

# Loss Trends Monthly

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

May 2009

## U.S. Car Companies Contribute to April Default Volume

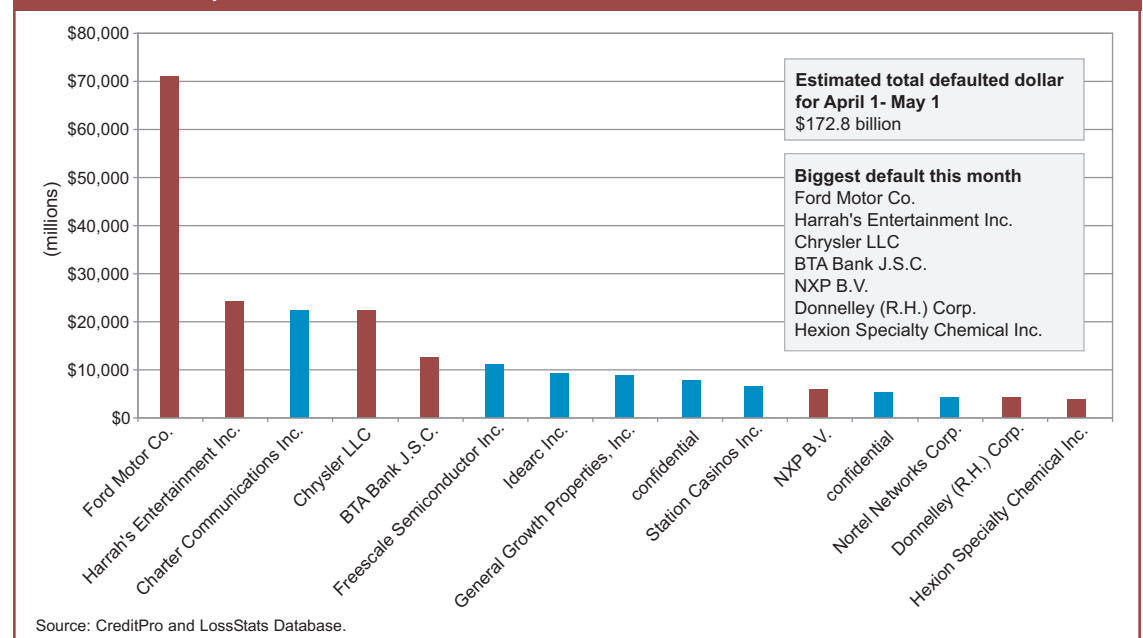
The month of April demonstrated the tough financial state of the auto industry: Ford Motor Co. effectively defaulted as a result of a distressed debt exchange, Chrysler LLC filed for Chapter 11 bankruptcy protection, and General Motors Corp. remains very close to bankruptcy as it faces a June 1 deadline to devise a restructuring plan that satisfies its principal banker—the federal government.

The \$71 billion in Ford defaults, along with Chrysler's \$22.5 billion in bad loans, helped push defaults in April to a total of \$172.8 billion. That figure is the largest monthly total of 2009, and just shy of the September 2008 total, when Lehman Brothers and its affiliates went insolvent, contributing to \$176 billion in defaults.

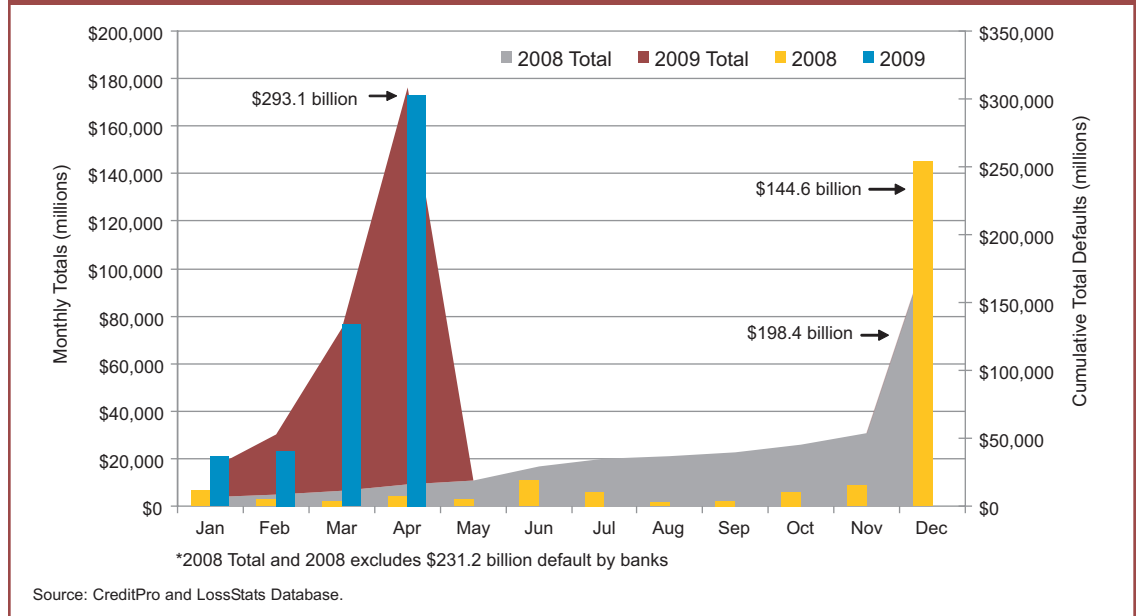
While Ford is the largest default this year, Chrysler was just the third-largest this month, as the recession wreaks havoc in other industries too (see chart 1). Harrah's Entertainment Inc. is the second largest default. The big gaming company undertook a sub-par debt exchange in April that was tantamount, by our criteria, to a default, and affected \$24.2 billion in debt. The fourth- and fifth-largest defaulting companies in April (and also among the top 15 for the year) were both non-U.S. based. B.T.A. Banks J.S.C., based in Kazakhstan, defaulted on \$12.7 billion in debts after it announced a standstill in the scheduled and accelerated principal components of its debt. Dutch semiconductor maker NXP B.V. had \$6 billion in bad debts as a result of a distressed debt exchange. It is an indication of how tough things are getting in the technology sector that this is the second semiconductor company to make the top 15 list since January.

Altogether, 43 companies did not meet their debt obligations in April, bringing the year-to-date volume of bad loans to \$293.1 billion (see chart 2). Defaults ranged from Ford's \$71 billion, to a comparatively modest \$8 million at a privately rated Latin American financial services firm. The mean default level in April was \$4 billion, and the median was \$708 million. There were 15 defaults of \$1 billion or more, and four of \$10 billion or more. The 12-month trailing speculative-grade default level climbed to 6.18% in April, up sharply from 4.92% in March.

**Chart 1: Monthly Default Volume**



**Chart 2: Fifteen Largest Defaults for 2009**



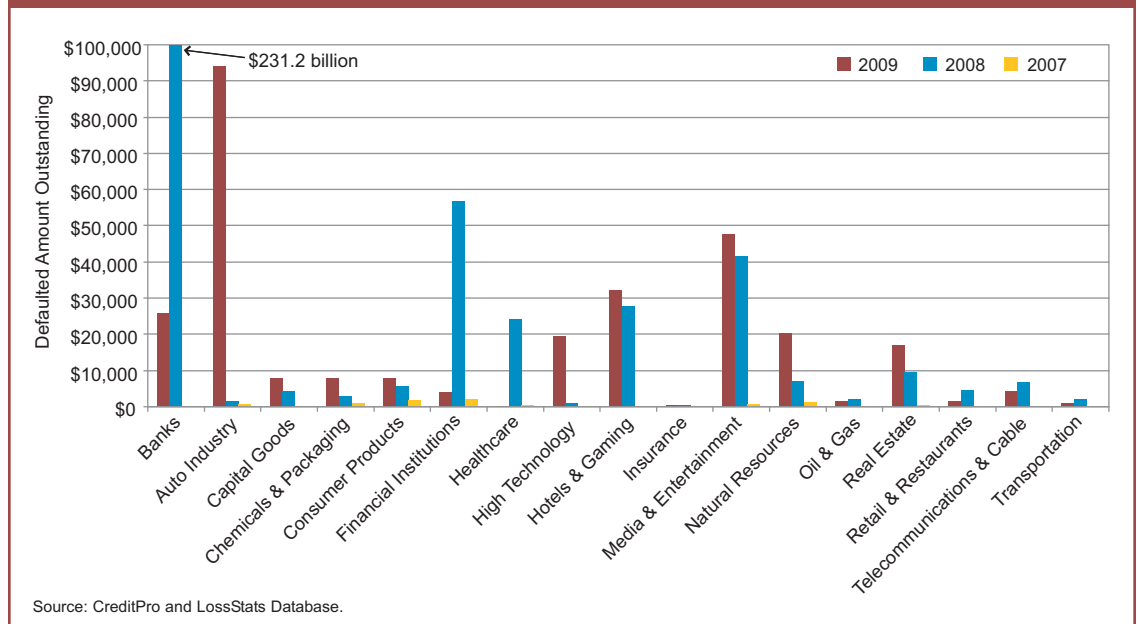
**The Vulnerable Sectors: The Car Companies Lead The Way**

The auto sector, with \$94.7 billion in defaulted debt since January 1, certainly qualifies as the most vulnerable sectors this month (see chart 3). And depending on the fate of GM, it may be so again. The problems in the sectors generating the second- and third-largest amounts of bad loans—media and entertainment (\$47.7 billion) and banking (\$25.8 billion)—have not been a secret.

But it is unsettling that many sectors with relatively low levels of defaults last year are failing to meet their debt obligations in 2009. Year to date, technology companies have generated \$19.4 billion in defaulted debts, a significant increase from 2008, when the industry recorded only \$1 billion in defaults. Sliding commodity prices are likely to have played a part in rise in defaults among natural resource companies. (Oil and gas companies, which had relatively low default volumes, are counted separately from natural resource companies in our methodology). There have been \$20.2 billion in defaults among natural resource companies this year, as opposed to only \$7.1 billion last year. The chemicals and packaging sector also has seen a significant rise in default volume. Last year the companies in these industries generated \$2.9 billion in defaults: The default total jumped to \$7.7 billion in just the first four months of 2009.

No one can say when the economy will turn and business conditions improve. We are in what is likely to be the worst economic downturn since the Great Depression, so it is unlikely the recent onslaught of bad debt will quickly abate.

**Chart 3: Default Volume By Sector**



The default numbers in the Loss Trends Monthly are drawn from preliminary dollar estimates entered into Standard & Poor's Risk Solutions' CreditPro<sup>®</sup> and LossStats<sup>®</sup> Database, and reflect defaults in the Standard & Poor's global rated universe. CreditPro is a powerful, easy-to-use Web-based application that allows organizations to analyze the data compiled in Standard & Poor's default and transition and recovery analysis studies to assess probabilities of default and loss given default. CreditPro is fully integrated with the LossStats Database, 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.

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