

# Loss Trends Monthly

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

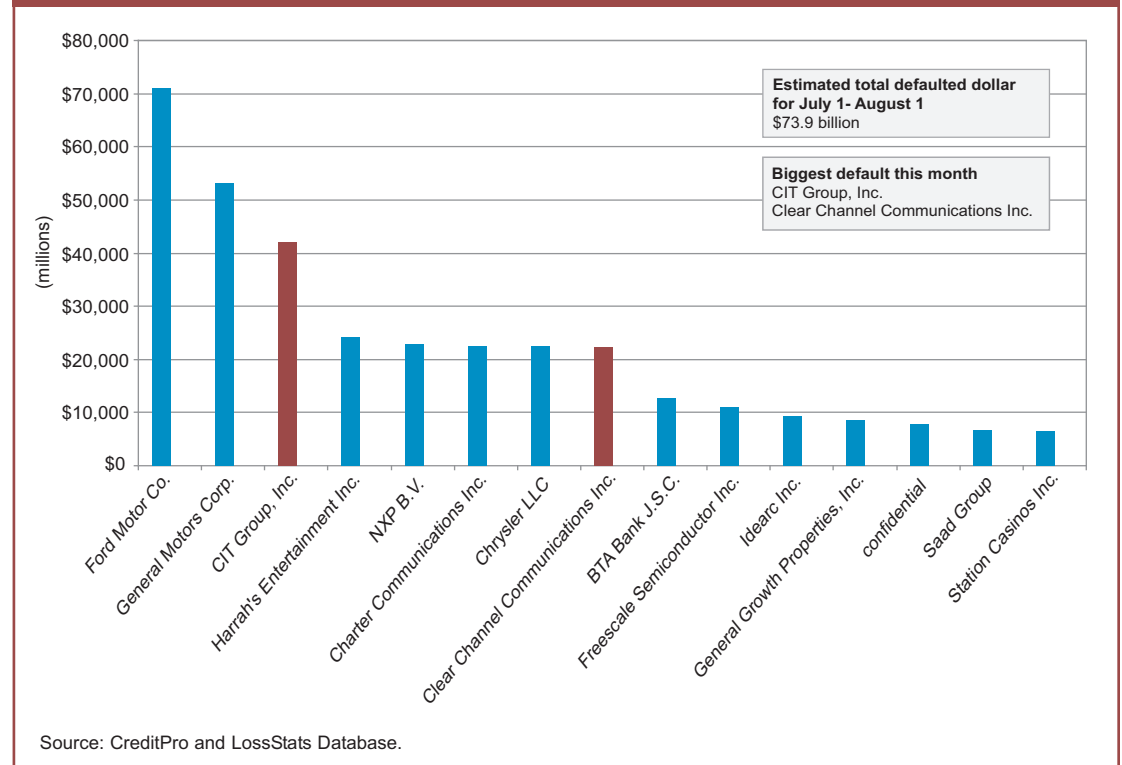
September 2009

## AUGUST DEFAULTS: CIT GROUP AND CLEAR CHANNEL WERE THE BIG ONES

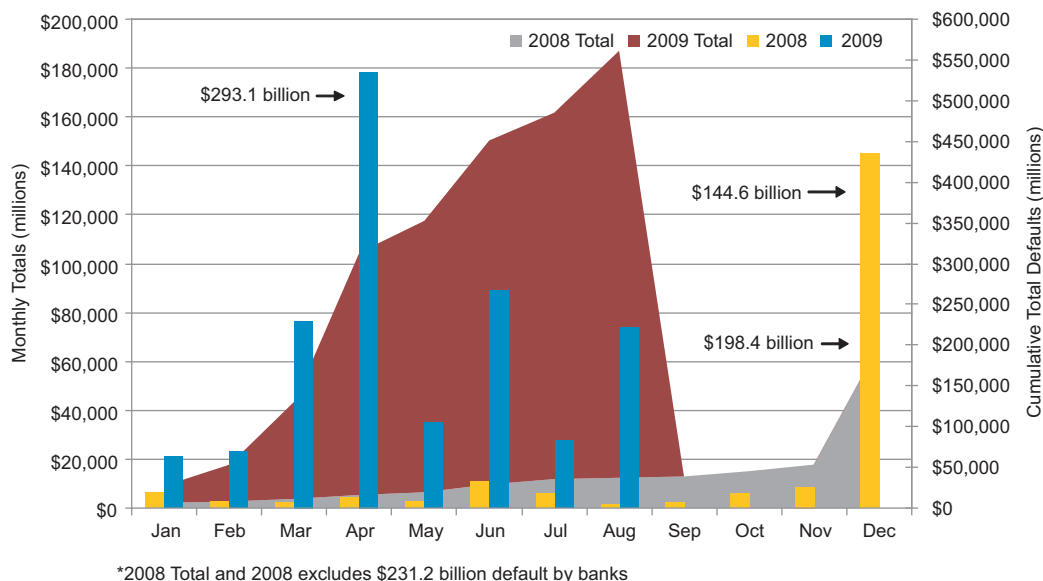
The problems of two big companies in sectors that have had ongoing problems throughout the recession—finance and media—raised August's default totals to \$74 billion. Finance company CIT Group Inc., and Clear Channel Communications Inc., the largest U.S. radio station owner, both failed to meet their debt obligations, affecting \$42.1 billion and \$22.3 billion in debt, respectively. With those two companies accounting for the lion's share of bad debt in August, the year-to-date volume of defaults surged past the half-trillion dollar mark to \$ 523.5 billion.

CIT and Clear Channel defaulted as a result of distressed debt exchanges, which under Standard & Poor's Ratings Services' criteria are tantamount to defaults.

**Chart 1: Fifteen Largest Defaults for 2009**



**Chart 2: Monthly Default Volume**



Source: CreditPro and LossStats Database.

These companies are among the 15 largest credit failures in 2009. The third- and fifth-largest defaults in August, Readers’ Digest Assn. Inc. (\$2.1 billion in defaults) and Accuride Corp. (\$995 million), an automotive supplier, both failed to make scheduled interest payments. Atlanta-based homebuilder Beazer Homes USA Inc. was No. 4 of the top five: It undertook a discounted note repurchase—also considered a default under our criteria—affecting \$1.4 billion in debt.

Altogether there were 25 defaults in August (the average is 27 per month so far this year), and most of them were relatively small. CIT and Clear Channel accounted for 87% of the month’s default volume; the top five companies accounted for 93%. The leading two companies were the only ones with more than \$10 billion in bad debt, and the leading four the only ones passing the \$1 billion mark. So while the average default volume was \$2.9 billion, the median was a much more modest \$288 million.

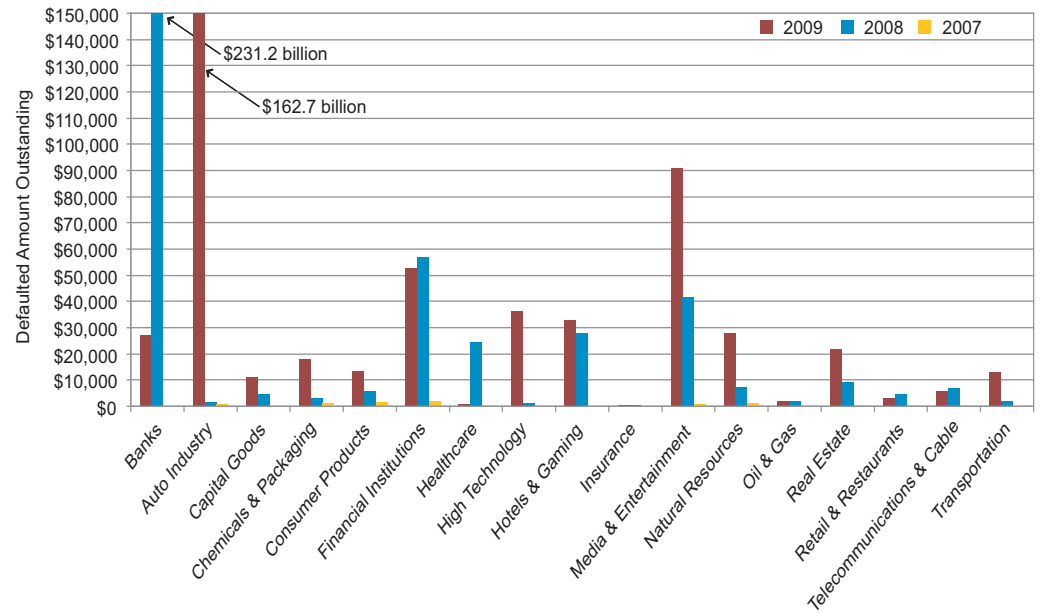
Since the beginning of 2009, the 12-month trailing speculative grade default rate continues to climb. In August it hit 9.33%, compared with only 3.47% at the end of 2008.

**THE MOST VULNERABLE SECTORS:  
NATURAL RESOURCE COMPANIES ARE SUFFERING**

The defaults in August created no material changes in the most vulnerable industries, where the five sectors with the most bad debts remain—from highest dollar volume to lowest—autos, media, finance, technology, and hotels and gaming.

Yet while there are more defaults among media companies (39) than in any other sector, the sector with the next-highest number of defaulting issuers is not among

**Chart 3: Default Volume By Sector**



Source: CreditPro and LossStats Database.

the top five. It is the No. 6 entry, natural resources, where 30 companies have defaulted since the beginning of the year. Many lumber, metal, and mining companies have been hit hard in the recession with declines in housing or industrial production squeezing their revenues. (Our listings in the natural resource category do not include oil and gas companies).

Through August, natural resource companies have contributed \$27.7 billion in bad loans to total default volume. Compared with the large losses generated by the automotive and media sectors, individual company losses here are small—but there are a lot of them. The largest natural resource company default since Jan. 1 was Smurfit-Stone Container Corp, a paper and forest products company where \$3.8 billion in debt went bad when it filed for Chapter 11 bankruptcy protection earlier this year. More typical, however, are the many smaller companies that have failed to make good, such as G Steel Public Co. Ltd., a Singapore company, which defaulted after missing a \$15 million loan installment payment in May.

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 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.

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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