

# Loss Trends Monthly

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

September 2008

## August Defaults: At Last, A Respite After A Rocky Seven Months

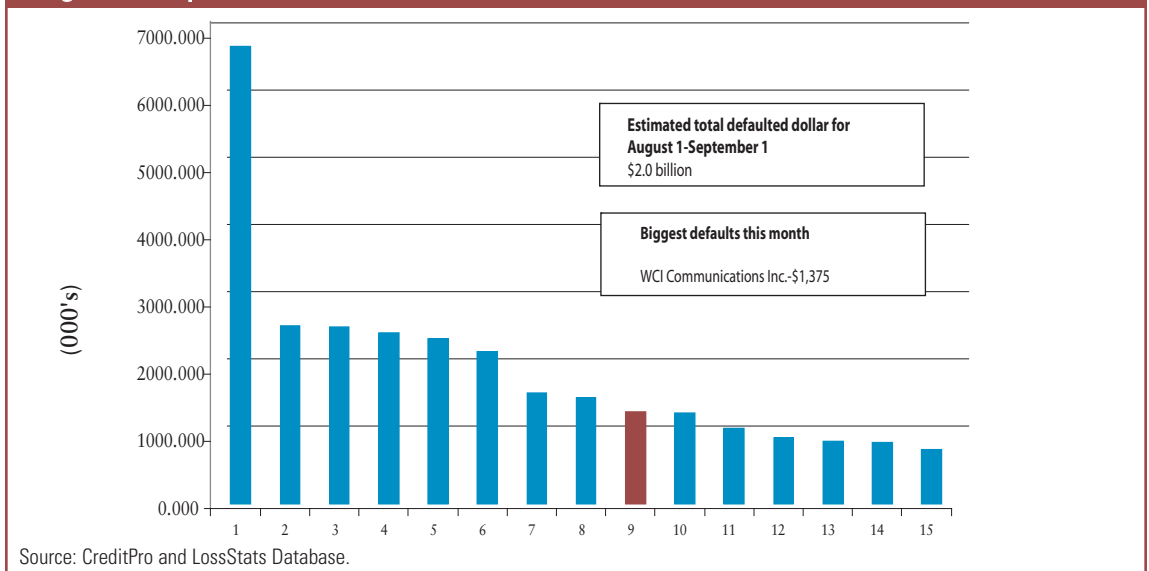
After seven months when it seemed as if the pace of defaults in 2008 would only get worse, August brought some good news: the lowest monthly volume of bad debt year-to-date involving only a handful of companies. In August, of course, the events that would soon bedevil the financial sector had yet to occur. But before we brace for repercussions from the fall of Lehman Brothers Inc., the sale of Merrill Lynch & Co., and the federal takeover of Fannie Mae, Freddie Mac, and American International Group Inc. (AIG), we can savor the respite in the dog days of 2008 when, if only for a month, defaults were rare.

There were only five in August (as opposed to 13 in July), with a total volume of \$2 billion. That was about one quarter of July's default volume, but still enough to raise the total level of bad debt this year to \$42.4 billion, or nearly ten times the amount through the same period of 2007. Altogether, 56 companies defaulted thus far in 2008.

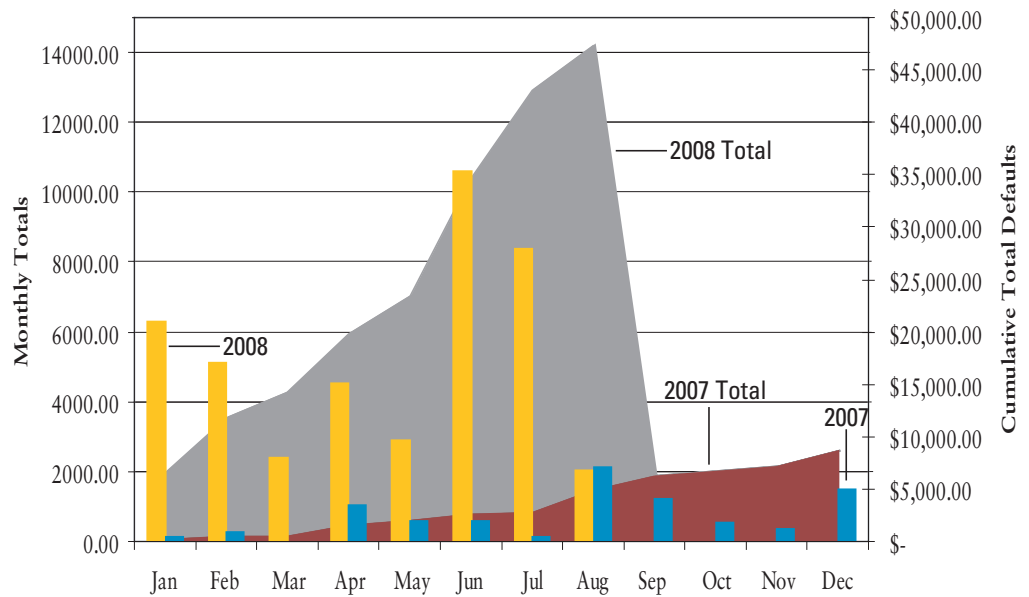
As happened earlier in 2008, the largest August default was real-estate related. Homebuilder WCI Communities Inc. filed for Chapter 11 bankruptcy protection, affecting \$1.4 billion in debt, enough to make WCI the ninth largest default this year (See Figure 1). No other August default was nearly as large (See Figure 2). The most notable, perhaps, was the company founded by one-time cookie queen Debbi Fields: Mrs. Fields Famous Brands LLC (no longer under the founder's control) also sought Chapter 11 protection, affecting \$195.7 million in debt.

Despite the relative good news for August, the number of defaults throughout the year is still taking its toll. The 12-month trailing global default rate for speculative grade companies in August was 1.88%, compared with 1.79% in July and only 1.29% in April.

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



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



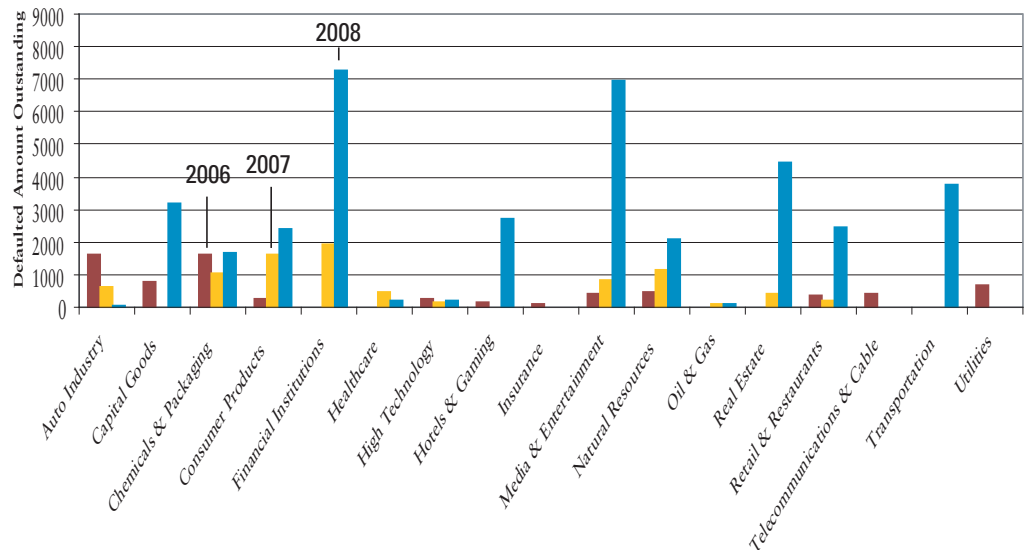
Source: CreditPro and LossStats Database.

**The Vulnerable Sectors: Financial Institutions Lead The Pack**

Although there were no defaults of financial institutions in August, the credit crisis and mortgage meltdown have combined to keep this sector ahead of all others in terms of default volume, with \$7.3 billion through the first eight months of the year (See Figure 3). With the financial sector still reeling from its spectacular September flameout, and no end in to the underlying causes of its misery--declining home prices, falling sales, rising foreclosures, and a glut of inscrutable mortgage-related securities-- in sight, further financial-sector defaults before year-end will not come as a surprise.

However, the media and entertainment sector is closing in on the battered banks, lenders, and brokerage houses. A poor advertising climate and reduced discretionary spending by consumers has pushed default levels up to \$7 billion though August. Real estate companies account for the third-highest level of default volume, with \$5.8 billion in bad debts so far this year. With real estate fundamentals still poor, this is another sector where we might also see further default activity before the end of 2008.

**Figure 3: Sector Default Volume (\$Mil)**



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, 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 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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