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## Research Update:

# Government Development Bank for Puerto Rico Outlook Revised To Negative; 'BBB/A-2' Ratings Affirmed

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## Research Update:

# Government Development Bank for Puerto Rico Outlook Revised To Negative; 'BBB/A-2' Ratings Affirmed

## Overview

- We recently revised our outlook on the Commonwealth of Puerto Rico to negative from stable.
- In our view, the link between the Government Development Bank for Puerto Rico (GDB) and the Commonwealth is very strong, and GDB plays a very important role for the government.
- We are revising our outlook on GDB to negative from stable, and we are affirming our 'BBB/A-2' ratings.
- The negative outlook on GDB reflects the negative outlook on the Commonwealth.

## Rating Action

On June 25, 2012, Standard & Poor's Ratings Services revised its ratings outlook on the Government Development Bank for Puerto Rico (GDB) to negative from stable. At the same time, we affirmed our 'BBB/A-2' ratings on GDB.

## Rationale

The rating action follows our outlook revision on the ratings on the Commonwealth of Puerto Rico to negative from stable. We designate GDB as a government-related entity based on our view that the link between GDB and the Commonwealth is very strong and that GDB plays a very important role for the government, given that it provides funding to the Commonwealth and other Puerto Rican public corporations and that it's fiscal agent to the Commonwealth and its instrumentalities. According to our criteria, the rating on GDB cannot be higher than the rating on the Commonwealth because of the bank's lack of independence from the government. Therefore, we would downgrade GDB in conjunction with a downgrade of the Commonwealth, even if GDB were to maintain its 'bbb' stand-alone credit profile.

## Outlook

Our negative outlook on GDB mirrors our outlook on the Commonwealth. If we lower our rating on the Commonwealth, we will very likely lower our rating on GDB. We do not believe that GDB is sufficiently independent from the Commonwealth to justify a higher rating. If GDB continues to shift its funding

base toward wholesale borrowings, or if the bank pays a large special dividend, which we do not view as likely, we could lower the rating--even if the rating on the Commonwealth remains the same.

## Related Criteria And Research

- Outlook On Puerto Rico Revised To Negative From Stable On Budget Imbalance , June 6, 2012
- Rating Government-Related Entities: Methodology And Assumptions, Dec. 9, 2010

## Ratings List

Ratings Affirmed; Outlook Action

	To	From
Government Development Bank for Puerto Rico Counterparty Credit Rating	BBB/Negative/A-2	BBB/Stable/A-2

Ratings Affirmed

Government Development Bank for Puerto Rico Certificate Of Deposit	BBB/A-2
Senior Unsecured	BBB

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