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The Newswire of Consumer Credit

Mon, November 11
Online for 31 minut

# News Items

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## Fitch: AmeriCredit Downgrade Teeters on Ability to Raise Capital

NEW YORK, September 17 (LendingIntelligence.com) — AmeriCredit Corp., once known as the industry darling among nonprime auto lenders, is expected to record a loss next quarter, and may be subject to a ratings downgrade if it fails to raise some additional capital.

An agreement yesterday with bond insurance guarantor Financial Security Assurance to raise delinquency levels in some AmeriCredit securitizations triggered Fitch Ratings to place AmeriCredit's senior debt on negative ratings watch. In exchange for the delinquency-level change, FSA will receive warrants to purchase about 1.3 million AmeriCredit common shares, plus a 2.5 basis point increase in insurance fees.

AmeriCredit blamed the need for higher delinquency levels in its securitizations on the combination of seasonality and the worsening economy, Daniel E. Berce, AmeriCredit's chief financial officer, said in a conference call with investors this morning. The FSA deal is expected to give the company greater cash flow over the next six months, he added.

In conjunction with the FSA agreement, AmeriCredit announced the commencement of a public offering of up to $500 million of common stock. Fitch considers AmeriCredit's capital-raising effort to be critical in improving the lender's financial flexibility.

"We think it is essential that they raise additional equity, although it doesn't necessarily have to be $500 million," said Christopher D. Wolfe, an analyst at Fitch. "Absent that, they could be downgraded."

Still, the task will not be an easy one, Wolfe added.

"The conditions for [capital-raising] will be challenging," he said.

In the meantime, AmeriCredit expects to change the way it accounts for its securitizations, a move likely to result in a $5 million-to-$10 million loss next quarter. AmeriCredit will begin structuring its securitizations as secured financings, thereby eliminating the recognition of gain on sale. The change will result in recognition of revenue as it is earned.

While the accounting change will negatively affect earnings, it is not expected to detract from affect AmeriCredit's funding procedures, business model, or cash flow, analysts said.

“They are changing the accounting for securitizations which would have an impact of reducing earnings over next few quarters,” said Fitch's Wolfe. “But it's not a driving action for our ratings. They are just changing their accounting.”

At 12:50 p.m. ET, AmeriCredit [NYSE: ACF] shares were trading at $9.31, down 31.64%, from the previous day.

At least one analyst thought the stock price free fall was undue.

“It's more of an accounting issue,” said Robert McMillan, an analyst at Standard & Poor's Corp. “The market is overreacting.”

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