

**LSTA 14<sup>th</sup> Annual Conference  
Default & Recovery Panel**

**Moderator:**

**Steven Miller, Standard & Poor's LCD**

**Panelists:**

**Edward Altman, Max L. Heine Professor of Finance at the  
Stern School of Business, New York University**

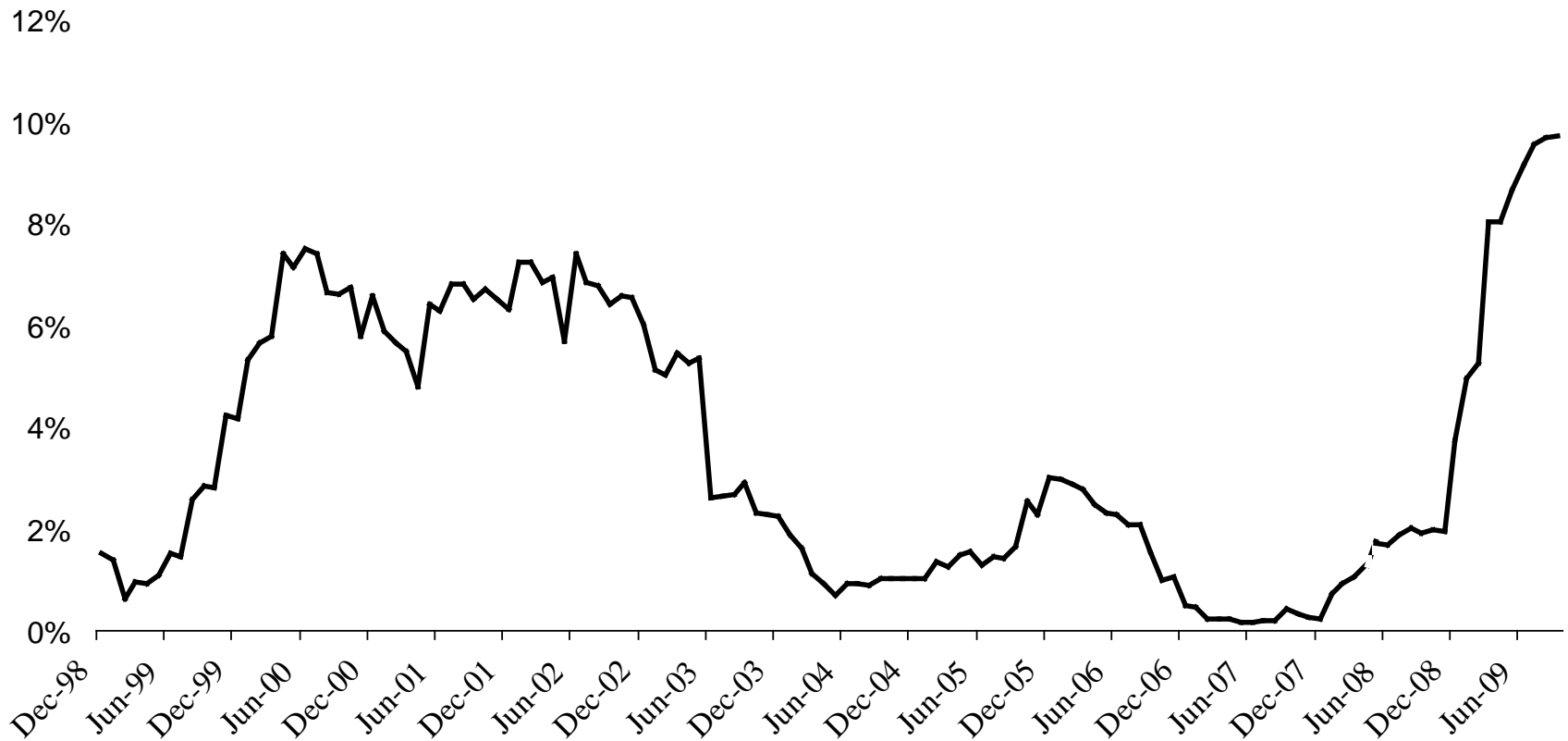
**Bill Chew, Managing Director, Standard & Poor's Ratings**

**James Ferguson, President, Octagon Credit**

**Michael Zupon, Sound Harbor Partners**

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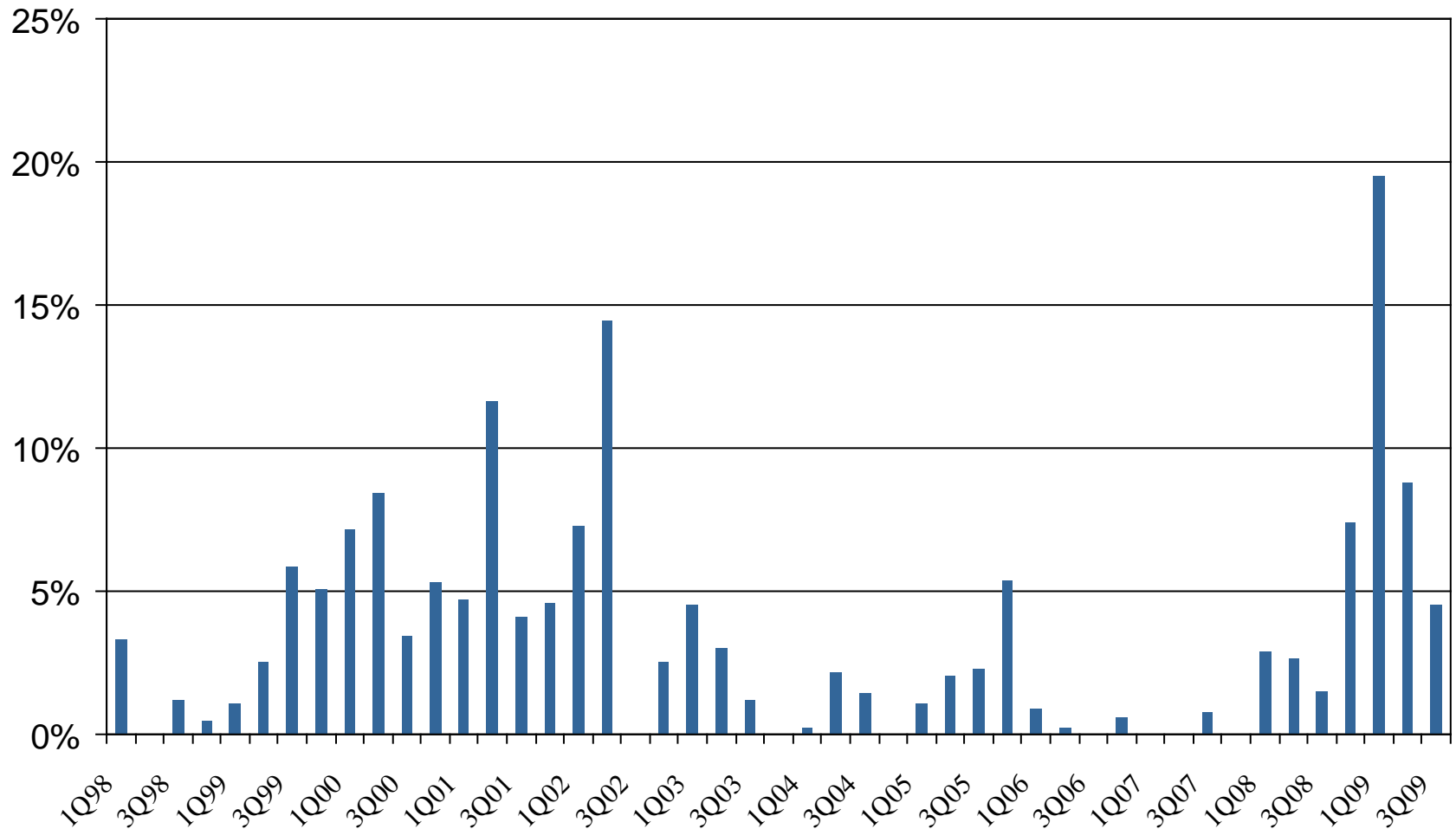
# Lagging Twelve-Month Default Rate by Principal Amount



Source: Standard & Poor's LCD

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# Annualized quarterly Default Rate by Principal Amount

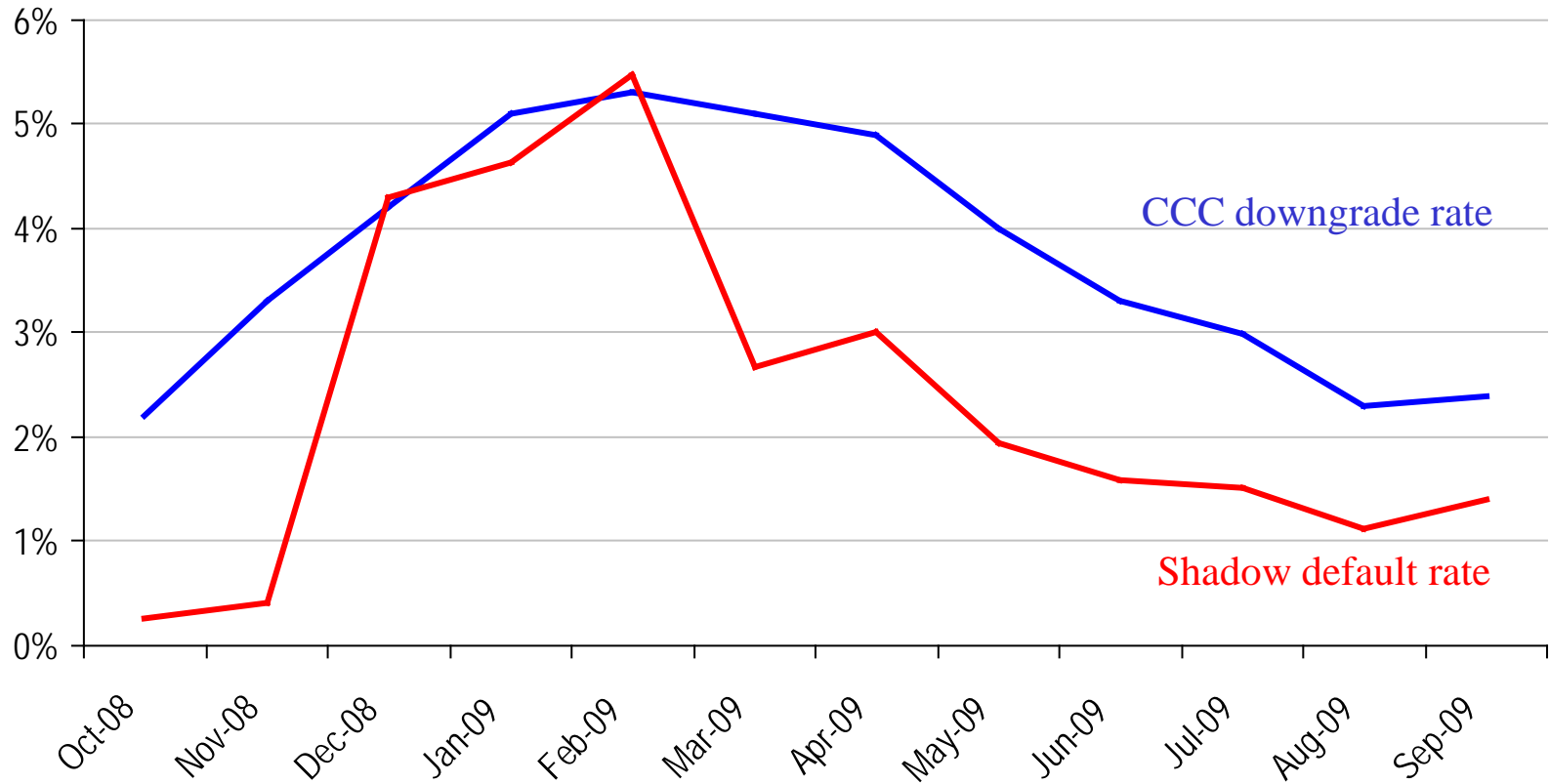


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# Watch Lists Shrink



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## Default predictions – Scenario Analysis

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**S&P's chief economist David Wyss see three paths:**

**Worst Case – L(ong & Ugly)**

**GDP: -1.0% in '10; +0.7% in '11**

**Best Case – V(igorous)**

**GDP: 3.6% in '10; +3.6% in '11**

**Mid-Case – U(ninspiring)**

**GDP: +1.6% in '10; +3.2% in '11**

*Source: Standard & Poor's LCD*

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# Altman Default and Recovery Forecasts: Summary of Forecast Models

<u>Model</u>	<u>2009 Default_Rate Forecast as of 1/31/2009</u>	<u>2009 Recovery_Rate Forecast*</u>	<u>2010 (9/30) Default Rate Forecast as of 9/30/2009</u>	<u>2010 (9/30) Default Rate Forecast as of 9/30/2009</u>
<b>Mortality Rate</b>	<b>7.98%</b>	<b>30.0%</b>	<b>7.98%</b>	<b>7.98%</b>
<b>Scenario (2001)</b>	<b>12.30%</b>	<b>25.22%</b>	<b>11.60%</b>	<b>n/a</b>
<b>Scenario (1991)</b>	<b>15.40%</b>	<b>23.75%</b>	<b>15.40%</b>	<b>n/a</b>
<b>Yield-Spread</b>	<b>18.32%</b>	<b>20.35%</b>	<b>6.08%**</b>	<b>6.08%**</b>
<b>Distress Ratio</b>	<b>14.16%</b>	<b>24.74%</b>	<b>6.05%***</b>	<b>6.05%***</b>
<b>Average of Models</b>	<b>13.63%</b>	<b>24.27%</b>	<b>9.42%</b>	<b>6.70%</b>

\*Based on the log-linear default rate/recovery rate regression (Slide 12). \*\*Based on Sept. 30, 2009 yield-spread of 670.83bp.

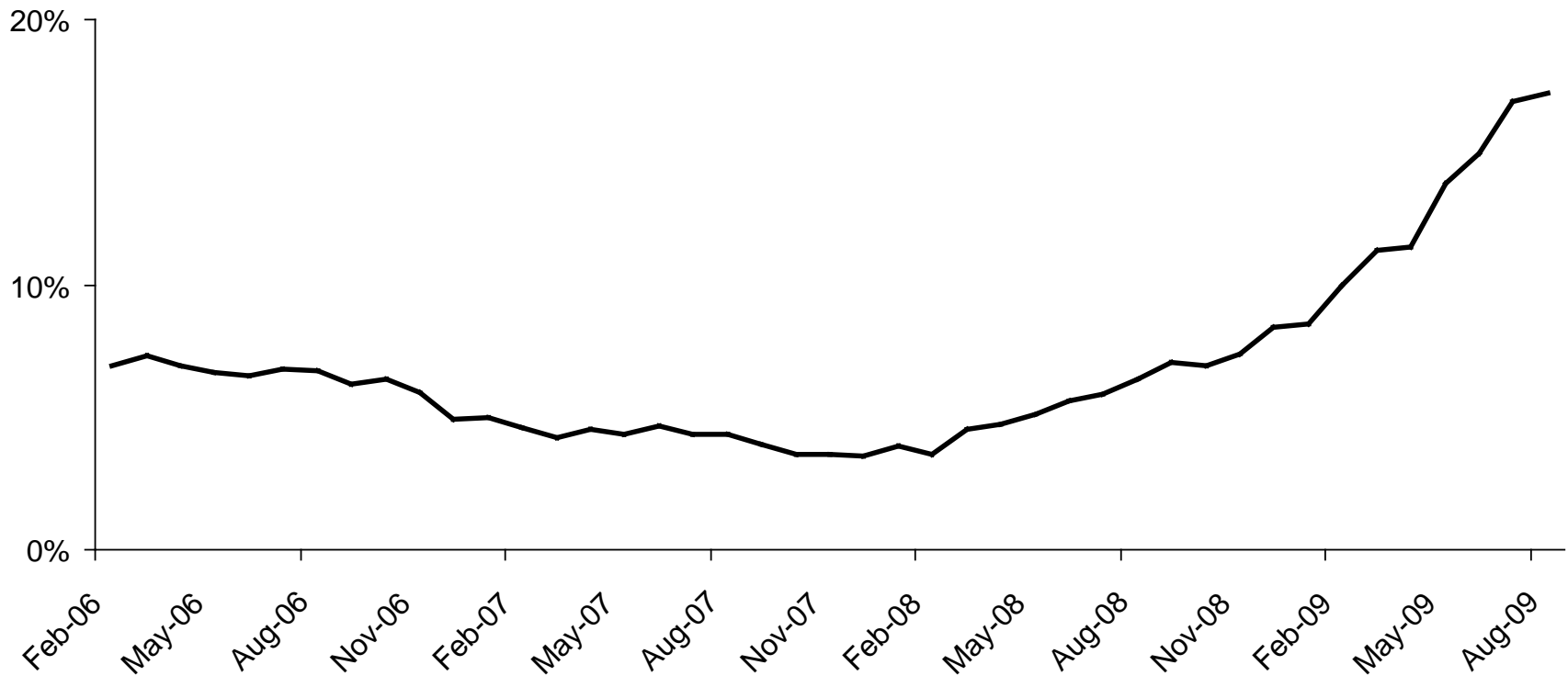
\*\*\*Based on Sep. 30, 2009 Distress Ratio of 26.8%.

Source: All Corporate Bond Issuance and Authors' Estimates of Market Size in 2009

# How much of an impact

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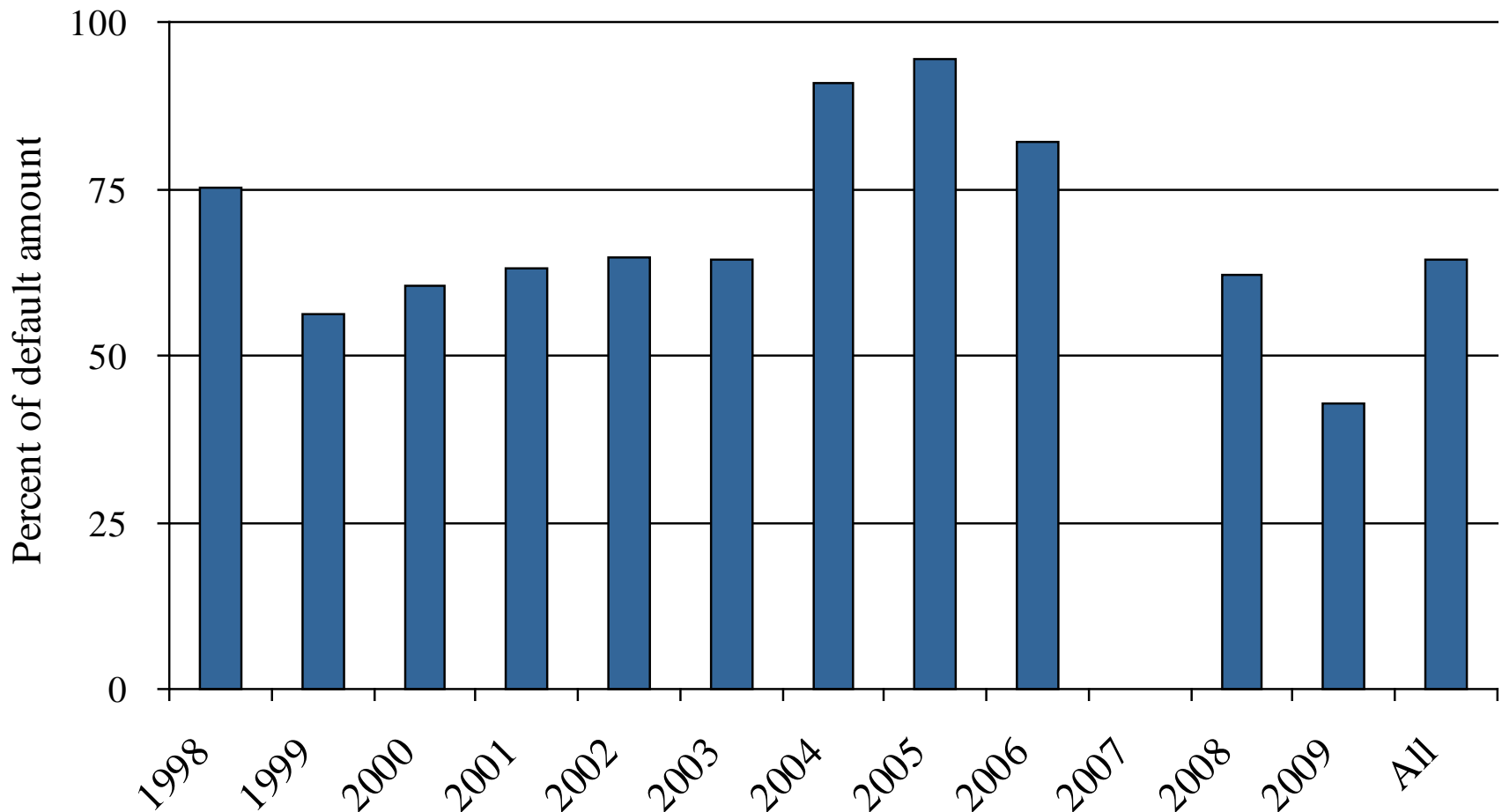
## Lagging 12-month Amendment Rate of S&P/LSTA Index Loans



Source: Standard & Poor's LCD

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# Recoveries – Are we heading higher?



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