STANDARD & POOR'S

# Loss Trends Monthly

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

July 2008

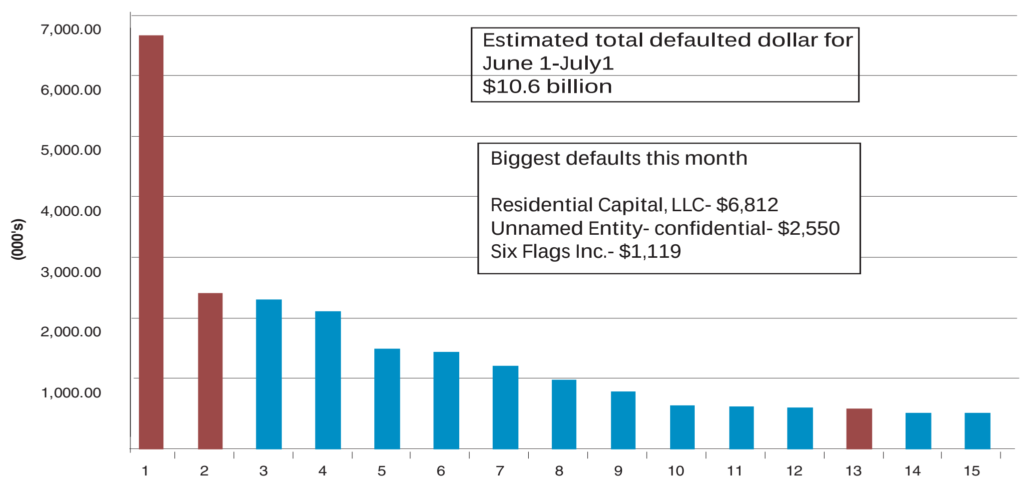
### This Months Defaults: A Sour Housing Market Leaves A Bitter Taste

The ongoing U.S. housing crisis generated the lion's share of June's credit failures, with the default of $6.8 billion in debt by Residential Capital LLC, a subsidiary of GMAC Capital. The failure was by far the largest single default this year (See Figure 1) and helped push the default volume in June to $10.6 billion--the highest monthly total of 2008. June's next-largest victim was a private real estate company that defaulted on approximately $2.6 billion in debt. The third-largest action in June reflected continuing weakness in consumers' leisure spending: Upon completion of a distressed debt exchange, Six Flags Inc. defaulted on an estimated $588.3 million of its $1.1 billion in borrowings. The Six Flags debt swap followed hard on the heels of defaults by two gaming companies in May.

Altogether, total default volume for the first half of 2008 is $29.3 billion (See Figure 2). That is already more than three times the total for all of 2007. In what could prove to be a troubling trend, default volume has picked up as the year has progressed. There were $11.2 billion of defaults in the first quarter, rising to $18.1 billion in the second. The number of companies defaulting also has accelerated: 17 companies reported defaults during the first three months of the year, followed by 20 companies in the second quarter.

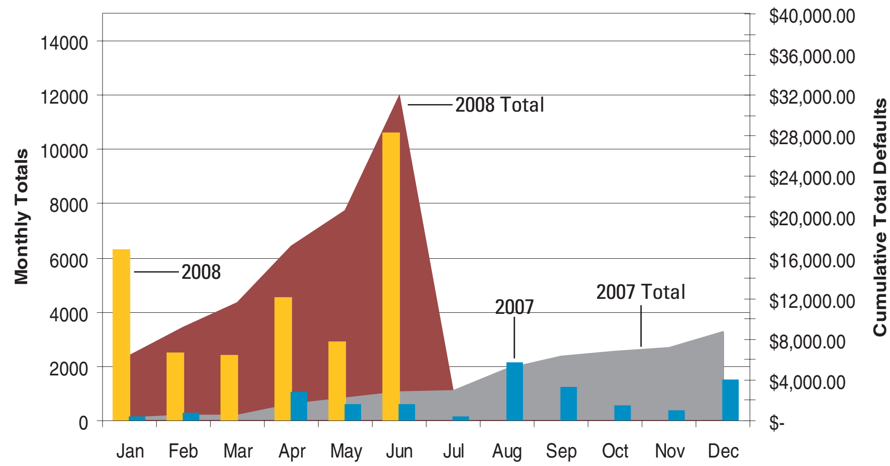
The 12-month trailing global default rate for speculative grade companies was 1.44% in June, little changed from 1.45% in May. The default volume has increased even as the number of companies defaulting this month eased a bit: Only five companies defaulted in June, after six in May. All told, 37 issuers have defaulted since Jan. 1, 2008.

**Figure 1: Top 15 defaults in 2008**




Source: CreditPro and LossStats Database.

## Figure 2: Cumulative monthly trends: 2008 vs 2007




Source: CreditPro and LossStats Database.

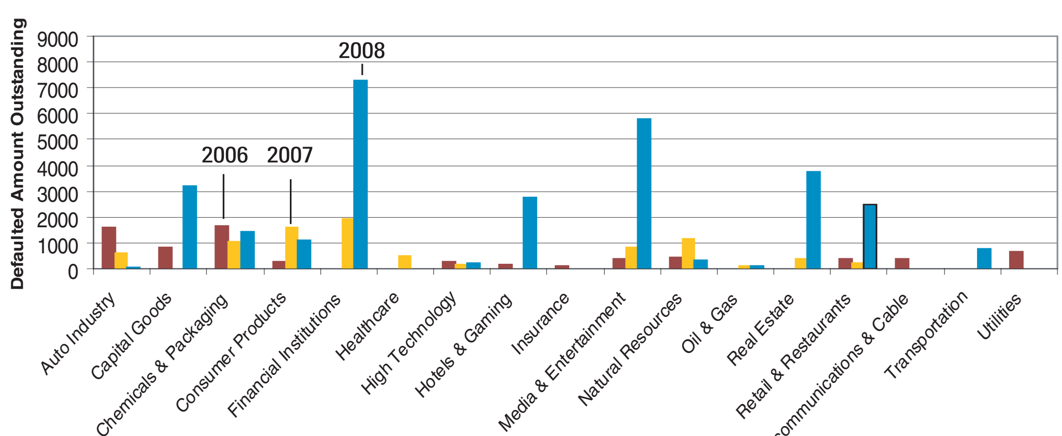
### The Vulnerable Sectors: Real Estate and Finance

With the default of Residential Capital, the financial institutions sector has the highest level of bad debt in 2008, at $7.3 billion. Media and entertainment companies, which had held that dubious distinction, are now in second place with a total of $5.8 billion year to date: the third-worst sector is real estate, with $3.8 billion in defaults since the beginning of the year (See Figure 3). Finally, the slumping hotel and gaming sector, wracked by two large casino operators defaulting in May, accounts for the fourth-largest volume of bad debt in the first half of 2008, at $2.8 billion.

All these groups show substantially more defaults than in 2007. Financial-institution bad debt, the largest category by sector, is running at more than three times its level for all of 2007, while year-to-date defaults in media and entertainment have risen by approximately seven times the 2007 total. Real estate sector defaults are running at nearly 10 times last year's totals. Meanwhile, because of overexpansion and a weak economy, hotel and gaming companies are among the sector leaders with distressed debt, after three years when defaults were rare--none at all in 2005 and 2007 and only $160 million in 2006.

With the U.S. in a serious economic slump--although not yet officially in a recession--it is apparent that rising unemployment, high energy costs, falling housing prices, and lower consumer discretionary spending will take a toll on many issuers. How bad it will be in the second half of 2008 is yet to be seen.

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




Source: CreditPro and LossStats Database.

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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