



Moody's Analytics: Preferred Stock Default Recoveries Approach Those of Senior Unsecured Bonds

Company Release - 11/05/2009 13:34

NEW YORK--(BUSINESS WIRE)-- Recovery rates on preferred stocks that have omitted dividends surpass those on junior subordinated bonds by nearly 50% when the omission is not followed by a general bond default, a new Moody's Analytics Risk Management Services study demonstrates. When the initial impairment is such a dividend omission, recovery rates on the preferred stock typically approach those on defaulted senior unsecured bonds.

The study also found that recovery rates on preferred shares varied considerably according to the nature of the initial impairment. As expected, the highest recoveries (35.9%) were observed for dividend omissions that were not followed by a subsequent broad bond default, while the lowest recoveries (15.9%) were realized for issuers whose preferred stock dividend impairment was part of an outright bond default.

Called "Preferred Stock Impairment and Recovery Rates, 1983-2008," the study is a comprehensive assessment of defaults and recoveries among preferred and trust preferred stocks since 1983. Through an analysis of 471 impairments, the study illustrates the relationship between initial impairment events and their impact on recovery rates. The study also examines the migration of issuers' ratings prior to dividend impairments.

"This study bridges a significant information gap on default and recovery performance for preferred and trust preferred stocks (TruPS)," said Dr. Ozgur Kan, Engagement Manager, Risk Management Services, who authored the study along with Praveen Varma, Global Managing Director, Risk Management Services. "This information can be used to enhance the market-based recovery assumptions made in estimating loss given default on preferred stocks and in valuing TruPS CDOs, which are held by many small and medium financial institutions as part of their Tier 1 capital."

The study is available at www.moodys.com/rms.

About Moody's Analytics

Moody's Analytics is a leading provider of research, data, analytic tools and related services to debt capital markets and credit risk management professionals worldwide. The company's products and services provide the means to assess and manage the credit risk of individual exposures as well as portfolios; price and value holdings of debt instruments; analyze macroeconomic trends; and enhance customers' risk management skills and practices. Moody's Analytics is a subsidiary of Moody's Corporation (NYSE: MCO), which reported revenue of \$1.8 billion in 2008, employs approximately 4,000 people worldwide and maintains a presence in 27 countries. Additional information about the company is available at www.moodys.com.

Source: Moody's Analytics

Contact: Moody's Corporation Michael Adler, 212-553-4667 VP, Corporate Communications michael.adler@moodys.com