

## **FINANCING, LOAN AGREEMENTS AND SECURITY**

Under the principle of freedom of contract, parties may generally enter into a loan agreement on terms which they can agree on. The individual terms of the agreement are generally not regulated by law.

Loan agreements may be entered into as bilateral loan agreements between a single lender and a single borrower. However, loan agreements may also be entered into between multiple lenders or borrowers, or the loans in question may be syndicated by a lender. In such cases, the lenders will often commonly appoint one lender (the agent) to be responsible for the day-to-day administration of the loan.

### **What are the most common loan types in Denmark?**

In Denmark, the most common loan types are term loans, revolving loans, bank overdraft, and cash pools.

To decide which loan type will suit a borrower best, the specific needs of the borrower will have to be taken into consideration.

### **What characterises a term loan?**

A term loan is paid out in one or few sections and repaid according to a fixed repayment schedule with one or more repayments. Often, the borrower is not entitled to redraw any amount that has already been repaid. The term loan is often also characterised by a floating interest rate, and this type of loan is often used in relation to financing the acquisitions of companies and larger assets etc.

### **What characterises a revolving loan?**

A revolving loan gives the borrower a possibility to withdraw the loan in one or more tranches upon request. Most often, certain minimum amounts for each withdrawal are agreed on. Each withdrawal has a fixed period within which interest is added. A revolving loan is often used to finance the day-to-day business of a company and acquisition of often replaced assets.

### **What characterises a bank overdraft?**

A bank overdraft is in many ways similar to a revolving loan. However, the borrower is entitled at any time to withdraw and repay any amounts within the limit. Thus, a bank overdraft is a more flexible arrangement than a revolving loan.

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### **What characterises a cash pool?**

A cash pool is a loan arrangement for consolidated companies. The consolidated companies share an account and are all entitled to withdraw or make payments to the account whereby the companies' total exposure may be reduced. A cash pool may be used despite the group of consolidated companies being registered in different countries. However, various rules may apply for each company in the different jurisdictions. Hence, it is important to carefully study the taxation issues involved before entering into a cash pooling arrangement.

### **How is security perfected under Danish law?**

The requirement for perfection of security depends on the type of asset provided as security. The type of security may vary depending on the borrower's financial situation and the character of the loan. Most often, assets are provided as security.

#### **Pledge of shares**

A pledge of shares is perfected when the secured creditor has notified the issuing company thereof. If security is provided in shares admitted to trade on a Danish regulated market, the secured creditor must register the pledge with VP Securities Services (Værdipapircentralen).

#### **Company charge, personal property and intangible assets**

Security in the form of company charge, personal property and intangible assets must be registered with the Danish Register of Chattel Mortgages by the secured creditor.

#### **Real estate**

Security in real estate must be registered with the Danish Land Register.

### **What is the consequence if perfection is not effectuated?**

If perfection is not effectuated at all or if the perfection is not effectuated in a timely fashion with the granting of the security, this may result in loss of rights or preferred position.

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