Capital from the financial statements and the Working Capital Statement;
4. Prior year sales, if profitable; and
5. Experience of business owners and managers at the level of cover requested

Generally speaking, the greater the value of Net Tangible Assets and Working Capital, the higher the annual level of cover that may be approved. Where a business has low Net Tangible Assets and/or Working Capital, this will usually lead to a lower level of annual cover as this indicates a low level of financial resources within the business to support growth in sales.

In cases where Net Tangible Assets and/or Working Capital has declined from prior years, substantially less cover may be approved than in prior years.

In cases where an existing Fund member no longer meets Builder Eligibility financial standards, no cover is recommended until the financial health of the applicant is improved to meet the minimum Builder Eligibility financial requirements. In these cases, you should first speak with your accountant and then engage with the Fund to determine how you will meet Builder Eligibility requirements.

If the level of cover sought exceeds the highest sales value of prior years, an increase in Net Tangible Assets and Working Capital will usually be required to support the increase in turnover.

SUMMARY

We recommend that if you have failed to meet the Builder Eligibility requirement, or if your cover has been reduced, you speak first to your accountant who can explain to you the key financial benchmarks that are reviewed. If you believe there are special factors that should be considered or there has been an error in your assessment, these concerns should be detailed in writing by you and your accountant and forwarded to the Fidelity Fund.

FREQUENTLY ASKED QUESTIONS

Why do we have Eligibility and Turnover Levels?

Any organisation is required to manage its risks appropriately, and an obvious key risk of the Fund is the insolvency of a builder. The Fund's own experience and common sense says that a builder growing beyond their financial and management capacity is a key risk factor and cause of many builders going broke. Managing business turnover levels to ensure they are appropriate for the capital, skills and experience of a builder is a key risk management tool of both the builder applying for cover and the Fund.

What if I don't receive enough Cover?

You can apply for additional cover by providing up to date financial information when the approved level of cover is used. This allows risk to be reassessed by the Fund and appropriately managed in a timely manner.

How do you calculate the level of cover?

The builder initially determines the level of turnover and number of jobs your business needs, not the Fund, and this is the starting point in the assessment. The assessment process then references financial standards (including NTA and Working Capital); industry standards; and benchmarks from thousands of assessments performed since 2002 to form a view on whether or not the builder has the skills, experience and capital to undertake the level and type of work requested. In most cases, the builder is approved for exactly what they have requested.

Are new builders assessed differently?

All builders – new and established - undergo the same annual risk assessment. The assessment examines a number of factors, including a review of the latest available financial information prepared by the applicant and its accountant. If a new builder has little industry and business experience, it will usually be more difficult to receive large levels of cover until the business builds up adequate capital to support increased sales.

Why did I not receive the full level of cover that I requested?

Builders who do not receive approval for the full amount of cover requested will fall into one or more of the following categories:

1. New business with no track record
2. Inexperienced builder
3. Fast growing business, and therefore requiring frequent risk assessments
4. Large increase in turnover and minimal - or negative - capital in the business
5. High risk business based on the character of the builder or other known issue

A builder can apply for additional cover by providing up to date financial information when the approved level of cover is used. Providing up to date information allows risk to be reassessed by the Fund and appropriately managed in a timely manner.