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## GM, Ford Motor Debt Ratings Cut to Junk by Moody's (Update4)

Aug. 24 (Bloomberg) -- General Motors Corp. and Ford Motor Co., the two biggest U.S. automakers, were lowered to junk by Moody's Investors Service following two quarters of losses at both companies' North American auto operations.

Moody's lowered GM's senior unsecured credit rating two levels to Ba2 and the rating on its General Motors Acceptance Corp. unit to Ba1. Dearborn, Michigan-based Ford was reduced one level to Ba1, a step below investment grade. Ford Motor Credit Co. fell to the lowest investment grade. The Ford cuts affect about \$150 billion in debt, Moody's said in a statement today.

GM and Ford have struggled to maintain U.S. market share this year, resorting to offers of employee discounts to all buyers in an effort to boost sales. Moody's gave Ford its second high-risk, high-yield rating, which will push it out of Lehman Brothers Holdings Inc.'s most widely followed investment-grade bond index. That may spark selling of the bonds.

``The way to look at this is: What was Moody's waiting for?" said Greenwich, Connecticut-based independent auto analyst Maryann Keller. ``From the standpoint of the bondholder, it's not going to mean much."

Standard & Poor's lowered Ford to non-investment grade BB+ on May 5. S&P also cut Detroit-based GM to junk status in May, to BB, and the Moody's cut removed its last investment-grade rating. Fitch Ratings has a BB+ on GM. GM has about \$170 billion of debt, Moody's said.

``For GM and GMAC bondholders, this just affirms the fact that these really are high-yield companies at this point," said Sasha Kamper, who helps manage \$86 billion in debt at Principal Global Investors in Des Moines, Iowa, including GM bonds.

### Higher Costs

The lower ratings mean money raised in the bond market may become more expensive for Ford and GM, said Yoshihiro Okumura, a general manager at Chiba-gin Asset Management Co. in Tokyo, which manages the equivalent of \$365 million in assets, including auto shares.

The companies have raised less money in public bond sales in recent years as credit ratings have fallen. GMAC Chairman Eric Feldstein said in January that the GM finance unit, which does the bulk of the company's borrowing, will rely less on funds from corporate bonds and more on the sale of car and truck loans, as well as on bonds that use auto loans as collateral.

GMAC borrowed about \$47 billion last year, with about 46 percent of the funds coming from loan sales and bonds backed by auto loans. In 2001, GMAC got 65 percent of its \$65 billion in funding from unsecured corporate bonds.

### Falling Share

GM and Ford's market share slipped for much of this year as Asian automakers such as Toyota Motor Corp. attracted customers and the rising price of gasoline encouraged purchases of more fuel-efficient vehicles sold by foreign companies. The combined market share of U.S. brands made by GM and Ford fell to 43.3 percent in May, about the same share GM had itself in 1983.

GM led the three automakers with employee discounts in June, which helped boost the company's sales 47 percent that month. U.S. auto sales in July increased 22 percent as Ford and

DaimlerChrysler AG's Chrysler unit followed with their own promotions, helping clear out inventories of unsold 2005 model-year cars sitting at dealerships.

"The real \$64,000 question is whether or not they'll be able to make excellent execution on their '06 models," said Wil Stith, a portfolio manager at MTB Investment Advisors in Baltimore, who helps manage about \$2 billion in fixed-income investments. "That at the end of the day is going to determine if we're going to see continued cuts by the ratings agencies."

#### Challenges

Ford Chief Executive William Clay Ford Jr., 48, saw his company's share of the U.S. auto market fall for 28 straight months through June. In July, sales rose 29 percent.

Ford faces "continued challenges in addressing its uncompetitive cost structure in North America," Moody's said. Ford's North American operations have lost money three of the past four quarters. Moody's Investors Service analyst Bruce Clark didn't return phone calls seeking comment about the downgrades.

Ford Chief Financial Officer Don Leclair said in a statement today that the downgrade "is disappointing." He said the action "doesn't shake our determination to achieve continued success as a global automaker. We recognize many of the challenges Moody's cited and remain committed to accelerating our business plan."

#### Initiatives

Bill Ford told reporters in Detroit yesterday that a fourth-quarter restructuring will go beyond cost-cutting and include "new initiatives" he didn't specify.

"It's high time," Keller said of the company's plans to restructure.

GM is "disappointed by the decision," spokesman Jerry Dubrowski said in an interview. "GM is firmly committed to improving its performance in North America." The company is "seeing progress" while "we recognize there's work to be done."

Moody's also reduced its ratings on Residential Capital Corp., GM's consumer mortgage unit, to Baa3 from Baa2. The downgrade reflected the lower ratings on GMAC and GM, Moody's said. GM created the unit out of its home-loan businesses in June to give it higher credit ratings and raise money more cheaply.

#### Bonds Down

Ford's 7 percent coupon bond maturing in 2013 widened 7 basis points to 330 basis points above comparable Treasury securities at a price of 97 cents on the dollar to yield 7.5 percent, according to Trace, the price reporting service of the NASD.


Ford's bonds have traded above 93 cents on the dollar since June 27 and hit a record low of 86 cents on the dollar on April 18. The 7 percent 2013 bond was the most heavily traded Ford bond today on Trace.

GM's 8 percent note maturing in 2031 widened 9 basis points to 412 basis points at a price of 94 cents on the dollar. It yielded 8.6 percent.

GM had S&P's highest investment-grade rating, AAA, from 1954 to 1981. S&P rated Ford AAA from 1971 to 1980.

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