

The Hazards of Secured Bank Lending

The National Safety Council of Australia's Victoria Division had been a sleepy outfit until John Friedrich took over. Under its new management, NSC members trained like commandos and were prepared to go anywhere and do anything. They saved people from drowning fought fires, found lost bushwalkers, and went down mines. Their lavish equipment included 22 helicopters, 8 aircraft, and a mini-submarine. Soon the NSC began selling its services internationally.

Unfortunately the NSC's paramilitary outfit cost millions of dollars to run—far more than it earned in revenue. Friedrich bridged the gap by borrowing \$A236 million of debt. The banks were happy to lend because the NSC's debt appeared well secured. At one point the company showed \$A107 million of receivables (that is, money owed by its customers), which it pledged as security for bank loans. Later checks revealed that many of these customers did not owe the NSC a cent. In other cases banks took comfort in the fact that their loans were secured by containers of valuable rescue gear. There were more than 100 containers stacked around the NSC's main base. Only a handful contained any equipment, but these were the ones that the bankers saw when they came to check that their loans were safe. Sometimes a suspicious banker would ask to inspect a particular container. Friedrich would then explain that it was away on exercise, fly the banker across the country in a light plane, and point to a container well out in the bush. The container would of course be empty, but the banker had no way to know that.

Six years after Friedrich was appointed CEO, his massive fraud was uncovered. But a few days before a warrant could be issued, Friedrich disappeared. Although he was eventually caught and arrested, he shot himself before he could come to trial. Investigations revealed that Friedrich was operating under an assumed name, having fled from his native Germany, where he was wanted by the police. Many rumors continued to circulate about Friedrich. He was variously alleged to have been a plant of the CIA and the KGB, and the NSC was said to have been behind an attempted counter-coup in Fiji. For the banks there was only one hard truth: Their loans to the NSC, which had appeared so well secured, would never be repaid.

Source: Adapted from T. Sykes, *The Bold Riders* (St. Leonards, NSW, Australia: Allen & Unwin, 1994), Chap. 7.