

MOODY'S KMV EDF™ 8.0

Moody's KMV is pleased to announce the release of the EDF 8.0 public firm model, which incorporates important enhancements from our recent research results and improvements to our production system. We are continuing to roll out the EDF 8.0 model in two phases: a pre-release followed by a production release.

Rollout Details

Pre-release: December 15, 2006 through June 15, 2007

In December 2006, Moody's KMV began releasing both Credit Monitor® 4.3.5 (the current version) and Credit Monitor 4.5 (the new version containing the new EDF 8.0 values) concurrently. Moody's KMV will continue releasing both versions concurrently through June 15, 2007. As always, Credit Monitor 4.3.5 releases mid-month. Credit Monitor 4.5, however, releases only a few days later. The setup file for Credit Monitor 4.5 will be available exclusively on Support Web (support.moodyskmv.com). To download the setup file, click on the link "EDF 8.0 Resource Page" on the Support Web home page.

Also available on the EDF 8.0 Resources page are two flat files for EDF clients who do not use Credit Monitor. One file contains a five-year monthly history of current EDF values/drivers computed using the new EDF 8.0 model. The other contains a five-year monthly history of EDF values/drivers computed using the current model. On May 7th, a daily history of EDF values from May 1, 2006 to April 30, 2007 using the new EDF 8.0 model will be available on the EDF 8.0 Resources page. On June 5th, this file will contain data from June 1, 2006 through May 31, 2007. You can download these password-protected ZIP files from the EDF 8.0 Resources page. To obtain a password, contact Moody's KMV Support by sending an e-mail message to support@mkmv.com.

EDF 8.0 data is also available in Portfolio Manager™ for testing purposes. You can download a special setup file from Support Web.

In January 2007, we released the white paper "EDF 8.0 Model Enhancements," which describes all of the improvements in the new model. You can download the paper from the EDF 8.0 Resources page on Support Web. In addition, we will continue to hold additional one-hour webinars explaining the EDF 8.0 model enhancements in detail. To sign up for a webinar, go to the Moody's KMV Web site. Click the link "EDF 8.0 Model Enhancements." At the bottom of the page, click the link "EDF 8.0 Webinar – Registration."

Beginning in the first quarter in 2007, we have been meeting with clients to discuss the EDF 8.0 model, and will continue to do so through the second quarter in 2007. In addition, we will hold the following seminars, which will include highlights of the EDF 8.0 model:

- Credit Risk Management for Asset Managers seminar in Boston on May 8, 2007
- Credit Risk Management for Regional Banks seminar in Chicago on May 15, 2007
- Credit Risk Management for Corporations seminar in Chicago on May 16, 2007
- Moody's KMV Insurance Client Roundtable in New York on June 6, 2007

For a full list of upcoming Moody's KMV events, go to the Moody's KMV Web site (moodyskmv.com). Then click on the link "Upcoming Moody's KMV Events."

Final Release: June 15, 2007

Beginning on June 15, 2007, we will release Credit Monitor 4.5.1, which is based on EDF 8.0. In addition, Moody's KMV Update Assistant will be configured to work with Credit Monitor 4.5. After the final release of Credit Monitor 4.5.1, Credit Monitor 4.3.5 will still be available on Support Web a few days following the Credit Monitor 4.5.1 updates until the end of 2007. Shortly following, we will release a new version of Credit Monitor Japan (Kanji Language) based on EDF 8.0 values. An older version based on EDF 7.1 will still be updated monthly and available on Support Web until the end of 2007.

CreditEdge[®] 5.0 will be released on June 18, 2007, and will use all EDF values/drivers computed using the new EDF 8.0 model. Daily histories for the past 12 months, and monthly histories for the past 5 years will also be restated using new EDF 8.0 values. The daily EDF-implied spreads in CreditEdge Plus will be restated for the past year based on the new EDF 8.0 model, and only those historic EIS values will be available in CreditEdge Plus from June 18, 2007 onwards. Data File Service (DFS) will begin reflecting EDF 8.0 values starting June 18, 2007. Similarly, the XML service will report current and historic values using the EDF 8.0 model also starting June 18, 2007.

Portfolio Manager, Deal Analyzer[®], GCorr[™], and CreditMark[™] will both be updated using new EDF 8.0 values. CreditMark will begin using new EDF 8.0 values as of June 18, 2007, but will maintain its history using EDF 7.1 values. Portfolio Manager, Deal Analyzer, and GCorr will begin using EDF 8.0 values as of June 15, 2007. Keep in mind, after June 15th; the previous version of the data for Portfolio Manager based on the previous EDF model will still be available on Support Web until the end of 2007. RiskFrontier will use EDF 8.0 values from June 18th going forward.

EDF 8.0 Model Enhancements

Broader Range of EDF Credit Measures

We increased the EDF granularity for firms of both extremely high and extremely low credit quality. This is helpful in pricing and structuring, especially during extremes in the credit cycle. In the new model, we lowered the minimum EDF credit measure to 1 basis point (previously 2 basis points) and increased the new maximum EDF credit measure to 35% (previously 20%).

Increased Granularity among High Credit Quality Firms and Low Credit Quality Firms

During a good stage of the credit cycle, the EDF credit measure is less likely to fall to the EDF floor, while during a poor stage of the credit cycle, the EDF credit measure is less likely to reach the EDF cap. We created this improved distinction among these highest quality firms (where defaults are rare) by using information from the CDS market as well as the equity market.

Improved Calibration through Additional Data

The amount of default data aggregated by Moody's KMV more than doubled since we last updated the Distance-to-Default and EDF mapping. Our default research now covers the period of increased default intensity during the last economic downturn. This allows Moody's KMV to refine the calibration between Distance-to-Default and EDF credit measures, and increase the granularity of with both extremely high and extremely low credit quality.

Enhanced EDF-Implied Rating

With this expanded EDF range (1 basis point to 35%), we re-specified the agency rating-to-EDF mapping, which enhances our EDF-implied rating so that they are now more evenly distributed during both expansions and recessions. You'll notice significant improvements in our rating maps for extremely high and extremely low credit grades.

Improved Long-Term Visibility and Fair Value Spread Estimation

Superior approach to calculating long-term EDF credit measures. This is critical when considering longer-term exposure and it allows for a more accurate estimation of a fair value spread for both bonds and CDSs.

New Method for Constructing EDF Term Structures

We now apply our credit migration model, Distance-to-Default Dynamics, when computing forward default frequencies and EDF credit measures for years two through five. This modeling approach allows the EDF term structure to reflect how firms actively manage their liabilities, as well as adapt to changing economic environments. The new validated term structure is also found to enhance the prediction of future credit states.

New Approach for Extending the EDF Term Structure for Years Six–Ten

To compute the EDF term structure for years six through ten, we now use a constant forward EDF level for all years beyond year four. This new extrapolation method proves helpful for estimating credit migration and computing long-dated cumulative risk of counterparties. CreditEdge subscribers have had access to a 10-year EDF term structure since August 2005, but with the new procedure they will see different results beyond year five. This functionality will be available in Credit Monitor as well.

More Accurate Spread Estimates

The improved estimation techniques across the credit term structure allows for a more accurate estimation of a fair value spread for both bonds and CDSs.

More timely information

Semi-annual financial statements are now available for firms outside North America. This better reflects a company's current capital structure. This results in more accurate EDF credit measures and better-informed credit decisions.

Incorporating Non-North American Semiannual Financial Statements

Because of improvements in our EDF production system, we can now process semiannual financial statements for non-North American firms (when they are available).

Updated Risk-Free Rate

The improved EDF production system also allows us to incorporate monthly updates of the model's risk-free rate. This additional rate will be stored in a new database table within Credit Monitor.