

Fitch negative on BNSF-Berkshire Hathaway

(The following story by John D. Boyd appeared on The Journal of Commerce website on November 6, 2009.)

WASHINGTON, D.C. — Credit risk evaluator Fitch Ratings warned it may cut Berkshire Hathaway's debt ratings over its \$26 billion buyout of BNSF Railway.

Fitch said it placed ratings of Berkshire and its insurance subsidiaries on a negative watch list.

Berkshire owner Warren Buffett said his investment firm will buy the 77 percent of BNSF shares it does not now hold, and Fitch said that "is likely to result in a meaningful increase" in Berkshire's financial leverage.

The buyer is expected to pay \$16 billion in cash and the rest in stock for BNSF, and Fitch said about \$8 billion of that cash would be debt financing. And since Berkshire is paying about a \$20 billion premium over BNSF's book value as of June 30, Fitch said "the transaction could materially increase the amount of goodwill" Berkshire lists on its balance sheet.

BNSF also has \$10 billion in debt that Buffett's firm will assume, "and while Fitch believes that this debt is likely to be funded by railroad operations, the agency views it as an incremental contingent call on (Berkshire's) cash flows and capital," the rating group said.

Fitch had cut Berkshire's debt in March from the top "AAA" rating to its current "AA+" over concerns for potential market losses and exposure to credit derivatives.

Standard & Poor's, which still gives Berkshire its top rating, also said it may cut that rating on the BNSF deal, but S&P said it could increase the BNSF long-term debt rating due to the acquisition.