

## MARAC Finance Ltd.

### ***Rationale***

The BBB-/Stable/A-3 counterparty credit ratings on MARAC Finance Ltd. (MARAC) reflect the company's good business profile, sound growth strategy, and market position as a New Zealand finance company. MARAC has maintained sound loan growth, but has also experienced a decline in net interest and operating margins reflecting an increased focus on higher-quality lending segments, increased funding costs, and relatively strong competition. The rating has also been underpinned by the company's focus on diversifying its funding platform, which has moderated the impact of recent industry funding pressures on the company. Moderating factors are MARAC's focus on traditionally narrow product lines and on some higher-risk lines of business, although its loan portfolio is progressively seasoning. MARAC is one of the largest asset-finance companies in New Zealand, with total assets of about NZ\$1.25 billion at June 30, 2007, and is the main operating entity in the NZX-listed Pyne Gould Corp. Ltd (PGC; not rated). The company is primarily involved in the financing of plant and equipment, motor vehicles, and property in New Zealand.

There have been 11 New Zealand finance companies placed in liquidation or receivership, or that have defaulted on making debenture payments, since early 2006, which has contributed to material investor uncertainty in the market, particularly among debenture investors. Many New Zealand finance entities have experienced declining levels of new funds, and the level of reinvestments for maturing funds has also declined. Investor uncertainty is expected to continue for some time, leading to funding pressures for a number of market participants.

MARAC's growth aspirations and strategy are considered consistent with its capability. The company seeks to leverage its good franchise and brand profile as one of the largest asset financiers in the New Zealand market to facilitate, within its existing capabilities, its balance-sheet-growth objectives across the business lines. The company's stable and long-standing management team exhibits appropriate experience for the activities undertaken. The distribution platform benefits from a combination of alliances and proprietary networks for key lines of business. Whilst MARAC's loan portfolio aligns with the

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population density of New Zealand, and has become more geographically diversified over the past year, it remains concentrated in that country.

MARAC's asset-quality experience has been good relative to its peers over the past few years, taking into account its involvement in some higher-risk lines of business. Some of these segments include property development, which may be more affected than other segments if the credit cycle tightens. The loan portfolio has some concentration through lines of business and sector exposures, although these concerns are lessened given the internal portfolio-concentration controls that will act to limit further concentration. During fiscal year-ended June 30, 2007, the company's asset-quality experience improved with the ratio of nonperforming assets (NPAs) to customer loans declining to 2.4% in 2007 from 7.27% in fiscal 2002. This improvement reflects a combination of management's focus on higher quality lending in some segments, improved underwriting capabilities, and improved collections technology coupled with benign credit conditions during the period. The level of charge-offs also continued to decline to 0.21% in fiscal 2007 from 4.53% in 2002.

MARAC has broadened its diversity of funding in the past 12 months, which lessens the impact of current market conditions. It has expanded its committed bank facilities to four banks and, post June 2007 balance date, has introduced a securitization capability. However, whilst MARAC has not been immune to investor uncertainty, it appears to be better-positioned, compared with many competitors, with its wholesale lines, securitization facilities, and other funding options to contend with heightened industry uncertainty in the short term. A number of industry participants have recently curtailed lending activities to retain liquidity, an area which MARAC has so far been relatively unaffected.

MARAC's capital and financial flexibility are considered supportive of the rating. At fiscal 2007 it had NZ\$124 million of high quality capital, supplemented by a sound internal capital-generation capability. Financial flexibility is strengthened by being part of the NZ-listed Pyne Gould Corp. Ltd. (PGC) group, one of the 25 largest entities listed on the NZ Exchange with total equity of NZ\$231 million at June 30, 2007. PGC has a relatively unleveraged balance sheet, and has potentially other saleable assets that Standard & Poor's Ratings Services considers could provide MARAC with alternative funding if necessary.

### ***Liquidity***

Liquidity is acceptable for MARAC's risk profile and the company now has a reasonably well-diversified funding base. MARAC's maturity profile has shortened over the fiscal year to June 2007 that pre-empted the drawdown of nearly NZ\$300 million of securitization facilities in August 2007, post its balance date.

As at October 2007, MARAC has a relatively wide range of funding options including retail debentures, committed banking facilities from four New Zealand banks, and the securitization facility. These facilities provide a currently adequate level of buffer to fund current requirements.

MARAC's successful diversification of funding since fiscal 2006 to August 2007 has seen its reliance on retail debenture funds reduce from 73% to 60% as a percentage of total external funding. Committed bank credit lines were about 50% drawn at August 2007, providing additional funding flexibility if required. MARAC's strategy is to maintain undrawn committed funding in preference to holding and managing liquid assets. As it has a spread of four committed bank lines, with a weighted-average remaining term of approximately one year, this provides additional diversity compared to relying on one funding avenue.

***Outlook: Stable***

MARAC's stable outlook reflects Standard & Poor's expectation that financial characteristics including a disciplined and quality-focused growth strategy will be sustained. Despite continued potential for weakening margins arising from the competitive operating environment and from a stronger focus on quality lending to some segments, profitability should remain satisfactory. The stable outlook also reflects our expectation that MARAC will be able to adequately contend with the reduced levels of confidence in the industry due to recent failures without the need to curtail its normal levels of lending and to be able to satisfactorily manage a period of higher interest-rate volatility. Standard & Poor's anticipates ongoing management commitment to maintain credit underwriting standards and support current capital-adequacy levels.

Upward movement in the credit ratings may follow material strengthening in capital adequacy, a strengthening of earnings quality without any decrease in the standards of underwriting, and an improvement in the company's diversity of operations. While adequate for the current business profile, complementary continued development of risk-management capabilities will also be viewed favorably. Upward movement in credit ratings is not likely in the short term.

Downward pressure on the credit ratings could be precipitated by increases in credit risks or NPAs beyond expectation across any weakening of the credit cycle. This may include increased concentrations across single counterparty or sector exposures, particularly within the property development segment. Any diminution in capital adequacy on a stand-alone basis or through support provided to related entities might also pressure credit ratings. The credit ratings may also be subject to downward pressure if funding alternatives declined, or inadequate liquidity was maintained, or if earnings quality deteriorated.

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