
Current Corporate Credit Conditions in the United States

Introductory Remarks

Moody's Corporation and NYU

Salomon Center

Inaugural Credit Risk Conference:

Recent Advances in Credit Risk

Research

Stern School of Business

May 19-20, 2004

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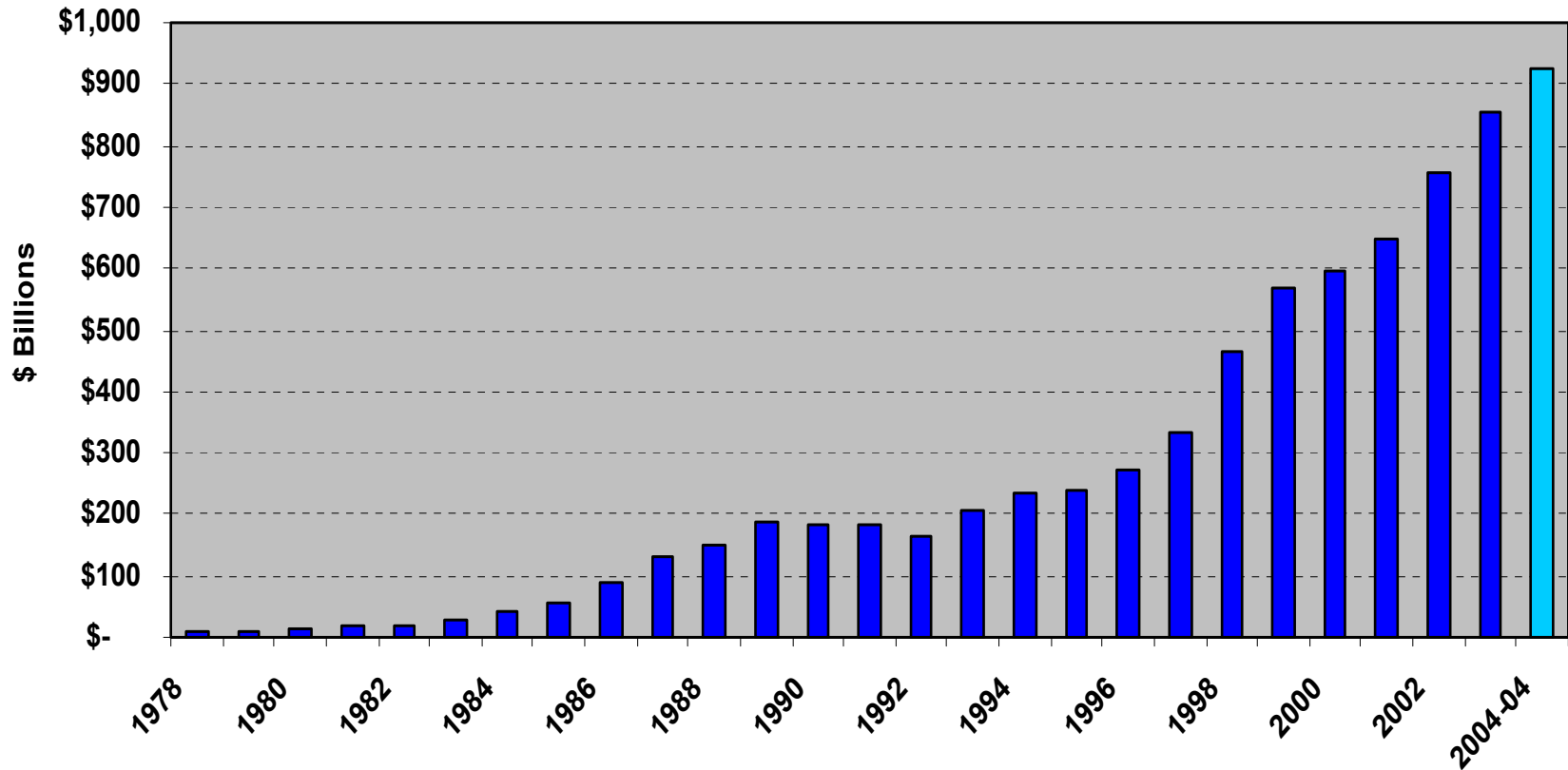
Credit Risk: A Global Challenge

In Low Credit Risk Regions (1998 - No Longer in 2003)

- New Emphasis on Sophisticated Risk Management and the Changing Regulatory Environment for Banks
- Enormous defaults and bankruptcies in US in 2001/2002.
- Refinements of Credit Scoring Techniques
- Large Credible Databases - Defaults, Migration
- Loans as Securities
- Portfolio Strategies
- Offensive Credit Risk Products
 - Derivatives, Credit Insurance, Securitizations

Size of the US High-Yield Bond Market

1978 – April, 2004 (Mid-year US\$ billions, except for 2004)



Historical Default Rates

Straight Bonds Only Excluding Defaulted Issues From Par Value Outstanding, 1971 – 2004Q1 (US\$ millions)

Year	Par Value Outstanding ^a	Par Value Defaults	Default Rates (%)	Year	Par Value Outstanding ^a	Par Value Defaults	Default Rates (%)
2004Q1	\$886,000	\$3,606	0.407	1980	\$14,935	\$224	1.500
2003	\$856,000	\$38,451	4.661	1979	\$10,356	\$20	0.193
2002	\$757,000	\$96,855	12.795	1978	\$8,946	\$119	1.330
2001	\$649,000	\$63,609	9.801	1977	\$8,157	\$381	4.671
2000	\$597,200	\$30,295	5.073	1976	\$7,735	\$30	0.388
1999	\$567,400	\$23,532	4.147	1975	\$7,471	\$204	2.731
1998	\$465,500	\$7,464	1.603	1974	\$10,894	\$123	1.129
1997	\$335,400	\$4,200	1.252	1973	\$7,824	\$49	0.626
1996	\$271,000	\$3,336	1.231	1972	\$6,928	\$193	2.786
1995	\$240,000	\$4,551	1.896	1971	\$6,602	\$82	1.242
1994	\$235,000	\$3,418	1.454				
1993	\$206,907	\$2,287	1.105				
1992	\$163,000	\$5,545	3.402				
1991	\$183,600	\$18,862	10.273				
1990	\$181,000	\$18,354	10.140				
1989	\$189,258	\$8,110	4.285				
1988	\$148,187	\$3,944	2.662				
1987	\$129,557	\$7,486	5.778				
1986	\$90,243	\$3,156	3.497				
1985	\$58,088	\$992	1.708				
1984	\$40,939	\$344	0.840				
1983	\$27,492	\$301	1.095				
1982	\$18,109	\$577	3.186				
1981	\$17,115	\$27	0.158				

		Standard Deviation (%)
Arithmetic Average Default Rate		
1971 to 2003	3.292%	3.161%
1978 to 2003	3.656%	3.394%
1985 to 2003	4.567%	3.515%
Weighted Average Default Rate^b		
1971 to 2003	5.352%	
1978 to 2003	5.382%	
1985 to 2003	5.474%	
Median Annual Default Rate		
1971 to 2003	1.896%	

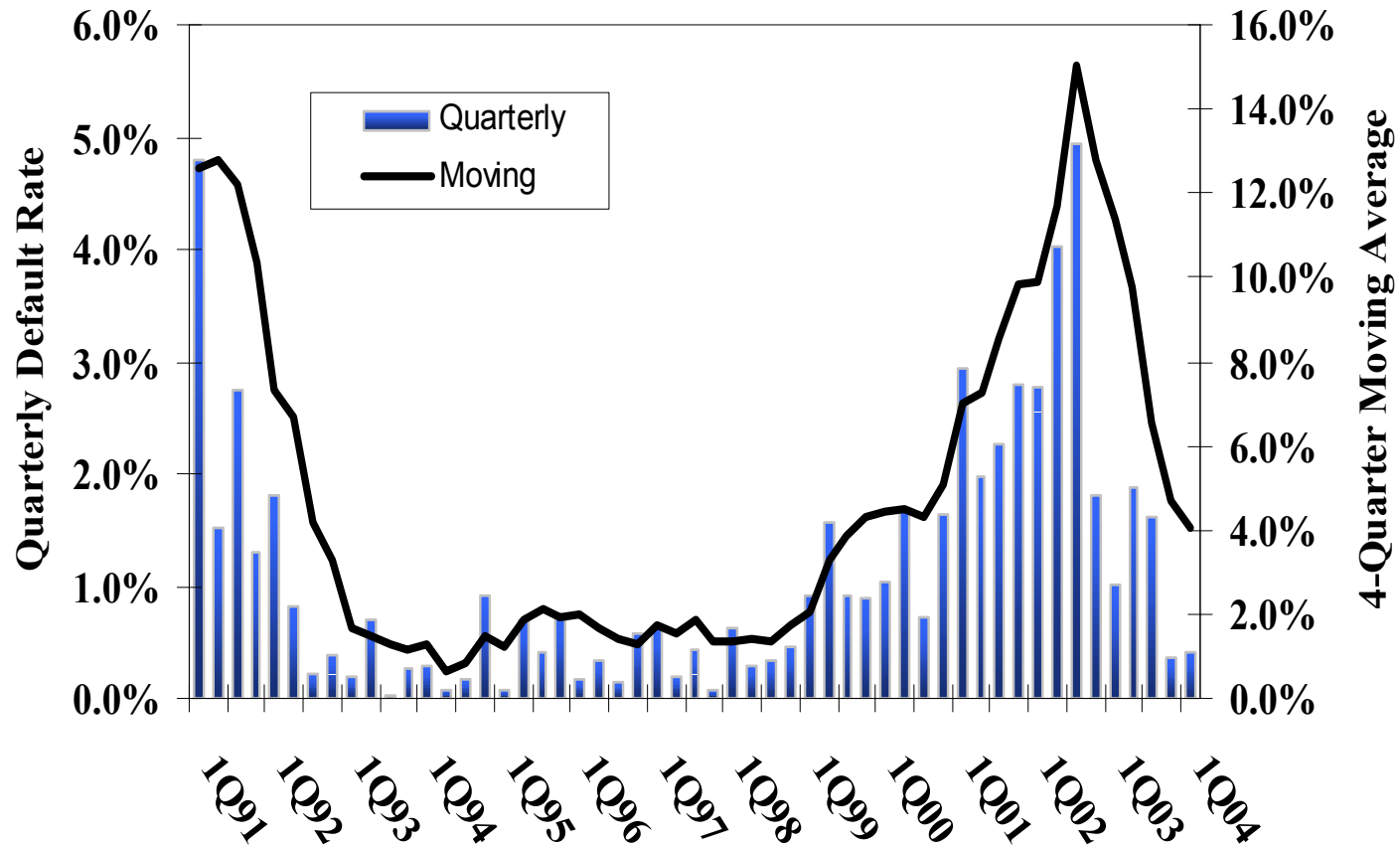
^a As of mid-year except for 2004 (year end 2003)

^b Weighted by par value of amount outstanding for each year.

Source: Author's compilation and Salomon Smith Barney

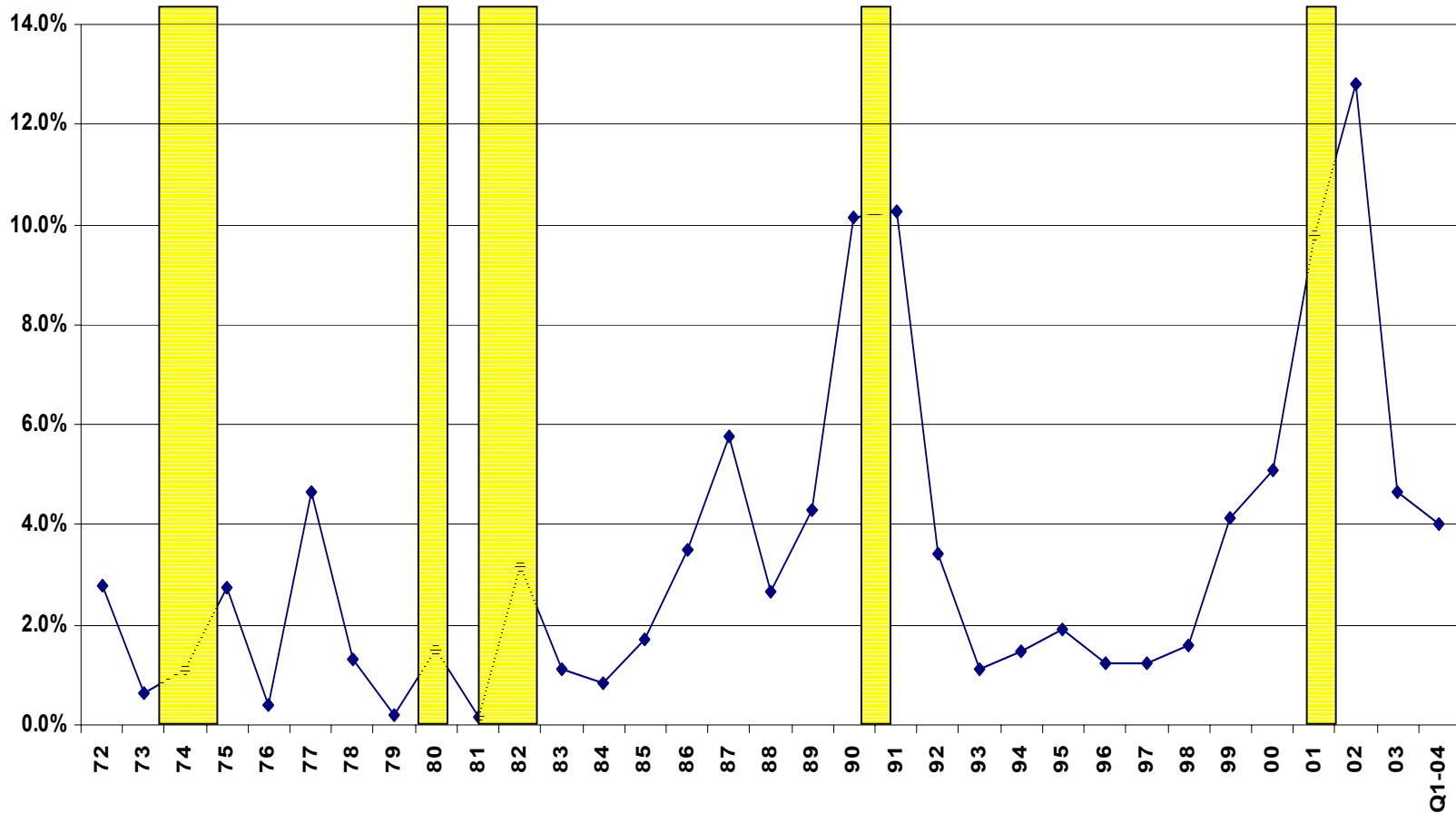
Historical Default Rates

**QUARTERLY DEFAULT RATE AND FOUR QUARTER MOVING AVERAGE
1992 -2004YTD**



Historical Default Rates and Recession Periods in the U.S.

HIGH YIELD BOND MARKET 1972 -2004YTD

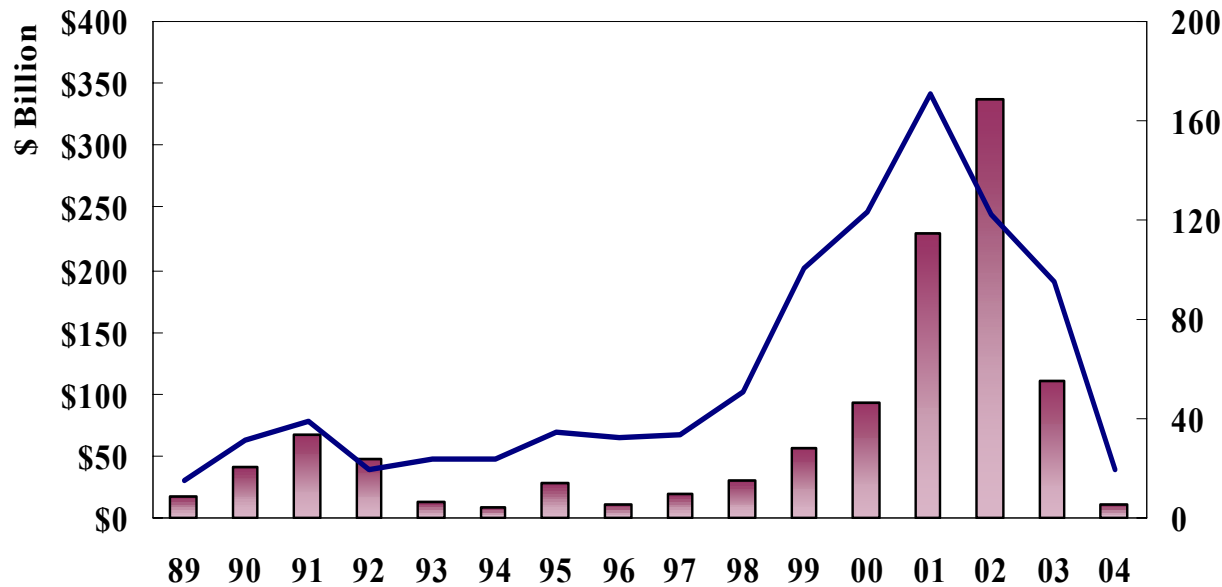


Periods of Recession: 11/73 - 3/75, 1/80 - 7/80, 7/81 - 11/82, 7/90 - 3/91, 4/01 - 12/01

Source: Figure 1, Appendix B & National Bureau of Economic Research Data

Filings for Chapter 11

**Number of Filings and Pre-petition Liabilities of Public Companies
1989- 2004 YTD**



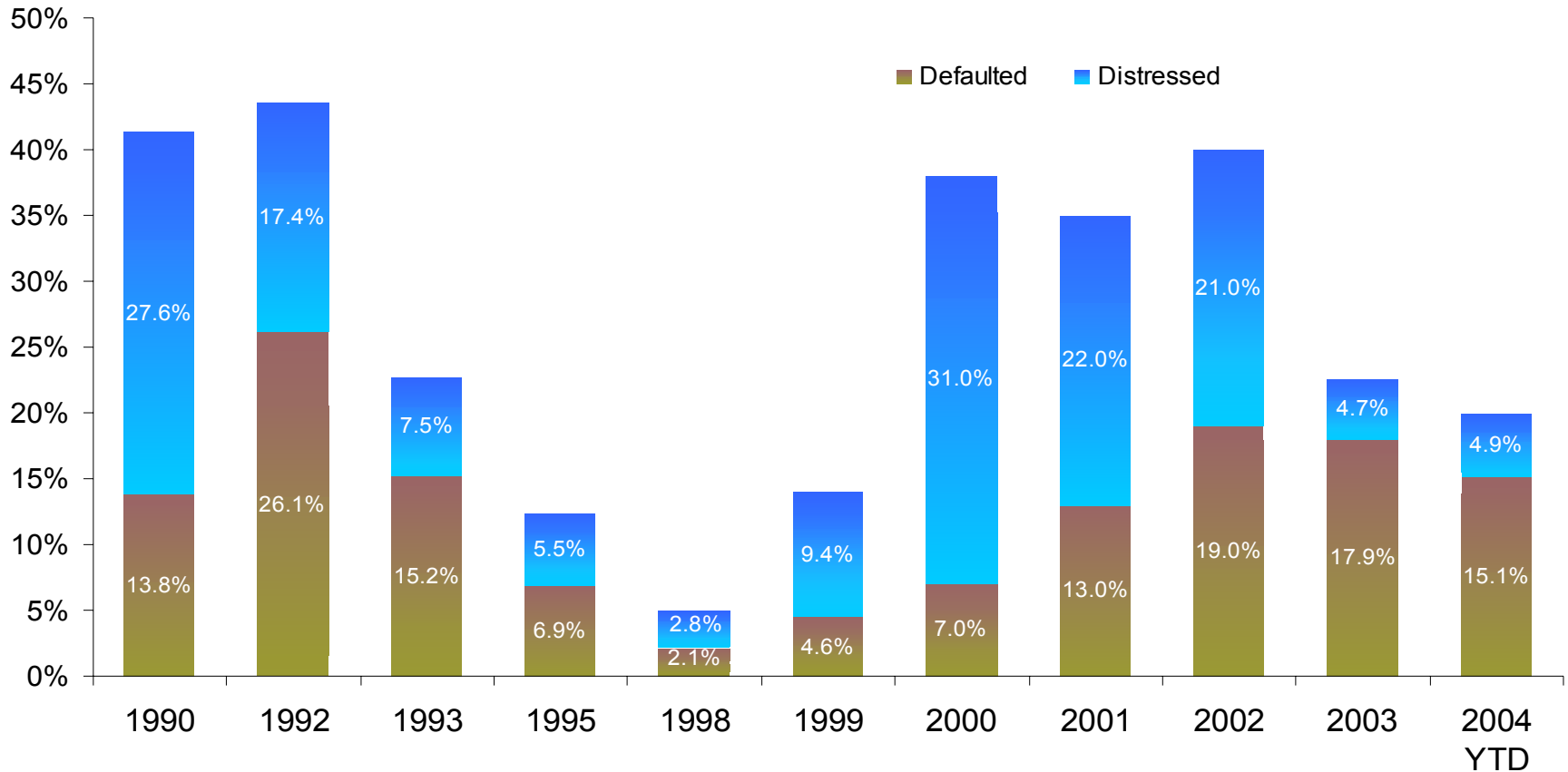
2003
95 filings and pre-petition liabilities of \$110.4 billion

March 2004
20 filings and pre-petition liabilities of \$10.9 billion

Pre-Petition Liabilities, in \$ billions (left axis)
Number of Filings (right axis)

Note: Minimum \$100 million in liabilities
Source: NYU Salomon Center Bankruptcy Filings Database

Distressed And Defaulted Debt as a Percentage of Total High Yield Debt Market



Public deals only.
Source: Citigroup Estimates.

Estimated Face And Market Values Of Defaulted And Distressed Debt

	<u>Face Value</u>			<u>Market Value</u>				
	12/31/03	3/31/04	4/30/04*	12/31/03	xFV	3/31/04	4/30/04*	xFV
<u>Public Debt</u>								
Defaulted	\$ 193.6	\$194.5	\$ 163.7 (1)	\$ 87.1	0.45	\$ 97.2	\$ 81.9	0.50
Distressed	\$ 50.5	\$ 60.7	\$ 53.5 (2)	\$ 32.8	0.65	\$ 39.5	\$ 34.8	0.65
Total Public	\$ 244.1	\$255.2	\$ 217.3	\$ 119.9		\$ 136.7	\$116.7	
<u>Private Debt</u>								
Defaulted	\$ 271.0	\$272.3	\$ 229.2 (3)	\$ 189.7	0.70	\$ 190.6	\$160.5 (3)	0.70
Distressed	\$ 70.7	\$ 85.0	\$ 74.9 (3)	\$ 60.1	0.85	\$ 72.2	\$ 63.7 (3)	0.85
Total Private	\$ 341.7	\$357.2	\$ 304.2	\$ 249.8		\$ 262.8	\$224.2	
Public and Private	\$ 585.8	\$612.4	\$ 521.4	\$ 369.8		\$ 399.5	\$340.8	

(1) Calculated using: (2003 defaulted population) + (2004Q1 defaults) - (2004Q1 Emergences)

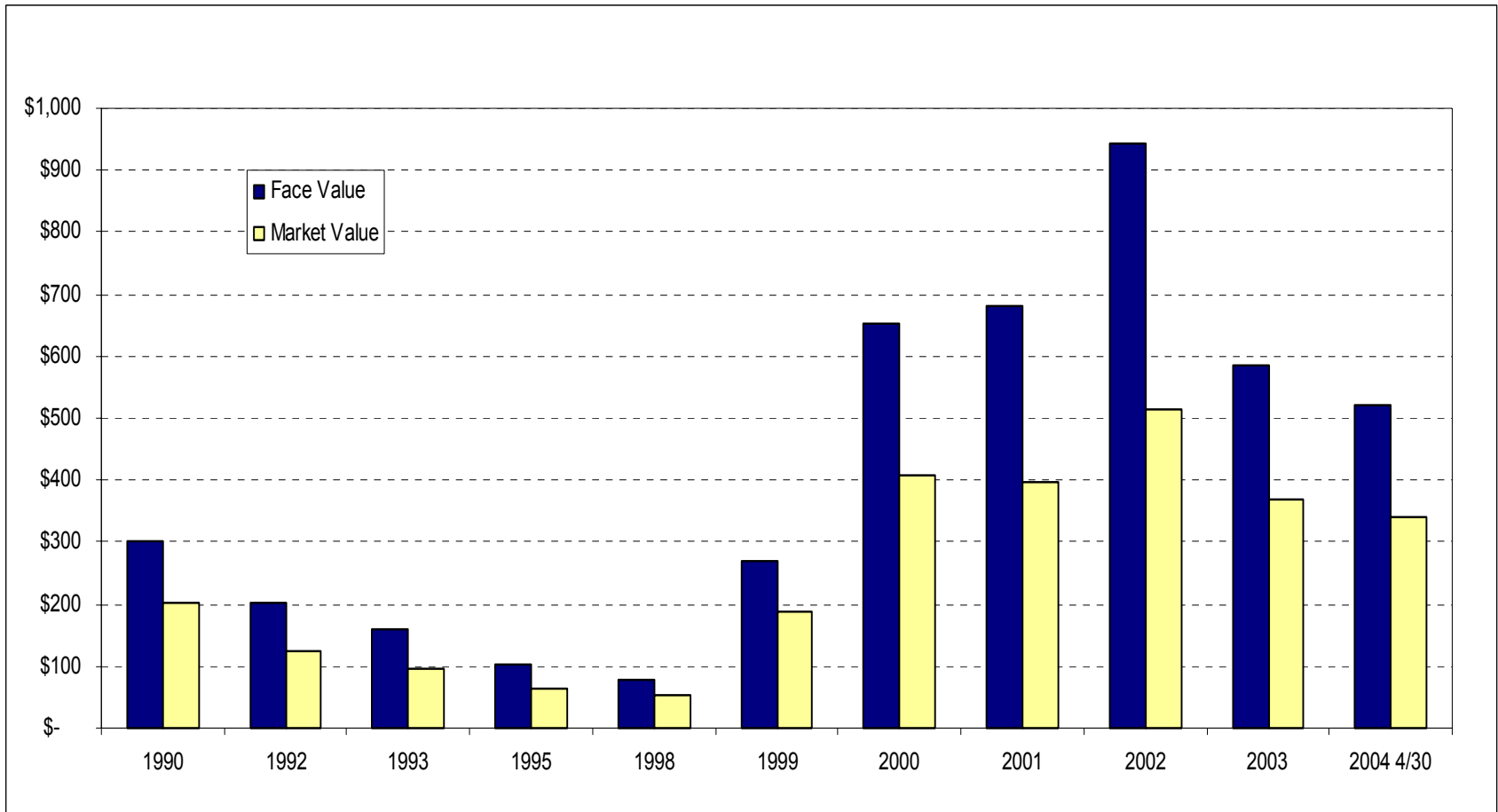
(2) Based on 6.6% and 5.8% of size of high yield market (\$919.6 and \$922.7 billion), for Q1 and April figures respectively.

(3) For 12/31/03, 03/31/04 and 04/30/04, we use a private/public ratio of 1.40.

* Adjusted by emergences during April and change in distress ratio.

Source: Edward Altman, NYU Salomon Center, Stern School of Business

Size of Defaulted And Distressed Debt Market (\$ Billions) (1990 – 2004YTD)



Source: E. Altman, NYU Salomon Center .

Defaulted Debt Indexes: Market-to-Face Value Ratio (Annual 1986 – 2004Q1)

