

Loss Trends Monthly

Your Snapshot of Default and Recovery Data Trends from Standard & Poor's Risk Solutions

August 2008

This Month's Defaults: Housing Issues Just Don't Get Any Healthier

The U.S. housing slump continued to take its toll in July: Three of the five largest credit defaults occurred in companies closely linked to residential housing. The largest, at \$2.7 billion, came at California-based IndyMac Bank, which failed amidst a run on the bank and large losses in its mortgage portfolio. The bank, in receivership with federal regulators, has reopened as IndyMac Federal Bank FSB. IndyMac's failure made it the second-largest default this year, behind Residential Capital LLC, another housing-related issuer that defaulted in June (See Figure 1).

The second-largest July default was that of Ainsworth Lumber Co. Ltd., a Canadian forest products company that supplies U.S. homebuilders with wood and other building materials. Ainsworth defaulted on \$973 million, reflecting a restructuring that included a debt-for-equity swap. Number four on the default list was Dallas, Texas-based Atrium Companies Inc. a manufacturer of windows and doors for residential construction, which failed to make payments on \$174 million of its \$803 million in debt.

In total, July saw defaults affecting \$6 billion in debt, bringing the total volume since the beginning of 2008 to \$37.6 billion (See Figure 2), or 13.5 times as much as in the first seven months of 2007. Moreover, the number of companies posting defaults is accelerating. At 13, this was the largest number of issuers defaulting in any month this year. Altogether, 50 companies have recorded defaults in 2008. Meanwhile, the 12-month trailing global default rate for speculative grade companies in July was 1.79%, a significant climb from July's 1.44% rate, and reflective of the many smaller defaults that occurred in July.

Figure 1: Top 15 defaults in 2008

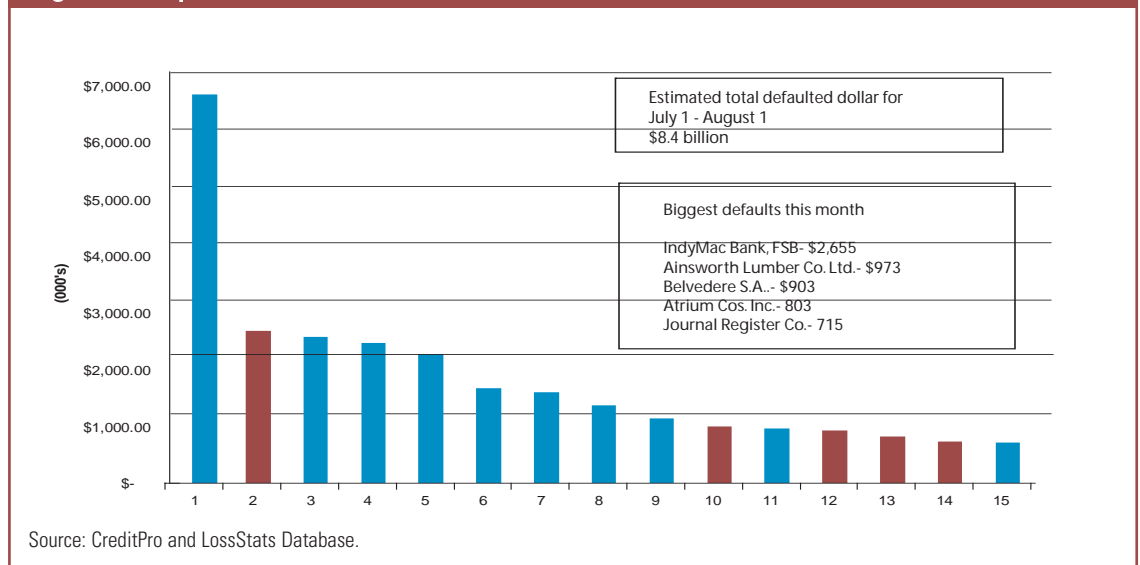
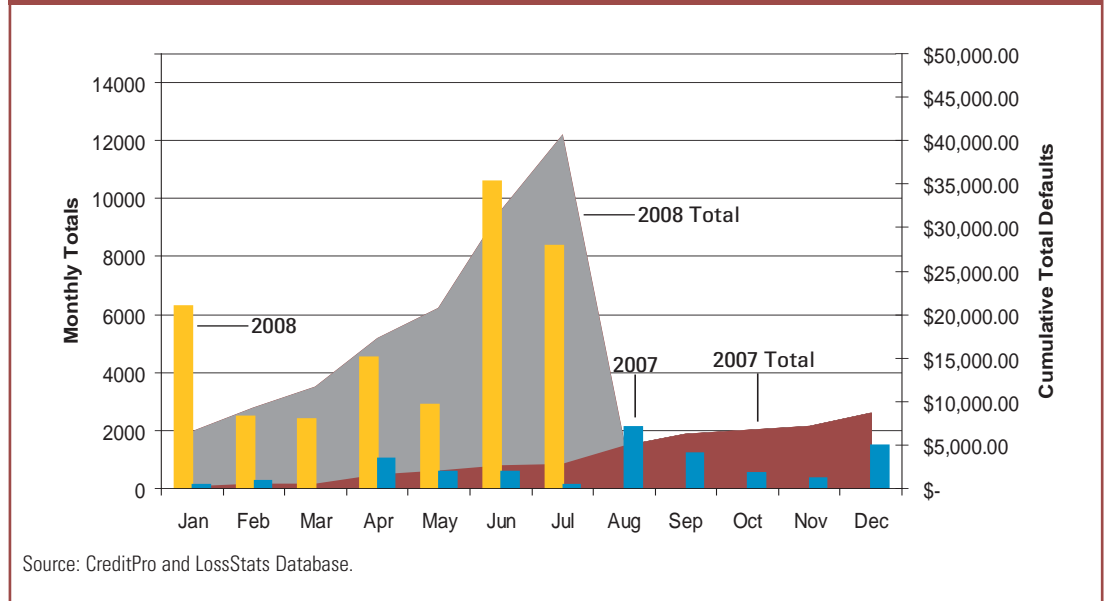


Figure 2: Cumulative monthly trends: 2008 vs 2007

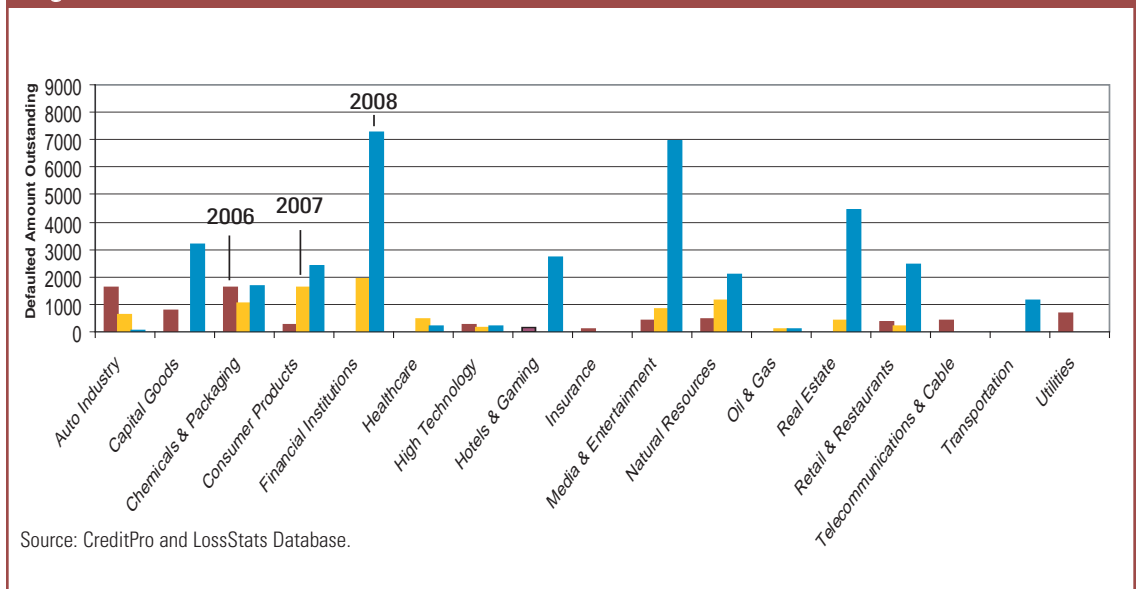


The Vulnerable Sectors: Media And Entertainment Also Feel the Pain

With the IndyMac default, financial institutions continue to be the single largest sector of defaulted industries so far this year, with a default volume of \$7.3 billion (See Figure 3). Media and entertainment companies remain the second-most-affected sector, with \$7 billion of bad debt year to date. That number crept up with the default of Journal Register Co., a newspaper publisher, on \$715 million in debt-the fifth-largest default recorded in July. It was one of two media industry defaults last month; a private company also defaulted on nearly \$500 million. Real estate companies are the third-most-affected sector, with \$4.5 billion in default volume year to date.

Housing-related issues, whether in building materials, finance, or construction, seem likely to continue encountering difficulty. Standard & Poor's believes U.S. residential housing markets are not likely to stabilize before late 2009 at the earliest. Until then, it is not unreasonable to believe that issuers connected with housing might be at greater risk of default. Similarly, the weak economy and structural changes within the media group-notably the migration of substantial advertising revenues away from television, radio, and newspapers to the Internet-might also signal higher defaults to come in those businesses.

Figure 3: Sectoral Distribution of Defaults: 2008 YTD vs 2007 vs 2006



The default numbers in the Loss Trends Monthly are drawn from preliminary dollar estimates entered into Standard & Poor's Risk Solutions' CreditPro and LossStats Database and reflect defaults in the Standard & Poor's global rated universe.

CreditPro is a powerful, simple- to- use desktop application developed by Standard & Poor's. It allows clients to analyze the data compiled in Standard & Poor's ongoing default and transition analysis study to assess probabilities of default.

LossStats Database is a comprehensive set of credit loss information compiled by Standard & Poor's. It provides loss given default data based on over 800 public and private U.S. companies that have defaulted since 1987.

About Risk Solutions

Standard & Poor's Risk Solutions provides products and services that help financial institutions, corporations and public sector entities worldwide measure, manage and mitigate credit risk as well as make informed decisions that can improve risk-adjusted return. Located in 23 countries, Standard & Poor's has played a leading role for more than 145 years as an essential part of the world's financial infrastructure.

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