

### Research Update:

## Rating On NZF Money Ltd. Lowered To 'CCC-' Reflecting Liquidity Concerns; On CreditWatch Negative

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## Overview

- NZF Money Ltd. is a New Zealand finance company specializing in residential and commercial property development-based loans.
- NZF's liquidity position remains delicately placed in our view, with the company's cash levels expected to be volatile and drop to very low levels through calendar 2011, absent a further cash injection into the business.
- We are concerned about the viability of NZF's business position over the medium- to long-term in its current form.
- We have lowered the ratings on NZF to 'CCC-' from 'CCC'. We maintain our 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 May 9, 2011, Standard & Poor's Ratings Services lowered its long-term issuer credit rating on New Zealand finance company, NZF Money Ltd. (NZF) to 'CCC-' from 'CCC'. At the same time, we have affirmed our short-term rating at 'C'. The ratings remain on CreditWatch negative, where they were placed on March 3, 2011.

## Rationale

The rating action reflects our view that NZF's liquidity position remains weak, largely as a result of headwinds in exiting past-due loans. Although NZF's on-balance sheet cash position has improved recently, as a result of some successful loan repayments (net of a secured loan repaid to one of its directors) and a cash injection from NZF Group Ltd. (not rated), we note that anticipated loan repayments continue to be delayed and scheduled debenture maturities through calendar 2011 remain material when assessed against projected cash levels. Although we understand that NZF is in a position to meet its liquidity needs over the next few months from cash flows generated from the repayment of a number of past-due loans, NZF's liquidity position remains delicately placed, in our view. Of greatest concern is that failure to progress the repayment of past-due loans could result in NZF running short of cash in calendar 2011, particularly if debenture-reinvestment experience is weak. Furthermore, we expect cash levels to drop to very low levels through calendar 2011 under a base case scenario, absent any new cash injection into the business.

Our view of NZF's liquidity position is also influenced by the company's

limited balance-sheet cash position and the absence of committed external back-up lines of liquidity. Furthermore, we believe that liquidity pressure could potentially remain high through 2011 as material levels of debenture stock progressively mature. In our view, 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 under pressure.

Our rating action and assessment of NZF's credit profile also reflects uncertainty around its ongoing business viability in its current form, noting that the company has essentially stopped new lending and needs to secure additional funding to re-establish its business activities. In our view, these pressures could lead to the shareholders considering potential alternative strategic solutions.

## CreditWatch

We expect to resolve our CreditWatch in the next few months after we further assess NZF's liquidity, funding, and business profiles, particularly its progress in exiting past-due loans and its debenture reinvestment experience. Rating stability will also factor in an assessment of NZF's efforts to re-establish its business viability. 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.

## Related Criteria And Research

- "How Standard & Poor's Uses Its 'CCC' Rating", published Dec. 12, 2008
- "Bank Rating Analysis Methodology Profile", published March 18, 2004
- "Rating Finance Companies", published March 18, 2004

## Ratings List

Downgraded; Ratings Affirmed

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

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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