

The Treasury

South Canterbury Finance Limited Information Release

Release Document

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- [1] 9(2)(a) - to protect the privacy of natural persons, including deceased people
- [2] 9(2)(b)(i) - to protect trade secrets
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- [5] 9(2)(d) - to avoid prejudice to the substantial economic interests of New Zealand
- [6] 9(2)(g)(i) - to maintain the effective conduct of public affairs through the free and frank expression of opinions
- [7] 9(2)(h) - to maintain legal professional privilege
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In preparing this Information Release, the Treasury has considered the public interest considerations in section 9(1) of the Official Information Act.

FILE NOTE

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DATE

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SUBJECT

RELATIVE RISK RANKING OF GUARANTEED NBDTS AT 28
FEBRUARY 2009

The attached list of institutions has been ranked by their relative level of riskiness as at 28 February 2009. These factors were evaluated on both a quantitative and qualitative level. This list has also been assessed to determine the estimated loss to the Crown if the entity were to fail. These assessments are based upon the methodology disclosed to Treasury in April 2009 and documented in the note sent to Treasury referenced: 3605517 v2.2. Entities covered by reporting include all non bank deposit takers that were approved for the Retail Deposit Guarantee Scheme as at 28 February 2009.

Mascot Finance and Strata Finance have been removed from the reporting group. Viaduct Capital remains in the group as the Crown continues to have a liability in respect of existing depositors up to the date of the withdrawal of the guarantee.

Following the assessment of the February's DGS returns, notable adjustments in the ranking of the relative riskiness were made for [3] (14m guaranteed deposits) has been elevated to high risk from the top rankings of medium risk entities on the back of deteriorating asset quality, deteriorating financial performance, over exposure to the 6 largest borrowers and high levels of related party lending [3] (14m guaranteed deposits) have had their risk ranking reduced from high risk to medium risk (at the higher end) on the back of generally improving data.

The two key issues shared by all of the entities in the high risk ranking are poor asset quality and deteriorating financial performance. As indicated last month, a number of these entities are in wind down mode, and operational expenditure as a percentage of total income is increasing – with some at over 100%. This suggests the net worth of the business is being degraded.

The second grouping (medium) include companies are generally capital constrained and if pressured by asset write offs will be more vulnerable to failure. South Canterbury Finance continues to be prominent in this group because of its significant exposure to the property development and agricultural sectors and its level of second mortgages – over 80% of the book.

The entities on the watchlist for this month (as assessed by the model outlined above) are:

High Impact/High and Moderate Risk Entities (no change from the prior month)

- a. [3]
- b. Equitable Mortgages
- c. South Canterbury Finance
- d. Vision Securities
- e. [3]
- f. Allied Nationwide Finance
- g. [3]

Low Impact/High Risk Entities (summary only)¹

- a. [3]
- b. Mutual Finance
- c. Viaduct Capital (new)
- d. [3]
- e.
- f.

Detailed reports on these will follow.

¹ Please note that [3] been removed from this list due to improving data, and Strata Finance also removed due to failure.

Over the past month, the following negative reports have been released about non bank deposit taking sector:

Date	Description
24/04/09	The Treasury has announced that Strata Finance have defaulted in making a payment to at least one investor, and consequently have triggered “a default event under its Crown Deed of Guarantee”.
24/04/09	The 14,300 secured investors in Bridgecorp are being warned they might now get less than 10 cents in the dollar back of the \$460 million owed
23/04/09	Property Finance Group said today its subsidiary (Propertyfinance Securities) had applied for a High Court injunction to restrict its trustee, Covenant Trustee Co from being able to appoint receivers until such time as its subsidiary could hold its previously announced special meeting of stockholders.
20/04/09	New Zealand’s Securities Commission banned failed finance company Propertyfinance Securities (PFS) from advertising its latest moratorium restructure proposal on the grounds that the advertisements were misleading to investors.
20/04/09	Four Nathans Finance directors will face a depositions hearing in February next year
20/04/09	Treasury announced late on Monday it had withdrawn the government guarantee from Auckland-based property financier Viaduct Capital .
08/04/09	Directors of the failed Five Star Group of companies have been banned from corporate life for five years
06/04/09	The Commerce Commission is challenging the penalty fees finance companies charge borrowers who pay off loans early. The commission is appealing a District Court decision from last year that cleared Avanti Finance of 50 charges under the Credit Contracts and Consumer Finance Act relating to the calculation of break fees.
25/03/09	Investors in Doug Somers-Edgar’s Orange Finance owed more than \$50 million Will be asked to approve a moratorium in May, more than four months after The company ceased making repayments to investors.

Relative risk ranking of guaranteed NBDTs as at 28 February 2009

Rank	Company name	Current credit rating	Change in rank since last month	Guaranteed deposits \$m	Guaranteed depositors #	Est Crown Share of Loss \$m
HIGH	Vision Securities Limited [3]			\$33	1,947	\$22
	Equitable Mortgages Limited	BB		\$142	4,681	\$25
	Viaduct Capital Limited		↑	\$7	121	\$3
	Mutual Finance Limited [3]			\$7	415	\$1
HIGH total				\$985	26,227	\$206
MEDIUM	[3]					
	South Canterbury Finance Limited [3]	BBB-		\$1,898	34,733	\$404
	Allied Nationwide Finance Limited [3]			\$257	8,134	\$31
MEDIUM total				\$3,271	93,839	\$441
LOW	[3]					
LOW total				\$4,784	377,927	\$1
Grand total				\$9,040	497,993	\$648

• Indicates that it is the companys first report date