



Banking & Financial Services Law Association

**The 26th Annual Banking and Financial Services
Law and Practice Conference**

Sheraton Mirage Resort, Gold Coast

31 July -1 August 2009

**NZ Finance Companies
"The Way Forward"**

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NZ Finance Companies
The Fallout and Lessons for Go Forward

Grant Graham
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1. Economic Climate pre 2006
2. The Roll Call
3. Common features in collapses and lessons for the future

Economic climate pre 2006



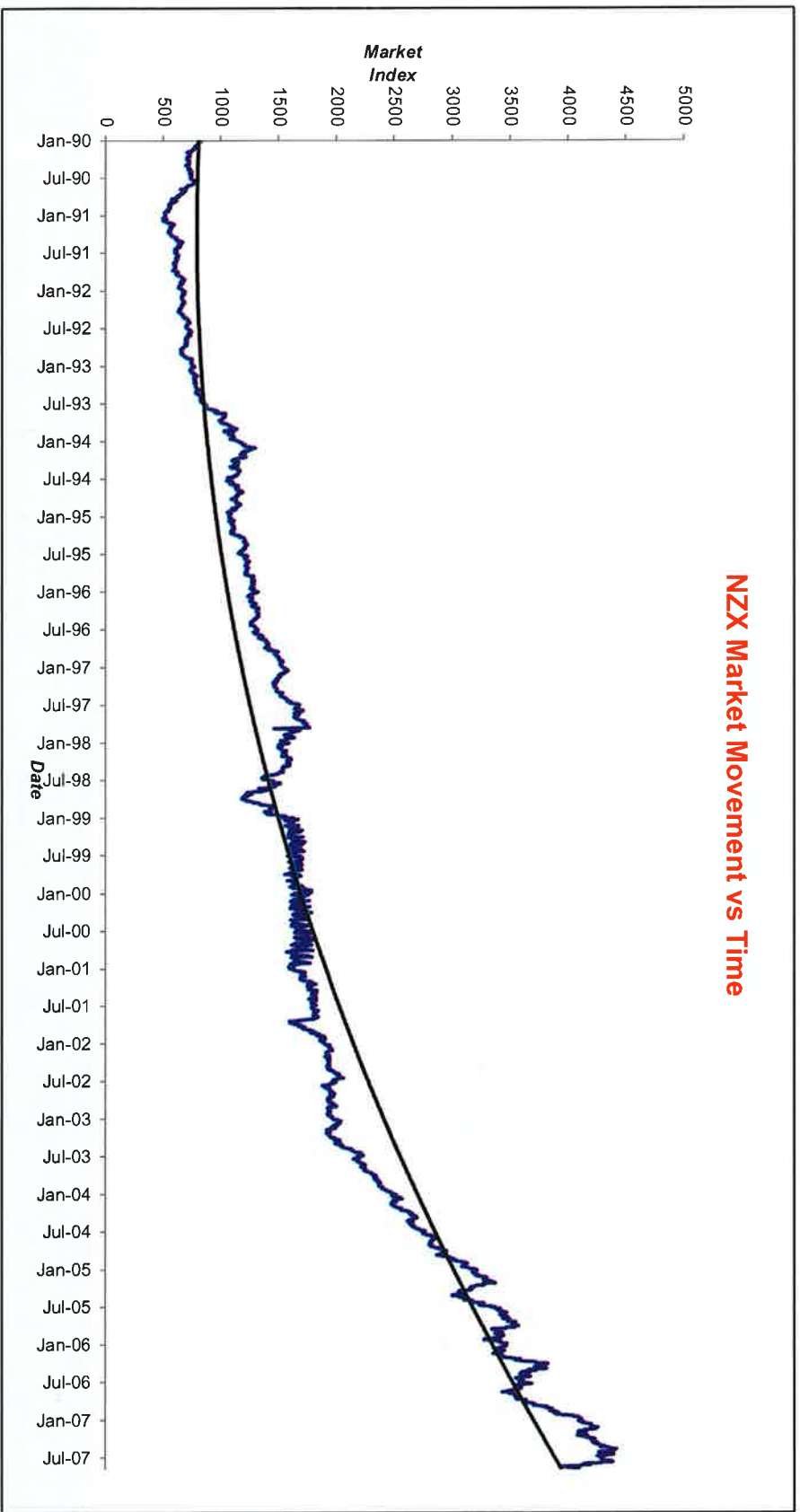
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Extraordinarily good and prolonged period of economic growth and confidence in New Zealand.

Economic climate pre 2006 (cont.)



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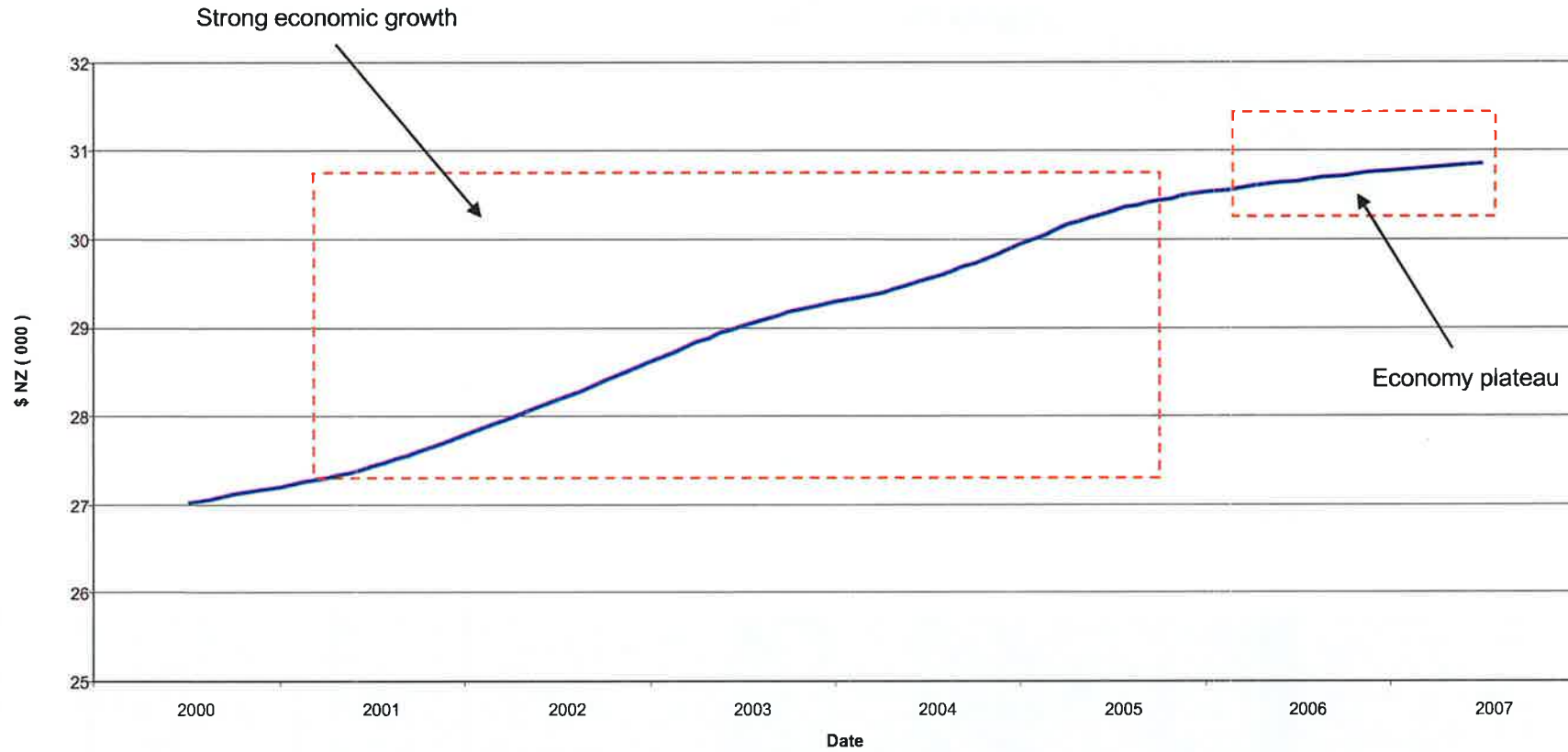




Economic climate pre 2006 (cont.)

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GDP per capita





- Growth and easy access to money meant little home for equity.
- Lower bank interest rates meant increasing support for investment alternatives.
- Relative low stress entry meant the numbers of finance companies grew dramatically.
- Finance was suddenly available to those who had never had access to it before.



“The Roll Call” – Three waves of failure

- Motor Vehicle Financiers (mid 2006)
- Consumer Lending (mid 2007)
- Property Financiers (late 2007, 2008)

2006 – 3 motor vehicle failures



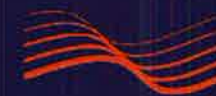
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1. National Finance 2000 ((R) May 2006)
 - Secured Investors owed \$25.5m

2. Provincial Finance ((R) June 2006)
 - Secured Investors owed circa \$300m

3. Western Bay Finance ((R) August 2006)
 - Secured Investors owed \$48m

2007



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4. Bridgecorp ((R) July 2007)
 - Owed circa \$500m to 18,000 investors
5. Nathans Finance ((R) August 2007)
 - Owed \$166m to 6,000 investors
6. Property Finance ((R) August 2007)
 - Secured debentures of \$80m – came out of receivership in February 2008
7. Five Star Consumer Finance ((R) August 2007)
 - Owed \$58m
8. LDC Finance ((R) September 2007)
 - Owed \$19.3m to 995 depositor and debenture holders.



9. Finance & Investments ((R) September 2007)
 - Owed \$16m to 370 investors.
10. Clegg & Co Finance ((R) October 2007)
 - Has around \$15m of 500 investors' funds in debentures.
11. Beneficial Finance ((M) October 2007)
 - Has \$24.2m of investors' funds.
12. Geneva Finance ((M) October 2007)
 - Owed \$138m to 3,000 creditors.
13. Capital + Merchant Investments ((R) November 2007)
 - Owed \$190m to 7,000 investors.
14. Numeria Finance ((R) December 2007)
 - Owed \$6.4m to 480 debenture holders

2008



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- 15. MFS Boston ((M) March 2008)
 - Owed \$38.5m to 1,700 investors.
- 16. Lombard Finance and Investments ((R) April 2008)
 - Owed \$10m to 4,400 investors.
- 15. Kiwi Finance ((R) April 2008)
 - Owed \$2m to investors.
- 16. Cymbis New Zealand ((R) May 2008)
 - Owed \$6.9m to 797 stockholders.
- 19. MFS Pacific Finance ((M) May 2008)
 - Owed \$300m to stockholders.



20. Belgrave Finance ((R) May 2008)
 - Owed \$22m to about 1,000 debenture investors

21. IMP Diversified Fund ((M) June 2008)
 - Owed \$16.5m to debenture holders.

22. Dominion Finance Holdings ((R) June 2008)
 - Owed \$276m to debenture holders.

23. St Laurence Ltd ((M) June 2008)
 - Owed \$240m to 9,000 debenture holders



24. Dorchester ((M) June 2008)
 - Owed \$168m to debenture stock investors and \$8m to subordinated noteholders.

25. North South Finance ((M) December 2008)
 - Owed \$102m to 3,800 investors.

26. Strategic Finance ((M) December 2008)
 - Owed \$325m to 15,000 investors.

27. Hanover Finance ((M) December 2008)
 - Owed \$465m to 13,000 investors.

28. United Finance ((M) December 2008)
 - Owed \$65m to 2,400 investors.

2009



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- 29. Compass Capital ((R) March 2009)
 - Owed \$14m to secured investors.

- 30. Mascot Finance ((R) March 2009)
 - Owed \$65m.

- 31. Orange Finance (M?) August 2009)
 - Owed \$25m to 1,500 investors.



Some unbelievable outcomes

	Book \$m	# Investors	¢ in \$
▪ Bridgecorp	500	18,000	>10¢
▪ Capital + Merchant	190	7,000	0!
▪ Nathans	166	6,000	>10¢



Banning Orders/ Charges laid in relation to:

- Bridgecorp
- Five Star Finance
- Nathans
- National Finance 2000 (Director and Auditor)
- Clegg & Co

... Watch this space

So what were the features that contributed to this meltdown?



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- i. A number of low quality directors – predominance of executive directors.
- ii. Often poor or non-existent due diligence by investors – primarily rate responsive.
- iii. A regime that did not require financial advisers to disclose commissions received from finance company placements.
- iv. Poor quality trust deeds that allowed for excessive related party lending.
- v. A complete disconnect between market perception of role of Trustee and actual role.

So what were the features that contributed to this meltdown? (cont.)



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- vi. In a Trustee industry of 5 participants, 2 players assumed circa 80% of the market by number of appointments.
- vii. A reactive (rather than proactive) regulatory regime.
- viii. Widespread practice of rollover or new loan to mask existing problems.
- ix. Predominance of 2nd tier auditors.



2nd tier auditor predominance in failures

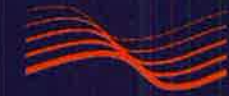
■ O'Halloran & Co	1
■ Ingham Mora	1
■ PKF	2
■ Staples Rodway	3
■ BDO	9
■ Sherwin Chan & Walshe	2
■ Hayes Knight	2
■ Silks	1
■ Markhams	1
■ Grant Thornton	2
■ Martin Wakefield Ltd	1



'Big 4' finance company audit failures

■ PwC	1
■ Deloitte	0
■ Ernst & Young	1
■ KPMG	4

Profile of “Next Time Around”



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- Quality Directors
 - Disclosed Broker Commissions
 - Robust Audits
 - Ratings ?
 - “Real role” for Trustees
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- Key word ... **TRANSPARENCY**