

BRIEFING NOTES

October 2011

Welcome to this quarter's Briefing Notes.

Overview

The Company's total assets as at 30 September 2011 are \$53.1m, this compares with \$53.6m as at 30 June 2011 (adjusted for July distribution).

During the quarter there have been no material changes in either the conduct of the Moratorium or the assets being managed.

During the quarter no further asset impairments occurred and the asset backing per \$1 of original debenture stock principal remains at \$0.85.

As advised in our previous Briefing Note, we now include the statutory Moratorium Reports with the Briefing Note reports to minimise postage. Accordingly please see the attached half-yearly Moratorium Report.

During the quarter the Company, with the approval of the moratorium Finance Advisor, completed the sale of the Company's residual small balance loans and the purchase of additional bonds (at a discount) in the securitisation programme.

This ongoing simplification of the Company's affairs has a number of benefits for the moratorium; it will assist in lowering operating costs, it will assist in providing transparency on the Company's affairs and it will assist in focussing attention on the key task at hand, being the successful unwinding of each of the four securitised mortgage trusts that the Company invests in.

Another initiative this quarter has been the transfer of the stockholder registry to Link Market Services (Link); Link is a specialist registry company partially owned by NZX that operates in both New Zealand and Australia. The Directors consider that having this important aspect of the Company's records being maintained by an external, and specialised registry is appropriate particularly as active management continues to fall, in line with the reduced number of assets. Further information on this aspect of the moratorium will be posted to you by Link shortly.

Distributions/Statements

No distribution will be made next quarter.

The Directors wish to advise stockholders that future distributions will primarily occur when the mortgage trusts are wound up, accordingly future distributions will be irregular and likely to be of larger sizes than historically.

Each Briefing Note will update you on this aspect of the moratorium.

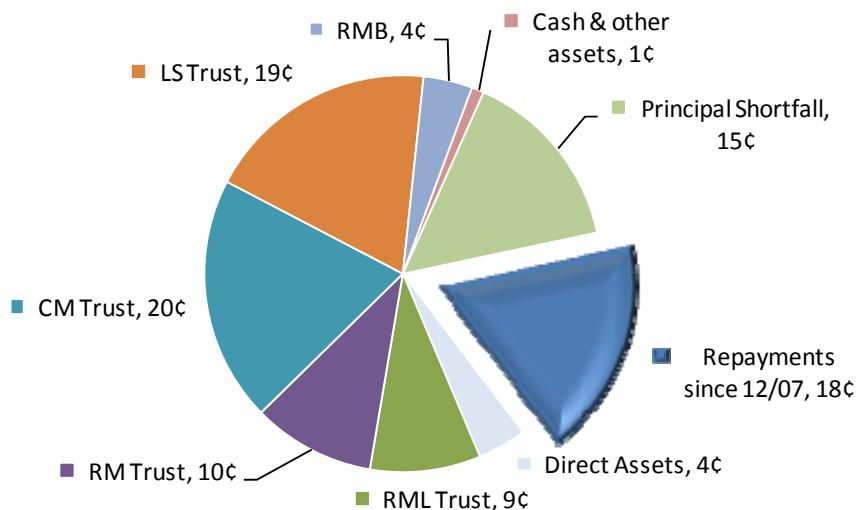
The last distribution of 2¢ was made to stockholders on 20th July 2011.

The interest rate applying under the moratorium (being the Official Cash Rate (OCR) + 2.0%) remains at 4.5%.



Where is Your Money?

As a guide to understanding where the Company has invested its assets, we have set out below the latest pie graph, reflecting the current position as at 30 September 2011.



Total Assets as at 30 September 2011: \$53.1 million

The segment denoted "Principal Shortfall" represents the current shortfall of principal to Stockholders if the Company's assets were realised at current book values.

Direct Assets

The level of involvement in the Company's direct assets is now decreasing or becoming passive as recoveries have been made and the residual assets do not require as much hands on management.

A summary of the direct assets as at today and the current book values are:

Asset Name	Asset	Book Value
Maymorn	Residual lots from a Wellington subdivision	340,463
Market Place	A restructure/workout of an Auckland commercial loan; now a new second mortgage	1,158,000
Okura/Tinopai	Northland land holdings now owned by PFSL	1,814,036
		<hr/>
		3,312,499
		<hr/>

Each of the abovementioned assets is being managed in accordance with an agreed recovery strategy with the Financing Advisor.

Securitisation Trusts

The Company's focus is now working with its advisors on avenues to accelerate the winding down of these Trusts so that distributions can be made to the Company and in turn to Stockholders. The Company is also concerned to make sure that the Trusts are being managed on a timely and cost effective basis.



A current summary of the four Trusts is:

Trust Name	Asset Type	Initial Size* (\$)	Today's Size (\$)	PFSL Investment (\$)
RM 2005-1	Residential 1 st mortgages	86,043,257	22,446,896	8,409,391
RML 2005-3	Residential 1 st mortgages	317,006,497	63,474,517	6,840,683
CM 2005-2	Commercial 1 st mortgages	157,212,541	82,010,491	15,614,212
LS 2005-4	Home Equity / Residential 1 st mortgages	75,749,913	52,256,160	15,326,315

* 29/08/07 at receivership.

Expanding on each Trust:

▪ **RM Trust**

Comprises a pool of residential first mortgages for owner-occupied homes.

This pool of mortgages has reduced substantially from \$86.0m (311 loans) at receivership to \$22.4m today (85 loans). The Company has \$8.4m invested in this Trust and based on the current information expects a full recovery of this investment over time.

Average Loan Size	\$277,122
90 day arrears (current)	6.02%

▪ **RML Trust**

Comprises a pool of residential first mortgages for both owner-occupied and investment properties.

This pool of mortgages has reduced substantially from \$317m (1,031 loans) at receivership to \$63.5m today (254 loans). The Company has \$6.8m invested in this Trust. The Company is presently unable to access the detailed information required to fully assess the recoverability of the Company's investment in this Trust. Based on the information available, this investment is at risk and has therefore been written down in the Company's accounts. Our current assessment remains that a partial recovery may be made over time.

Average Loan Size	\$320,578
90 day arrears (current)	8.30%

▪ **CM Trust**

Comprises a pool of first mortgages for commercial properties.

This pool of mortgages has reduced substantially from \$157.2m (114 loans) at receivership to \$82.0m today (55 loans). The Company has \$15.6m invested in this Trust. It is expected that the value of this investment will need to be written down in the near future. However, based on the information we currently have access to, it is expected that most of this investment will be recovered over time.

Average Loan Size	\$1,608,049
90 day arrears (current)	12.80%



- **LS Trust**

Comprises a pool of first mortgages for owner-occupied properties.

This pool of mortgages has reduced from \$75.7m (980 loans) at receivership to \$52.3m today (659 loans). The Company has \$15.3m invested in this Trust. Over time, the Company expects a full recovery of its investment.

Average Loan Size	\$76,931
90 day arrears (current)	0%

Cash Movements – Quarter Ended 30 June 2011

Period	
Opening Cash	1,070,699
Amounts Received	1,484,029
	2,554,728
Amounts Paid	2,349,810
	204,918
Net Cash Decrease	865,781
Closing Cash	204,918
Management fees	69,000
Distribution - 2¢	1,600,000
Official cash rate	2.5%

Information

All significant correspondence is available on the Company's website, www.propertyfinance.co.nz.

We are happy to address any queries that you may have. Please feel free to call us via the Company's messaging service on 03 379 9336 or if it is more convenient, by email to catherine@propertyfinance.co.nz.

Thank you.

Darryl Queen
Managing Director