



Moody's Analytics Report Finds U.S. Private Firm Default Rates Trending Downward for First Time Since 2007

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Banks still anticipate ongoing weakness in creditworthiness of borrowers

NEW YORK--(BUSINESS WIRE)-- Moody's Analytics, a leader in risk management solutions, today announced the release of its bi-annual "Middle Market Risk Report" analyzing trends in the U.S. private firm credit market. The report's findings show that U.S. private firm default rates decreased in the fourth quarter of 2009 for the first time since 2007. This change, however, may not indicate an improvement of the credit environment, as banks are moving borrowers to non-pass risk grades at a much faster rate than at any other time during the past ten years.

"Banks downgraded nearly 29% of borrowers in their portfolios during 2009," said Credit Research Database Director of Moody's Analytics and lead author of the report, Jennifer Curtiss. "While significantly less than the peak rate of 35% posted in 2007, it's still higher than the 10-year historical average of 20%, which suggests that banks anticipate continued weakness in the credit-worthiness of borrowers." The sectors with the highest percentage of balances adversely rated are construction, agriculture, information, real estate & leasing, and manufacturing. The highest expected default frequency (EDF) levels as of December 2009 were for real estate & leasing, information, and arts & entertainment. The report also notes that the spread between the discount rate, a proxy for the cost of funds, and the coupon rate increased from 2.25% in June 2007 to 5.25% in December 2009, reflecting the increased premium expected in a riskier credit environment.

"It is critical that banks improve their visibility into what is often an opaque market," said Susan Feinberg, Senior Research Director for Wholesale Banking at TowerGroup. "Private firm default rates are an area where limited information is available, and access to this type of data can be an extremely valuable and powerful tool for commercial banks, asset managers, and corporations that are making credit decisions."

The conclusions of the "Middle Market Risk Report" are based on data drawn from Moody's Analytics Credit Research Database (CRD™). The CRD, built in partnership with more than 45 leading financial institutions around the world, contains 36 million financial statements on 6.5 million firms and more than 600,000 private company defaults, yielding unique insight into private firm default probability.

The CRD data used in authoring the "Middle Market Risk Report" also drives Moody's Analytics suite of 26 RiskCalc models, which allow institutions to make predictive assessments of credit risk in private firms across approximately 80% of the world's GDP. With RiskCalc, risk and asset managers can draw on the same data used in the report to evaluate and monitor credit risk and make more informed investment decisions.

To download the complete Moody's Analytics "Middle Market Risk Report," visit www.moodys.com/riskcalc.

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 2009, employs approximately 4,000 people worldwide and maintains a presence in 26 countries. Additional information about the company is available at www.moodys.com.

Source: Moody's Analytics

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