

## MARAC Finance Ltd. Ratings Lowered To 'BB+' On Greater-Than-Expected Deterioration In Asset Quality; Outlook Negative

### Counterparty Credit Rating

BB+/Negative/B

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### Overview

- In our view, MARAC's credit profile has weakened because of the greater-than-expected deterioration in asset quality over recent months within the property development sector.
- We have lowered the long-term and short-term ratings by one notch each to 'BB+' and 'B', respectively.
- The outlook is negative.

### Rating Action

On Aug. 13, 2009, Standard & Poor's Ratings Services lowered its long-term rating on New Zealand finance company MARAC Finance Ltd. (MARAC) to 'BB+' from 'BBB-'. At the same time, the short-term rating was lowered to 'B' from 'A-3'. The outlook was revised to negative from stable. The negative outlook implies a one-in-three likelihood of a rating downgrade within the next two years.

### Rationale

The downgrade reflects our view that MARAC's credit profile has weakened because of the greater-than-expected deterioration in the company's asset quality over recent months within the property development sector. In our view, this deterioration is outside our tolerances of the 'BBB-' rating and has occurred in the context of a weak industry environment, where the prospects are for further growth in non-performing assets given the continued softening in the New Zealand economy. The property development sector is currently experiencing very low business confidence and faces reduced investor demand and limited refinancing options.

We, however, consider that the response of MARAC's shareholder Pyne Gould Corp. (PGC; not rated)—to absorb much of the expected losses on MARAC's property development loan book and recapitalize MARAC in the near term—supports MARAC's credit quality. PGC's plan is to purchase from MARAC impaired or likely to be impaired property loan assets of about NZ\$160 million at face value. As a result, MARAC will have limited residual exposure to the higher-risk property development sector. Additionally, MARAC intends to cease lending on property development.

We retain our view that MARAC is one of the stronger finance companies in New Zealand, despite the company's recent asset-quality pressures. Other factors that remain supportive of the rating include MARAC's sound business profile, underpinned by its market position as one of the largest domestically owned finance companies in New Zealand. Also supporting the rating is MARAC's sound funding and liquidity positions, and its parent's financial flexibility as a public listed company.

#### *Short-term credit factors*

The short-term rating is 'B'. In our view, MARAC's funding and liquidity position is sound. MARAC's funding profile is also reasonably diversified compared to other finance company peers with access to debentures, retail bonds, securitization, and wholesale funds. MARAC also has access to a NZ\$310 million committed bank facility, of which about NZ\$150 million matures in March 2010 and the balance in March 2011. An undrawn commitment of about NZ\$150 million, plus cash and liquid assets that are on balance sheet, support MARAC's sound liquidity position.

Following the securing of the New Zealand Crown guarantee for debentures issued by MARAC, its debenture reinvestment rates and new funds received have improved. Standard & Poor's will continue to monitor any indicators of investor confidence, as well as the continuing support and confidence of bankers.

## **Outlook**

The negative outlook reflects the ongoing pressure on MARAC's financial profile, as continued challenging domestic economic conditions are expected to put further pressure on the company's asset quality. In addition, if PGC's plans to absorb the loan-related losses and raise sufficient capital are not executed successfully, the ratings are likely to be lowered. Conversely, if MARAC is able to contend with negative pressures on its credit profile in prevailing difficult market conditions, the outlook could be revised to stable.

## **Related Research**

This article is based in part on the following criteria articles:

- Rating Finance Companies, published on March 18, 2004.
- Credit Policy Update: Criteria On Use Of CreditWatch And Outlooks Clarified, published on Sept. 30, 2005.

## Ratings List

**Downgraded**

**To**

**From**

**Downgraded; CreditWatch/Outlook Action**

**To**

**From**

**BB+/Negative/B**

**BBB-/Stable/A-3**

*Complete ratings information is available to subscribers of RatingsDirect, Standard & Poor's Web-based credit analysis system, at [www.ratingsdirect.com](http://www.ratingsdirect.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); under Credit Ratings in the left navigation area, select Find a Rating, then Credit Ratings Search.*

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