

The Treasury

South Canterbury Finance Limited Information Release

Release Document

April 2011

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Key to sections of the Official Information Act 1982 under which information has been withheld.

Certain information in this document has been withheld under one or more of the following sections of the Official Information Act, as applicable:

- [1] 9(2)(a) - to protect the privacy of natural persons, including deceased people
- [2] 9(2)(b)(i) - to protect trade secrets
- [3] 9(2)(b)(ii) - to avoid unreasonable prejudice to the commercial position of the person who supplied the information or who is the subject of the information
- [4] 9(2)(ba) - to protect information that is subject to an obligation of confidence, or that was or could be provided under legal compulsion, where making the information available would be likely to prejudice the supply of similar information and it is in the public interest for that information to continue to be supplied
- [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
- [8] 9(2)(i) - to enable the Crown to carry out commercial activities without disadvantage or prejudice.

Where information has been withheld, a numbered reference to the applicable section of the Official Information Act has been made, as listed above. For example, an [8] appearing where information has been withheld in a release document refers to section 9(2)(i).

In preparing this Information Release, the Treasury has considered the public interest considerations in section 9(1) of the Official Information Act.

FILE NOTE

This is a file note relating to **DGS Risk Management**

Dated 11 May 2009.

This file note records:

- the current situation
- potential risks of action or inaction
- action plan

The Current Situation

The Deed of Guarantee was initiated to protect the confidence of depositors and debenture holders and when a company is seeking to wind-down or has no obligations to guarantee then maybe there is scope to review the place of these institutions in the Scheme.

Allied to this we have institutions on the Scheme who either have shown no discernable movement in their guaranteed amount or who have shown levels of growth that are a cause for concern given their relative risk indicators.

To this end we need monitor the NBDTs on the Scheme and indentify which institutions fall into which category and what are the possible risks of action or inaction, whilst looking to tailor an engagement strategy to bring about a minimisation of risk to the Crown.

Potential Risks of Action or Inaction

Companies already in wind-down mode, or who have wound down completely, may be vulnerable to take-over by persons seeking to materially expand the deposit base and get the business going again. To this extent inaction poses a significant risk of leaving the Crown exposed to such an eventuality. It would appear that a tailored plan of engagement with the institution to find out what direction they wish to take their business in from now until October 2010 would allow the Crown to manage their exposure by capping the amount guaranteed.

For companies that are neither winding-down nor showing significant growth, then we need to be aware of the same potential risk for these institutions to materially expand their business and hence increase the exposure of the Crown. A similar action plan of tailored engagement allied to a possible option to cap the guaranteed amount may prove effective.

There is a definite risk to the Crown unless action is taken with respect to those entities moving in the opposite direction and showing very high growth with respect to their risk profile. Inaction on this category could prove very costly. Possible action including closer monitoring and also remind institutions of their duty to behave in a prudent and businesslike manner could be a way forward.

Action Plan

Section 4 of the Deed of Guarantee provides us with the starting point for all of these four categories of NBDT. The acquisition of information regarding their current and future business plans, as well as information on the mix of their balance sheets and the tenor of deposits, via a proper strategy of engagement will allow us to allocate them to the relevant category and then tailor our action accordingly, whilst keeping tabs on the level exposure facing the Crown. In addition to this our monthly reporting will enable us to monitor the population of these categories and manage them accordingly.

NBDTs with Negative Growth (i.e. possible wind-down or have wound-down)

For those companies in wind-down (or who have wound-down) we should look towards structured engagement tailored to finding out what their strategy is for winding-down their business. Essentially we would look to replace their Deed, rather than remove it, with one which caps our liabilities. This cap would basically allow the Crown to guarantee those existing deposits – until such time as they are repaid – and would prevent our exposure increasing if the company chose to cease wind-down and wanted to revamp itself instead. Similarly we could then opt for ownership covenants too to further force these companies to remain on the path to orderly market exit.

NBDTs with No Discernable Increase in Growth

In the case of entities which appear to moving side-ways or whose growth patterns do not appear to fluctuate outside of a certain band then my proposal for action would be to positively engage with them post-information gathering and propose a capping arrangement.

Capping arrangements as discussed for those three categories (wound-down, winding-down and no significant growth) are beneficial to the Crown's existing position as it would allow the overall exposure to be fixed and make it easier to control the risk. They could be put in place via some carrot and stick arrangement involving reduced fees for co-operative parties. The stick for those parties who do not have debt securities on offer would be removal of the Guarantee under 10.3(a)(ii) of the Deed which relates to the Deed no longer being used for its original purpose.

NBDTs with a Percentage Growth >10%

For those companies exhibiting growth beyond that considered reasonable then we would need to look at what reasons they have given us for why they have grown at such a rate. This would then allow us to reach a more informed judgement on whether such businesses are run in a prudent and businesslike fashion.

I have included for informational purposes only an indicative table of our NBDTs and their growth patterns:

Category	12 October Guaranteed Amount	March 2009 Return	Growth (from 12 Oct 08)
NBDTs with a Percentage Growth >20% (High Risk)	699,895,168	961,855,754	37.43%
NBDTs with a Percentage Growth >20% (Medium Risk)	1,595,876,690	2,052,246,221	28.60%
NBDTs with a Percentage Growth >20% (Low Risk)	375,636,982	466,583,336	24.21%
NBDTs with a Percentage Growth 10%-20%	278,820,268	320,390,905	14.91%
NBDTs with No Discernable Increase in Growth	1,471,471,102	1,477,747,067	0.43%
NBDTs with Negative Growth (i.e. possible wind-down)	99,179,552	82,046,502	-17.27%
NBDTs with Negative Growth =100%	1,496,338	-	-100.00%

NBDTs with a Percentage Growth >20%:

Type	Risk Level	Name	12 October Guaranteed Amount	March 2009 Return	Growth (from 12 Oct 08)
Finance companies	HIGH	[3]	812,093	8,282,553	919.90%
Finance companies	HIGH	Viaduct Capital Limited*	3,378,218	14,291,061.00	323.04%
Finance companies	MEDIUM	[3]	79,823,079	172,272,133	115.82%
Finance companies	MEDIUM		2,275,884	4,610,884.00	102.60%
Finance companies	HIGH		7,199,361	14,286,001	98.43%
Finance companies	HIGH	Vision Securities Limited	23,336,131	36,916,457.00	58.19%
Finance companies	LOW	Rockforte Finance Limited	1,831,028	2,636,339.00	43.98%
Finance companies	MEDIUM	[3]	2,642,965	3,734,755	41.31%

Finance companies	HIGH	[3]	549,506,630	746,710,202	35.89%
Finance companies	LOW		73,720,932	93,460,636	26.78%
Finance companies	MEDIUM	South Canterbury Finance Limited	1,499,525,789	1,857,315,840.00	23.86%
Finance companies	LOW	[3]	300,085,022	370,486,361.00	23.46%
Finance companies	MEDIUM		11,608,973	14,312,609	23.29%
Finance companies	HIGH	Equitable Mortgages Limited	115,662,735	141,369,480	22.23%

* **Viaduct Capital Limited had their Crown Guarantee Removed on 20 April 2009**

Letters in respect of request for further information have been sent to: [3]
[3], Vision Securities Limited, [3] South Canterbury Finance Limited and Equitable Mortgages Limited.

NBDTs with a Percentage Growth 10%-20%:

Type	Risk Level	Name	12 October Guaranteed Amount	March 2009 Return	Growth (from 12 Oct 08)
Finance companies	MEDIUM	[3]	41,741,270	49,523,385.00	18.64%
Finance companies	HIGH		15,014,850	17,188,334	14.48%
Finance companies	MEDIUM	Allied Nationwide Finance Limited	218,718,218	249,920,667	14.27%
Finance companies	LOW	[3]	3,345,930	3,758,519	12.33%

Letters in respect of request for further information have been sent to: Allied Nationwide Finance Limited.

NBDTs with No Discernable Increase in Growth:

Type	Risk Level	Name	12 October Guaranteed Amount	March 2009 Return	Growth (from 12 Oct 08)
Finance companies	HIGH	[3]	14,707,985	15,410,653	4.78%
Finance companies	MEDIUM	[3]	43,785,602	45,510,669.00	3.94%
Finance companies	HIGH	Mutual Finance Limited	6,895,354	7,097,816	2.94%
Finance companies	LOW	[3]	1,406,082,161	1,409,727,929.00	0.26%

NBDTs with Negative Growth (i.e. possible wind-down or have wound-down):

Type	Risk Level	Name	12 October Guaranteed Amount	March 2009 Return	Growth (from 12 Oct 08)
Finance companies	LOW	[3]	14,203,062	14,118,716.00	-0.59%
Finance companies	MEDIUM	[3]	12,614,746	12,316,392	-2.37%
Finance companies	MEDIUM	[3]	56,870,823	48,953,017	-13.92%
Finance companies	LOW	[3]	15,490,921	6,658,377	-57.02%
Finance companies	LOW	[3]	1,496,338	-	-100.00%

[3] have recently had a change of ownership and have released a new prospectus with a view to increasing deposits.

Letters in respect of request for further information have been sent to: [3]
[3]

Balance of document withheld: [3]