

Companies with NZ\$1.7b covered by the extended Crown retail guarantee confident they can wean themselves off it

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With taxpayers and the government's under pressure accounts facing a tab of about NZ\$1.2 billion from the Crown retail deposit guarantee scheme, how are the companies covered by its successor, the extended Crown retail deposit guarantee scheme which is due to end on December 31, getting along with weaning themselves from the taxpayer teat?

After last November's demise of Equitable Mortgages and the collapse of South Canterbury Finance last August before the extended guarantee even began, just four companies are covered by the extended scheme. They are the **Combined Building Society** [3] (the merged Marac Finance, CBS Canterbury and Southern Cross Building Society), **Fisher & Paykel Finance** [4], PGG Wrightson Finance and the Wairarapa Building Society.

Treasury [5] says the risk of default by any of the four, which have a combined NZ\$1.7 billion (as of February 28) of deposits guaranteed, is so unlikely that it has made no provision in the Crown accounts. The extended scheme replaced the initial two year guarantee scheme last October.

PGG Wrightson Finance 'ahead of plan'

PGG Wrightson Finance CEO Mark Darrow said the rural lender now has about half its term deposits maturing beyond December 31. Of money being invested and reinvested, between 70% and 80% is being invested out beyond December 31.

"The elephant in the room is the potential concertina of debt as the year progresses, so what is critical is getting early commitment from investors to invest beyond, to mitigate the reinvestment risk," Darrow said. "We are very pleased with our progress to date, which is ahead of plan."

PGG Wrightson Finance [6] had NZ\$260.4 million worth of debentures on issue at December 31, up from NZ\$247.6 million at June 30 with NZ\$168.7 million due for repayment within a year. The company also has secured bonds, ranking equally with debentures and bank debt, with a face value of NZ\$94.4 million (of a total of NZ\$260.4 million worth of bonds) due to mature on October 8 this year. It also has NZ\$100 million in combined undrawn bank loans with BNZ and ASB's parent, Commonwealth Bank of Australia, which isn't due to mature until December 1, 2013.

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The rural lender has a BB speculative, or "junk", grade credit rating from Standard & Poor's (S&P).

'Very conservative' Wairarapa Building Society stopped offering guarantee in January

Kim McCabe secretary of the **Wairarapa Building Society** [7], said the smallest of the four taxpayer backed firms had stopping offering the guarantee in January. McCabe said the building society has about NZ\$94 million worth of investments from the public with NZ\$14 million of that covered by the guarantee. McCabe said the Wairarapa Building Society has NZ\$1.4 million worth of retail money covered by the guarantee that has been invested for terms extending beyond December 31. (Companies with the guarantee are able to offer guaranteed deposits of say five years duration even when the guarantee ends in eight and a half months time).

The Wairarapa Building Society's reinvestment rate over the past six weeks has ranged between 88% and 94%.

"We operate a very conservative book and have been here for 138 years," McCabe said.

The Wairarapa Building Society, which has NZ\$24 million worth of undrawn BNZ and Westpac loans, has a BB+ credit rating from Fitch Ratings, Fitch's highest non-investment grade rating.

F&P Finance 'could repay all debentures through bank loans'

F&P Finance managing director Alastair Macfarlane, said the consumer lender has sufficient funding through bank loans to fully repay all debentures irrespective of their term or whether they are Crown guaranteed or not.

"In fact we hold a surplus liquidity position to achieve this objective if required," Macfarlane said. "Having said that we expect investors to reinvest upon maturity although at this stage it is difficult to judge the level and for what term. The maturity profile of the book has a meaningful proportion maturing beyond the 31 December 2011 date. Our last 12 monthly average reinvestment rate remains consistent with previous years."

Macfarlane declined to provide specific details on the value of F&P's guaranteed deposits with an expiry date post December 31, the specific current reinvestment rate, or the number of investors reinvesting out beyond the guarantee saying this information was commercially sensitive.

In **its last reported results** [8], for the six months to September last year, F&P Finance said it had total debentures of NZ\$154 million at September 30, down 12% from NZ\$175 million a year earlier. Its retail debenture reinvestment rate during the half-year was 67% The company said NZ\$78 million of its NZ\$285 million securitisation programme was un-utilised at September 30 and NZ\$121 million of its NZ\$334 million worth of bank loans was un-drawn. Its banks include ANZ, BNZ and Westpac

Overall, excluding equity, F&P Finance had 37% of its funding from bank loans, 36% from the securitisation to fund its Farmers business, and 27% from retail debentures. Parent F&P Appliances had NZ\$204 million of shareholder funds in the finance subsidiary.

F&P Finance has a BB speculative, or "junk", grade credit rating from S&P. Macfarlane told interest.co.nz last June that the subsidiary of whiteware maker F&P Appliances was **trying to wean itself off the extended guarantee scheme** [9] even before the scheme was due to begin on October 12 last year.

61%, or about NZ\$1 billion, of Combined Building Society retail money guaranteed

The Combined Building Society, the biggest of the four entities covered by the guarantee, said in **a presentation** [10] released this month that as of its January 7 establishment date 61% of its NZ\$1.67 billion of retail funding was guaranteed. That's about NZ\$1 billion. It's not clear from the presentation whether another 10% of retail funding, in call and savings accounts, is covered by the guarantee. The group, which has more than 91,000 borrowers and investors, didn't respond to interest.co.nz's attempts to seek further detail.

The Combined Building Society has a BBB- investment grade credit rating from S&P and also said in its presentation that investor reinvestment rates have been running at about 80% over the past six months.

The group's presentation says its transitioning of investors to non-guaranteed investments and to terms stretching out beyond December 31 are progressing to plan. It says **it has NZ\$590 million of un-utilised funding** [11] including NZ\$285 million in cash, NZ\$200 million of committed undrawn bank facilities with BNZ and Westpac, and NZ\$105 million of un-utilised securitisation facilities.

The Combined Building Society plans to apply to the Reserve Bank for a banking license in the second-half of the year in a process that could take a year or longer. Craig Stephen, the Combined Building Society's treasurer, told interest.co.nz last year that if the group successfully obtains a banking license, **it won't need a Crown guarantee** [12].

The taxpayer's **NZ\$1.2 billion tab from the initial Crown retail deposit guarantee scheme** [13] covers nine finance companies - led by South Canterbury Finance - that collapsed whilst carrying the initial guarantee.

Equitable Mortgages, which was covered by the extended guarantee, was placed in receivership on November 26 last year. Equitable had NZ\$188.4 million worth of loans outstanding when the receivers were called and owed about 6,000 secured debentureholders NZ\$192.3 million. **Its receiver's first report** [14] said it was too soon to estimate how much of Equitable's loans - first ranking loans for commercial, industrial and residential property - would be recovered but noted the firm had a "significant" amount of cash on hand.

Treasury started sending out claim forms to Equitable depositors on March 31. **See more here.** [15]

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