

### Research Update:

## NZF Money Ltd. Ratings Lowered To 'CCC/C' And Placed On CreditWatch Negative On Weak Liquidity Position

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## Research Update:

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## Overview

- NZF Money Ltd. is a New Zealand finance company specialising in residential and commercial property development based loans.
- NZF's liquidity position has weakened, is delicately placed, and is heavily reliant on the generation of cash from repayments from past due loans.
- We are concerned about the viability of NZF's business position over the medium-to-long term, in particular its prospects of maintaining debenture, investor, and shareholder support.
- We have lowered the ratings on NZF to 'CCC/C' from 'B/B', and placed them on CreditWatch with negative implications, which implies a one-in-two likelihood that the ratings may be lowered within the next three months.

## Rating Action

On March 3, 2011, Standard & Poor's Ratings Services lowered its issuer credit ratings on New Zealand finance company, NZF Money Ltd. to 'CCC/C' from 'B/B'. At the same time, the 'CCC/C' issuer credit ratings are placed on CreditWatch negative.

## Rationale

The rating action reflects our view that NZF's liquidity position has weakened, largely as a result of a material rise in past-due loans, compounded by some volatility in NZF's debenture-reinvestment experience.

Although we understand that the company is positioned to meet its liquidity needs over the next few months from cash flows generated from the repayment of a number of past-due loans, in our view NZF's liquidity position is delicately placed. In our view, the company could run short of cash if loan repayments do not progress as anticipated--notwithstanding that forecast loan repayments over this period are on loans where there is an unconditional sale contract in place and NZF's confidence around prospects that loans will be settled.

Our view of NZF's liquidity position is also influenced by the company's limited balance-sheet cash position, the absence of committed external back-up lines of liquidity, and volatility of its debenture-reinvestment experience. Furthermore, it is our view that liquidity pressure could potentially remain high through calendar 2011, as material levels of debenture stock progressively mature. NZF's ability to contend with weak

debenture-reinvestment experience will be heavily reliant on its ongoing success in resolving its large portfolio of past-due loans in a property market that is, in our view, under pressure.

Our assessment of NZF's credit profile also reflects uncertainty around its ongoing business viability given the strong headwinds in the commercial property market, challenges around funding and liquidity, and the company's weak profitability. These pressures could, in our view, contribute to a weakening of potential further shareholder or investor support.

## CreditWatch

A CreditWatch negative listing by Standard & Poor's implies a one-in-two likelihood that the rating may be lowered within the next three months. The CreditWatch is expected to be resolved after a further review of NZF's liquidity profile and cash flow expectations through 2011. Evidence of success of settlement of past due loans in the next two months could help stabilize ratings at the current level, in our view. Cash flow concentrations in the next few months relating to anticipated loan repayments support the prospect that ratings could potentially move to 'D' upon a delay in scheduled loan repayments over this period.

## Related Criteria And Research

- "Finance Companies: Rating Finance Companies" published on March 18, 2004
- "General Criteria: Use of CreditWatch And Outlooks" published on September 14, 2009

## Ratings List

Downgraded; CreditWatch/Outlook Action

	To	From
NZF Money Ltd. Counterparty Credit Rating	CCC/Watch Neg/C	B/Negative/B

Complete ratings information is available to subscribers of RatingsDirect on the Global Credit Portal at [www.globalcreditportal.com](http://www.globalcreditportal.com). All ratings affected by this rating action can be found on Standard & Poor's public Web site at [www.standardandpoors.com](http://www.standardandpoors.com). Use the Ratings search box located in the left column.

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