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Banksia Securities teetering for three years before collapse, say receivers

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BANKSIA Securities was facing financial problems for at least three years before it collapsed owing investors \$660 million, receivers for the company say.

McGrathNicol partner Tony McGrath said the beginning of the failure of the company could be traced back to the start of the global financial crisis "three, four, five" years ago, and its lending practises had not kept pace with changing market conditions.

Some 600 of about 15,000 affected investors, many of whom live in regional Victoria, were told at a meeting today they would get back 65 cents in the dollar at most, but it could take up to three years to pay all the money.

The first distribution of 20 cents in the dollar was made last week and Mr McGrath said he hoped investors would receive 50 cents in the dollar by next September.

Any remaining money would take longer to realise, due to the difficulty of the loan portfolio, he said.

Investors at the meeting in Kyabram, central Victoria, took issue with how much the receivers are being paid, with the latest report to debenture holders showing they have been paid \$1.6 million since being appointed seven weeks ago.

But Mr McGrath said he was comfortable with the amount they were charging, given the way his business was conducted and the outcomes achieved.

Banksia Securities is a subsidiary of Kyabram-based non-bank lender Banksia Financial Group.

Mr McGrath also flagged the possibility of legal action against Banksia's directors and auditors over potential conflicts of interest and negligence.

"I think there are some issues that I'm concerned about," he told reporters after the meeting.

In particular, Mr McGrath is investigating the relationship between the Banksia group and the Banksia Mortgage Fund.

He said investors' money was siphoned into the fund, which then lent it to other parties.

Mr McGrath said there was also an "obvious issue" around the role of the auditor, who signed off a \$24 million surplus for the company just months before it collapsed with massive debts.

"That's quite a significant change that requires addressing," he said.

Mr McGrath said any potential legal action - either by the receivers or as a class action by investors - would have to be weighed against the potential outcome and the ability of those being sued to pay.

He also said McGrathNicol were in constant communication with the Australian Securities and

Investments Commission (ASIC) about Banksia Securities.

Investors in a second failed Banksia Financial Group fund, Cherry Fund Ltd, are expected to get back 55 to 70 cents in the dollar.