

Funding MARAC in a Challenging Market Place

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Agenda

- A little 'MARAC' business history
- A record of solid growth and performance
- Business philosophies
- Funding fundamentals to 2007
- Funding 2007 – today
- What is next for funding
- A word on regulation!



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MARAC pre 2000 - 2007

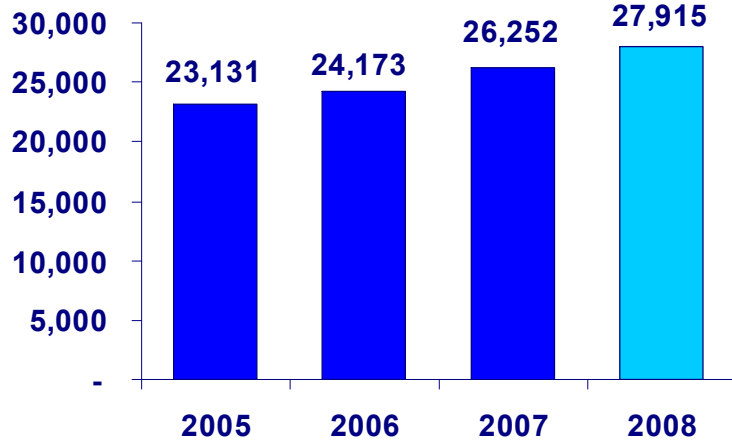
- History dates back 55 years
- Amalgamation of 5 different finance companies commencing 2000 – 2003
- Major focus is on financing small and medium businesses fixed asset requirements
- Consumer finance for ‘higher’ valued assets
- Funding has always been a bit different than others!



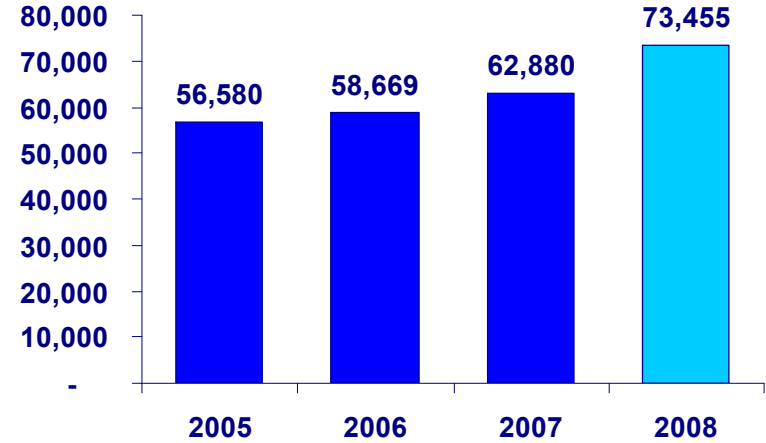
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MARAC Business Performance

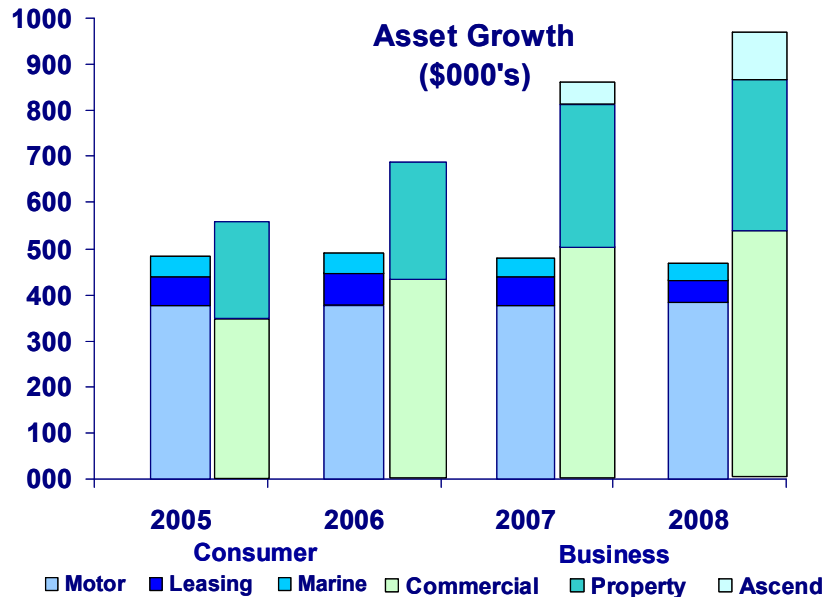
Net Profit After Tax
(\$000's)



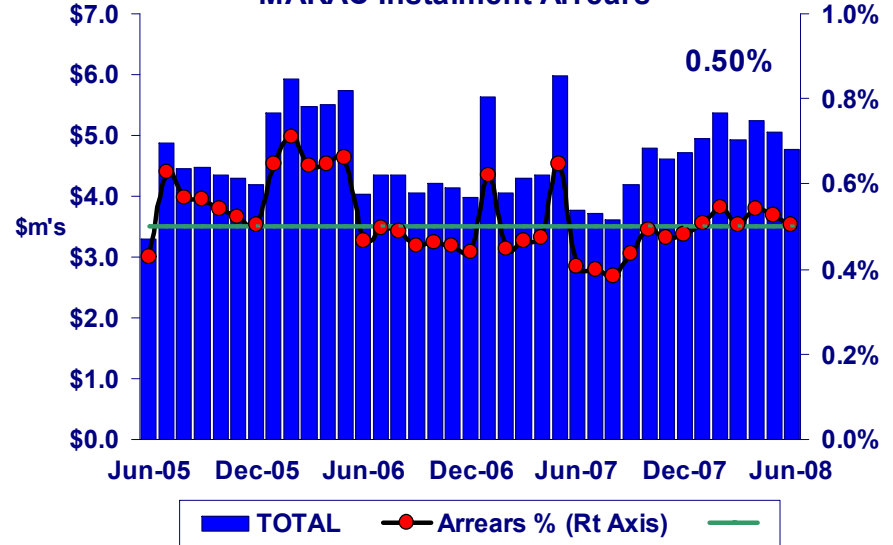
Net Operating Income
(\$000's)



Asset Growth
(\$000's)



MARAC Instalment Arrears



Business Philosophies

- Management and Board

- PGC ownership – conservative / prudent
- Public company governance model
- Management experience – risk averse
- Prudential guidelines
- ‘Bank like’



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Funding MARAC up to 2007

- Two sources since pre 2000 – retail and banks – increasing proportionately
- S&P ‘Investment’ Grade rating obtained - 2006
- Third leg added mid 2007 – securitisation
- Why?
 - Diversification
 - Asset and liability management
 - Liquidity management



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Funding up to 2007

- Retail Debentures
 - Reinvestment rate: 65 – 75%
 - New money – an interest rate ‘tap’
 - Strong broker relationship
- Wholesale Bank Facilities
 - 4 banks bilateral arrangements
 - Strong relationships – 7+ years
- Securitisation (August 2007)
 - Accessing different funds
 - Price
 - Diversification
 - Structured for the future



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Summary up to 2007

- Strong financial performance and growth
- Best practice 'public company' governance
- Conservative market position
- Diversified assets and liabilities
- Three funding sources



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Funding 2007 – Today

Retail Debentures

- (##) finance companies have failed
- Flight to quality evidenced
- S&P rating differentiates
- Reinvestment rates remain in historical pattern
 - 63% year to June 2008
- Two separate ‘camps’ firmly established
- Price up



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Wholesale Bank Facilities

- Long term relationships vital
- Syndication introduced to mitigate perceptions
- New bank added
- Facilities expanded (+\$75m) to \$480m
- Price up



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Securitisation

- Entered market pre CP collapse
- Liquidity provider (Westpac) held debt
- CP Market reopened (partially) early 2008
- Looking to “term out” some facility (MTN)



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New Retail Bond – July 2008

- Sought - \$100m
 - 5 years (tenor)
 - Different investors
 - S&P rated
- Unfortunate timing
- Closed @ \$104m

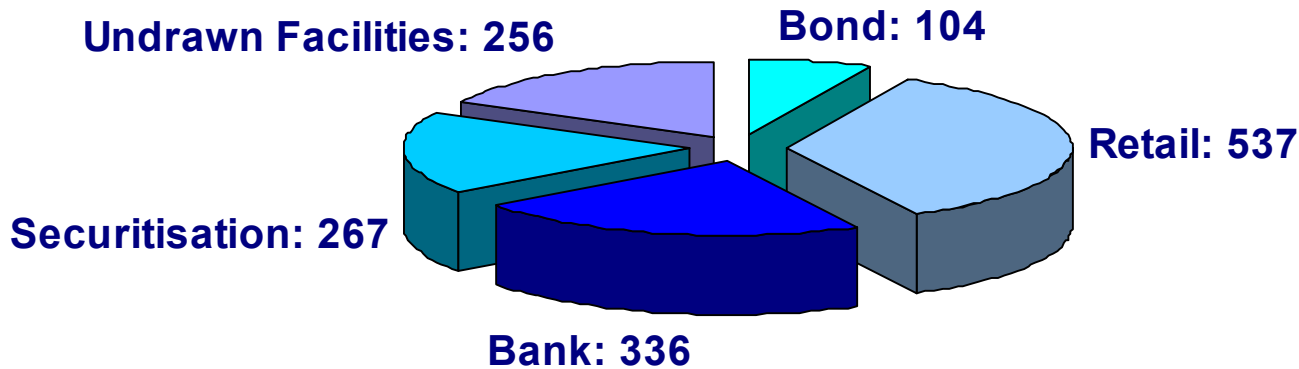


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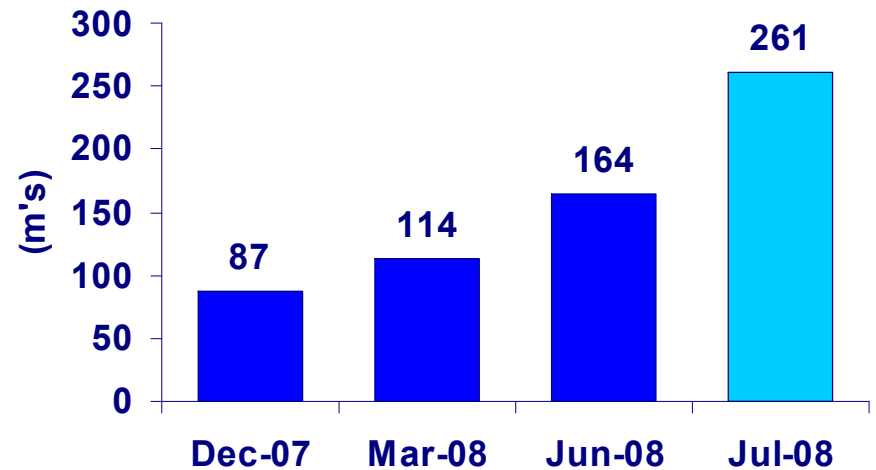
Funding MARAC and Liquidity

July 2008

Funding Sources
(\$m, July 2008)



Liquidity



What is next for funding?

Retail

- Continued market differentiation
- Further bond offerings
- Additional differentiated products
- Better communication



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Wholesale

- Bank relationships are everything – largest investors
- Price up further
- Little short term expansion possible
- Bank relationships can open new doors



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Securitisation

- Structure offers new channels
 - MTN's
 - International appetite
 - Product specific
- Will require greater 'enhancement'
- Demands greater governance and administration



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Others

- Private placements
- Hybrids
- Equity



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A word on regulatory change

On the Reserve Bank Amendment Bill (No 3)

“This is not intended to be a quick-fix response to current challenges facing the non-bank sector. The new legislation is intended to raise standards across the industry and to improve the future resilience of the sector” Dr Cullen said.

*Michael Cullen as reported
NZ Herald 3 September 2008*



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Dr Cullen said the requirements of the law included:

- A credit rating from a rating agency approved by the Reserve Bank
- Maintaining a minimum amount of capital and a minimum capital ratio
- Maintaining an adequate level of liquid assets
- Restrictions on lending to persons related to the deposit-takers
- New governance requirements, including at least two independent directors
- All deposit-takers are required to obtain a credit rating by March 2010

The new regulations are expected to take effect in 2010



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A word on regulatory change

- NBDT or Bank – dual oversight
- Who will be left to regulate?
- Is this all too little, too late?



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