Accounting mistakes key to Banksia collapse

John Dagge

FAILED non-bank lender Banksia was incorrectly accounting for bad debts and operating outside the mandate of its trustee for more than two years before it collapsed, a public hearing has heard.

The revelations about the accounting practices of the Kyabram-based lender were aired as its founder Pat Godfrey was questioned for the first time by receivers winding up the group in the Melbourne Supreme Court.

Mr Godfrey told the hearing he left the company four months before it was placed into administration because he wanted to retire.

Mr Godfrey, who was managing director at the Banksia group for 37 years, said he could not recall the level of bad debt its key subsidiary Banksia Securities was carrying before he stood down.

Banksia Securities and an associated company collapsed under a pile of bad loans last October, leaving more than 16,000 mainly older and rural-based investors owed more than $660 million. They have recouped 65c in the dollar to date.

The company offered fixed-rate investment products resembling high-interest bank accounts but the funds were not covered by the Government's bank guarantee.

Counsel for receivers McGrathNicol, Philip Crutchfied, told the hearing Banksia had been incorrectly accounting for its bad loans.

The hearing heard Banksia's company secretary, Wesley, Santilla was adding the company's impairment provision to its asset base rather than subtracting it.

The effect was to maintain the company's critical capital adequacy ratio allowing it to remain on paper within the guidelines set by its trustee, The Trust Company.

The hearing heard Banksia Securities was likely to have tripped this key ratio in June 2010. That meant it was no longer able to take investors' money, but which it did until it fell into receivership.