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2010 Credit Markets Symposium

The Credit Markets in Transition: Positioning for Recovery

April 15-16, 2010

The Federal Reserve Bank of Richmond

Corporate Credit Quality

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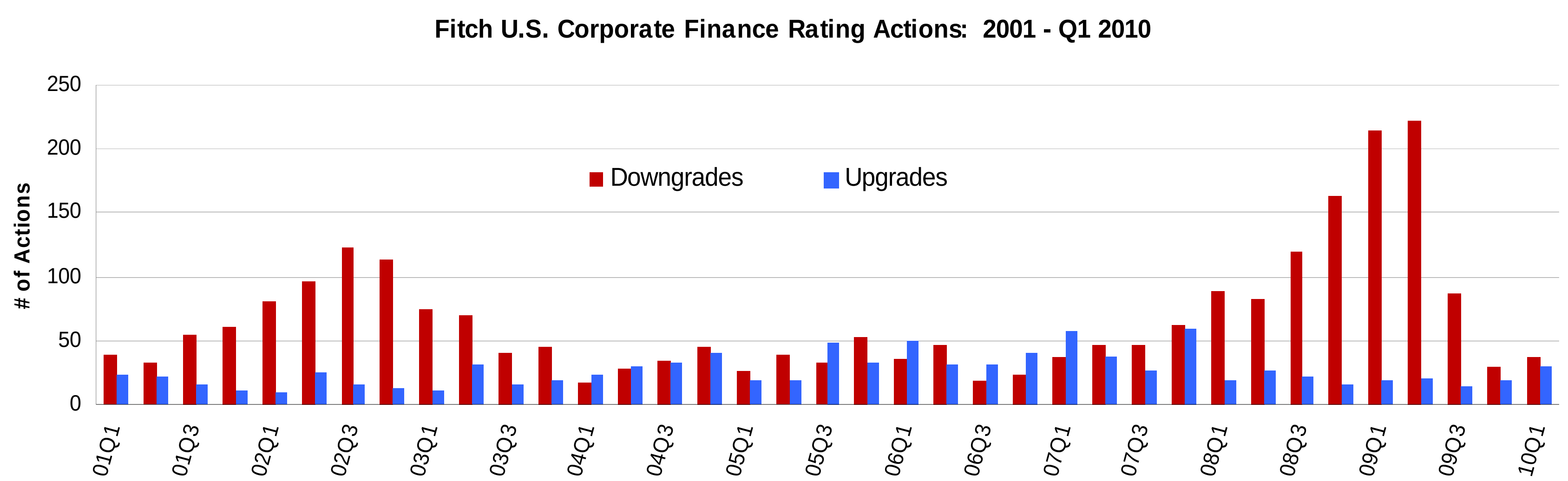
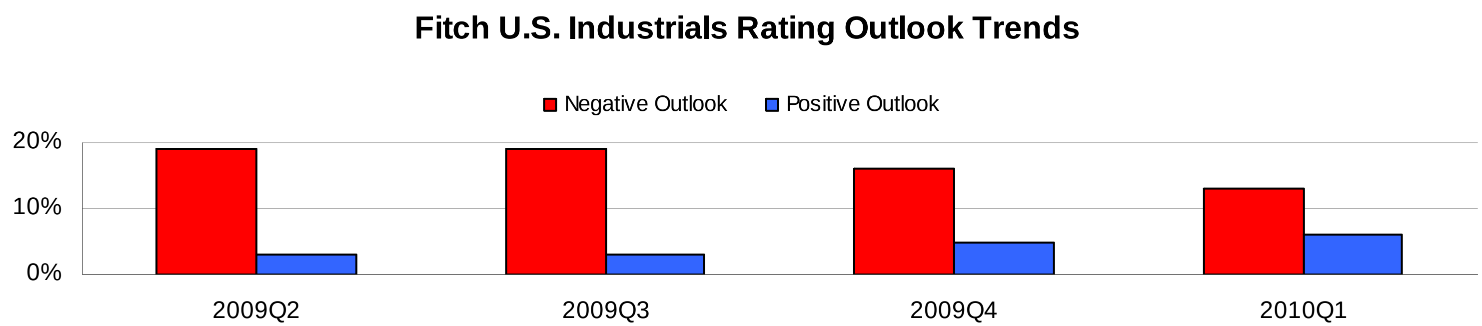
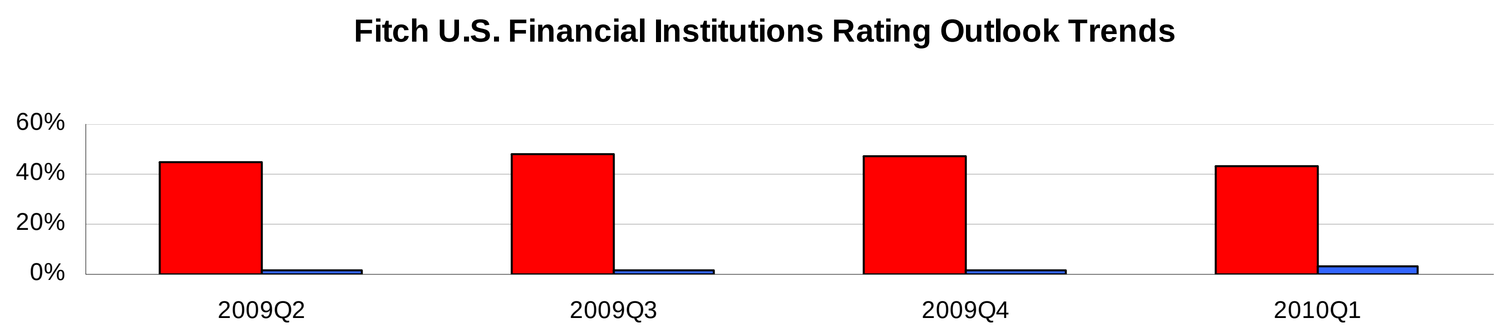
Fitch Ratings, Credit Market Research

U.S. Corporate Credit Quality Deteriorates at Unprecedented Pace 2008 – 2009: Trends Much Improved in the Last Six Months

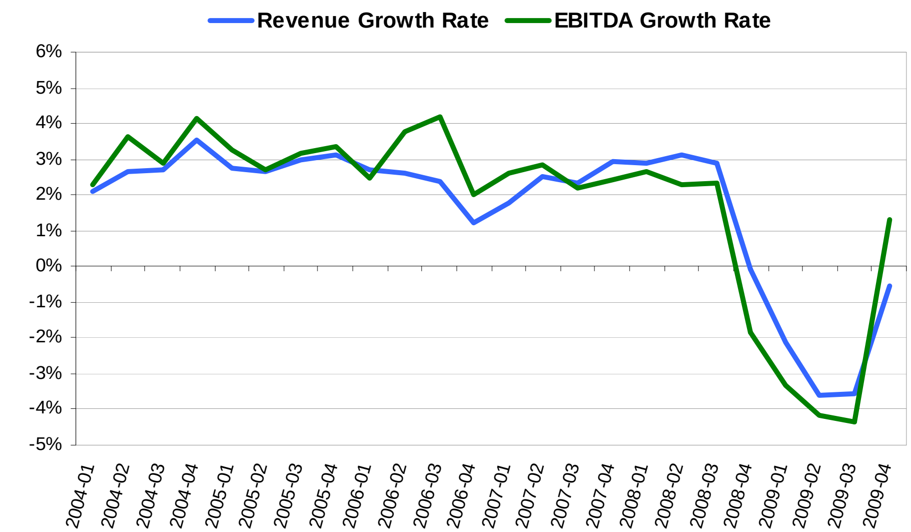


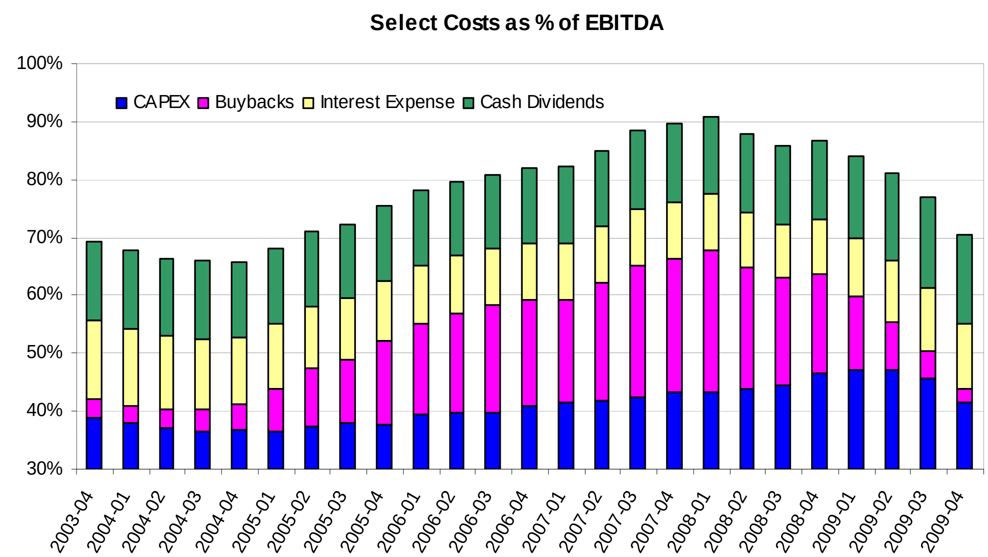
Negative Outlooks Down Across Industrials: Financial Institutions Remain Under Pressure





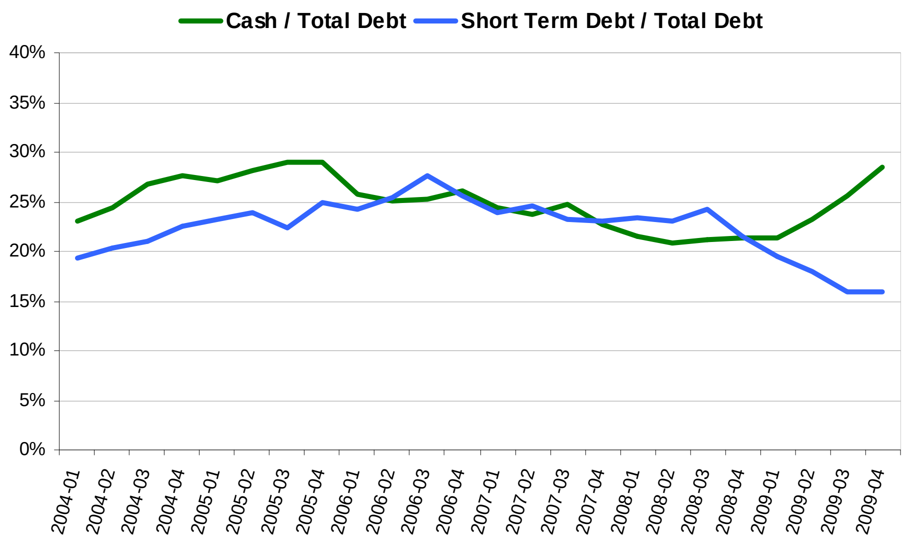
Companies Move Quickly to Cut Costs as Profitability and Visibility Plunge in the Darkest Days of the Crisis





Based on the aggregate financial performance of 440 U.S. industrial companies rated 'A' – 'BB' with total debt of $1.8 trillion. The sample's rating mix consists of 112 companies rated 'A', 227 rated 'BBB' and 101 rated 'BB'. Revenue and EBITDA growth rates are on a trailing twelve month basis. Source: SEC Filings, Bloomberg and Fitch

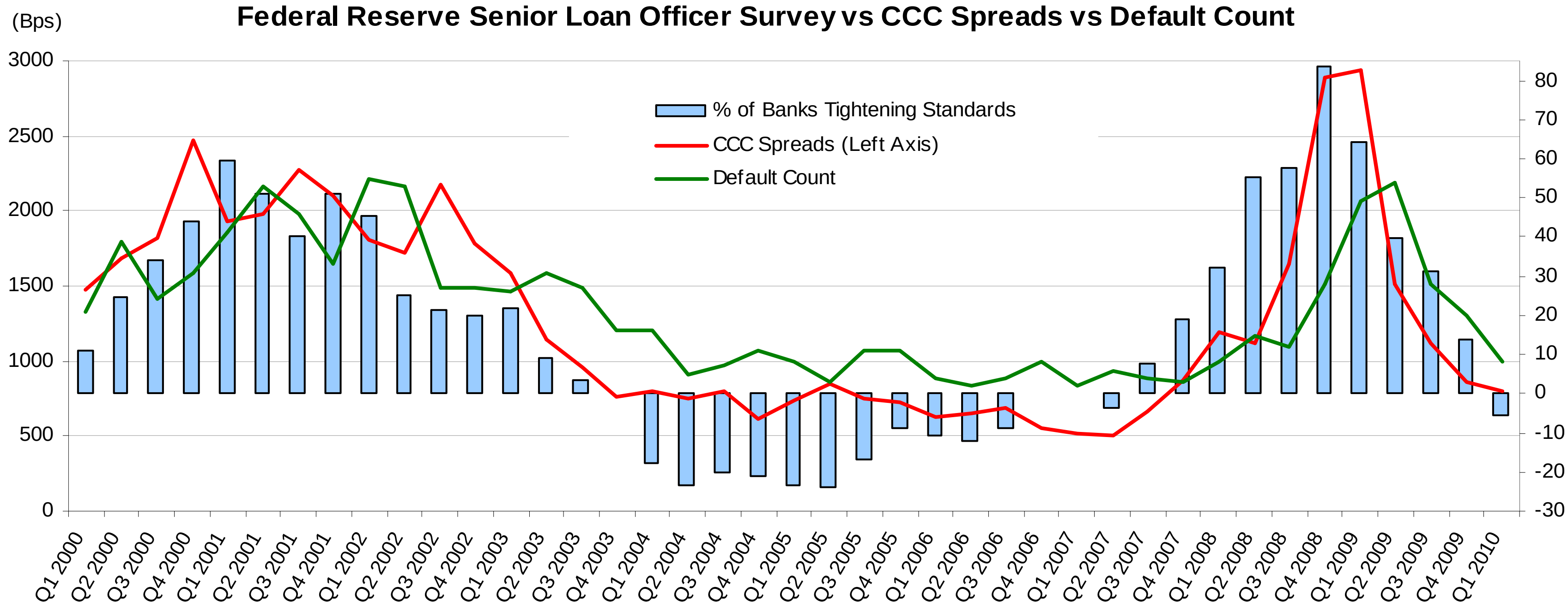
Cash on Balance Sheet, Already High Post 2001 – 2002 Downturn, Surges Across All Sectors



	Cash / Total Debt	
	2008	**2009**
Basic Materials	21%	28%
Communications	24%	28%
Consumer Cyclical	24%	26%
Consumer Non Cyclical	37%	54%
Energy	15%	19%
Industrials	21%	35%
Technology	61%	82%
Utilities	4%	5%

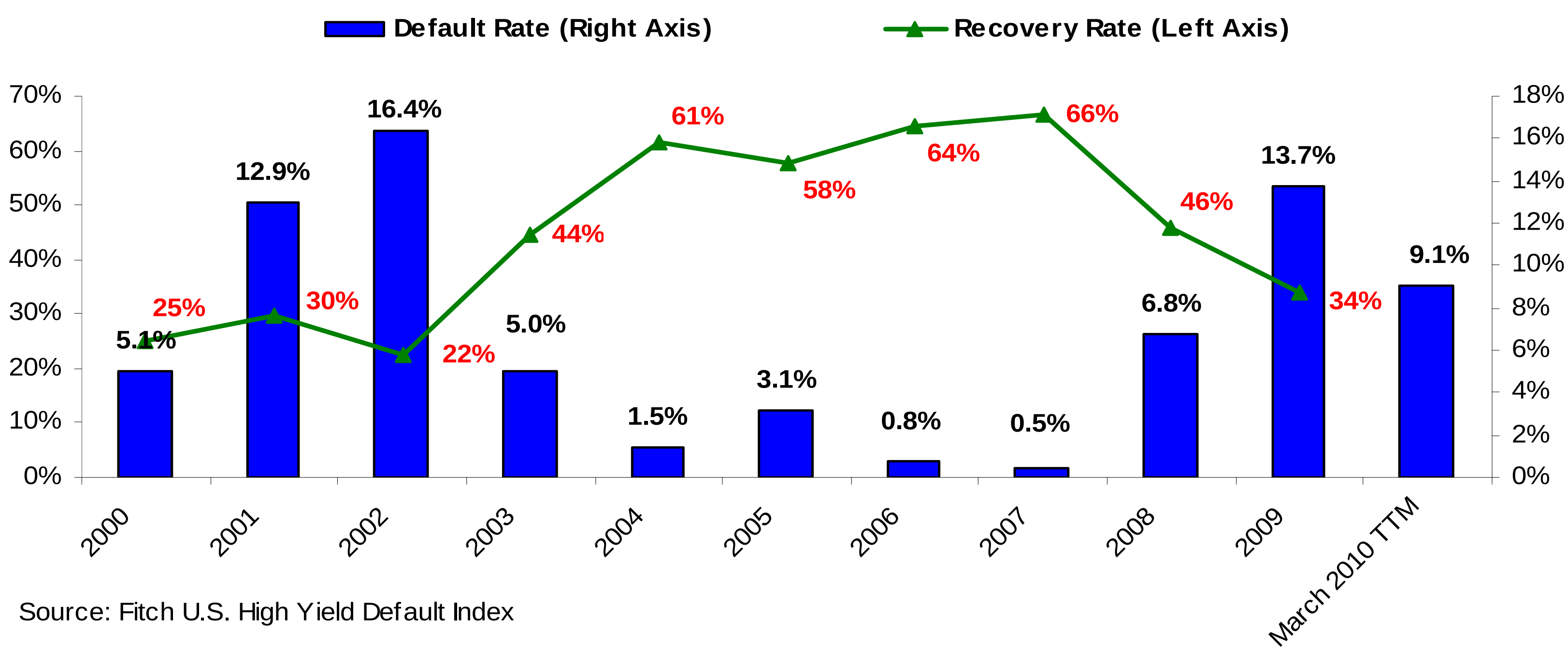
Based on the aggregate financial performance of 440 U.S. industrial companies rated ‘A’ – ‘BB’ with total debt of $1.8 trillion. The sample’s rating mix consists of 112 companies rated ‘A’, 227 rated ‘BBB’ and 101 rated ‘BB’. Source: SEC Filings, Bloomberg and Fitch

In Contrast to the Last Recession, Corporate Credit Deterioration / Defaults not a Leading Factor – Timing is Critical



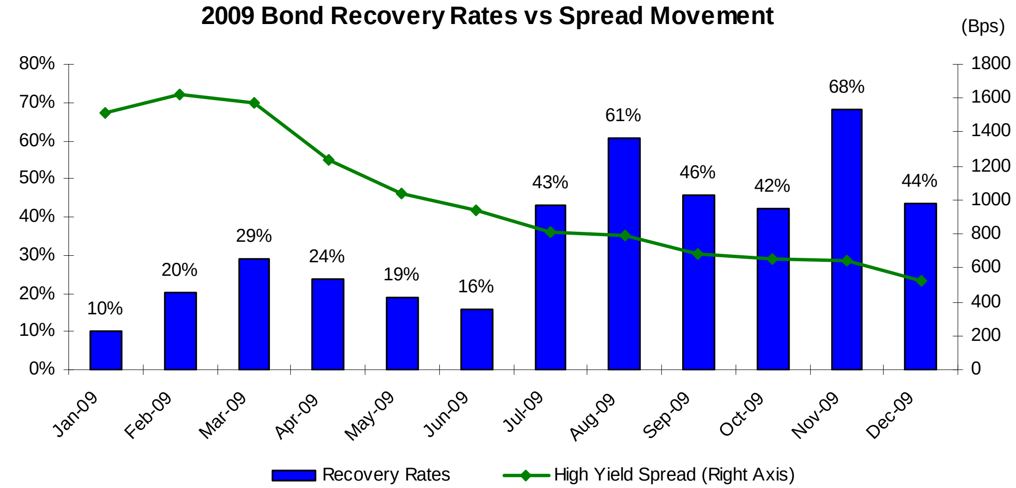
Source: Federal Reserve, Fitch, Bank of America Merrill Lynch

High Yield Default Rate Surges to 13.7% in 2009 on Record $118 Billion in Defaults but Running Below Average in Early 2010 - Sustainable or Calm Before Another Storm?



Source: Fitch U.S. High Yield Default Index

Extreme Swings Extend to Recovery Rates in 2009 – Troubled Sectors Make Up Early Defaulters and Produce Very Low Recoveries

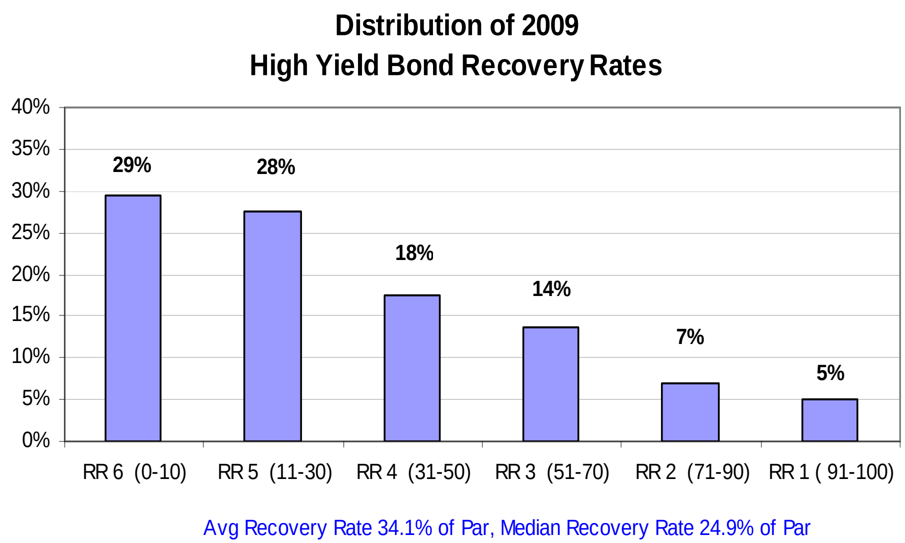


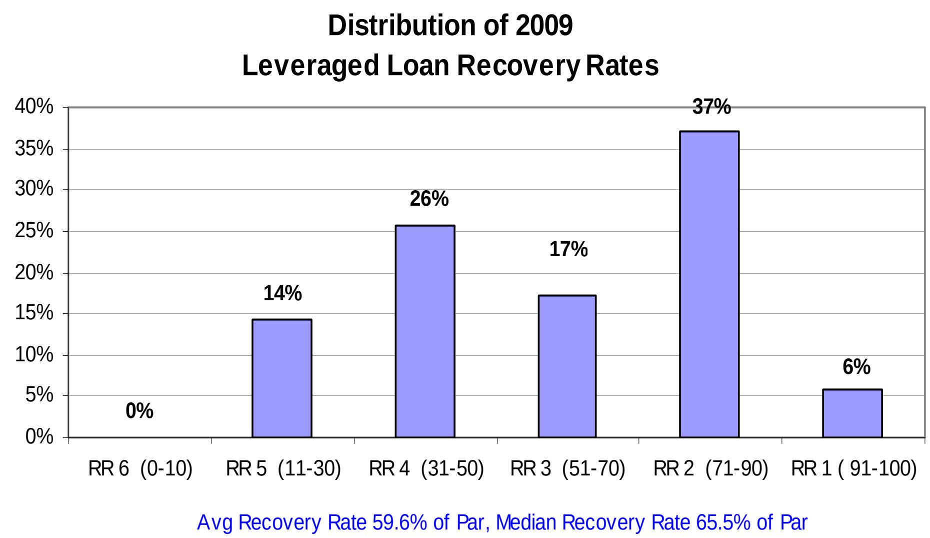
Source: Fitch, Advantage Data, Bank of America Merrill Lynch

2009 Recoveries in High Default Rate Sectors

	Default Rate	Recovery Rate
Automotive	44.2%	15.3%
Broadcasting & Media	31.7%	11.8%
Paper & Containers	25.9%	17.8%
Gaming, Lodging & Restaurants	22.4%	19.2%
Total Market	13.7%	34.1%

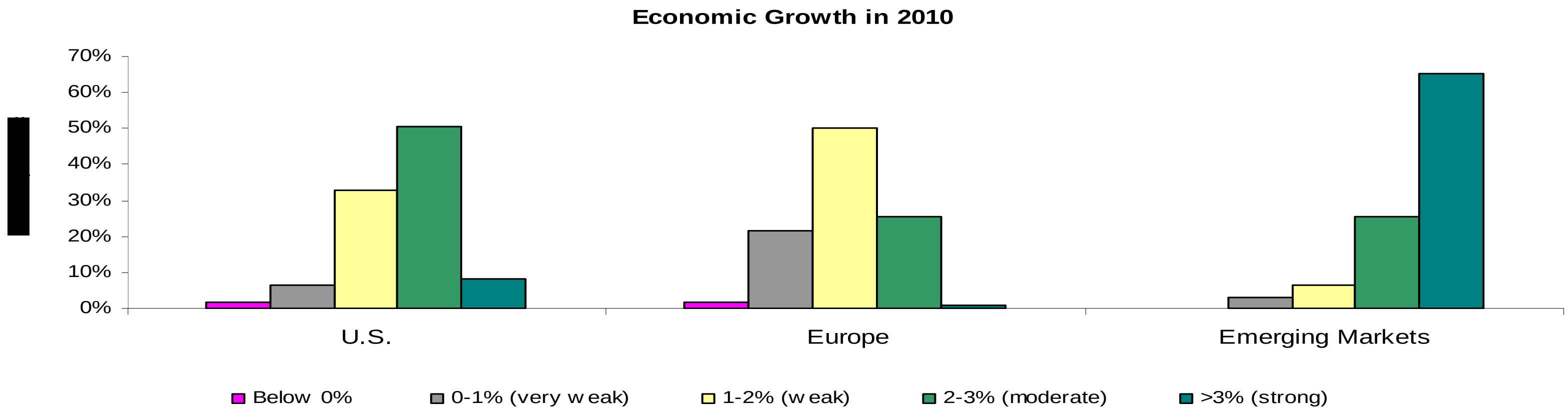
Loans Tarnished by Recent Downturn: Distribution of Loan Recovery Rates Shortly After Default Historically Weak in 2009

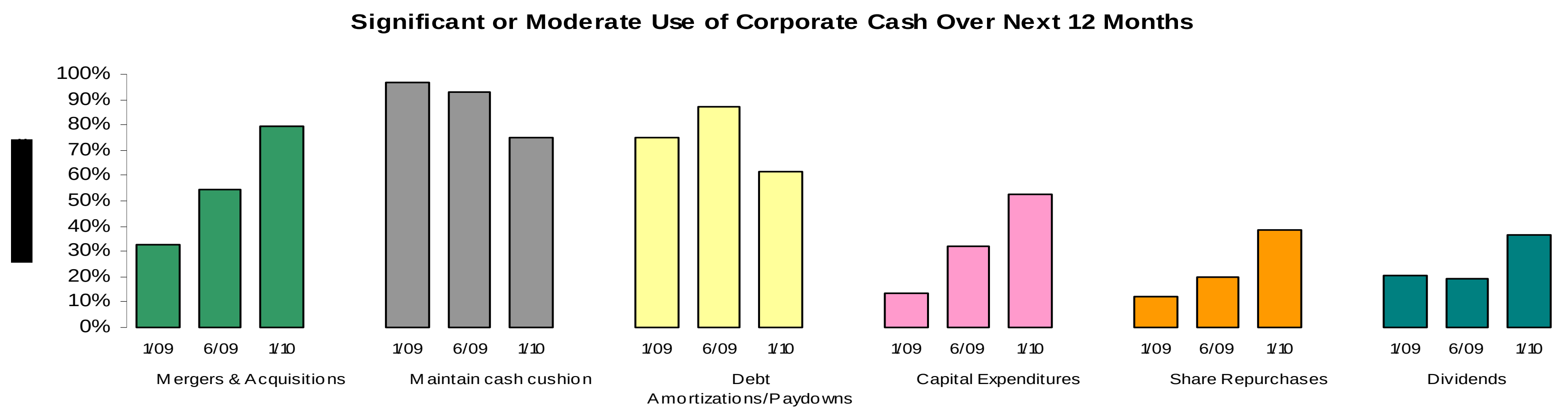




Source: Fitch U.S. High Yield Default Index, Advantage Data, Reuters / LPC

Fixed Income Investor Sentiment Began to Lift Mid 2009 and in Early 2010 Turned Modestly Optimistic, Especially on the Corporate Side

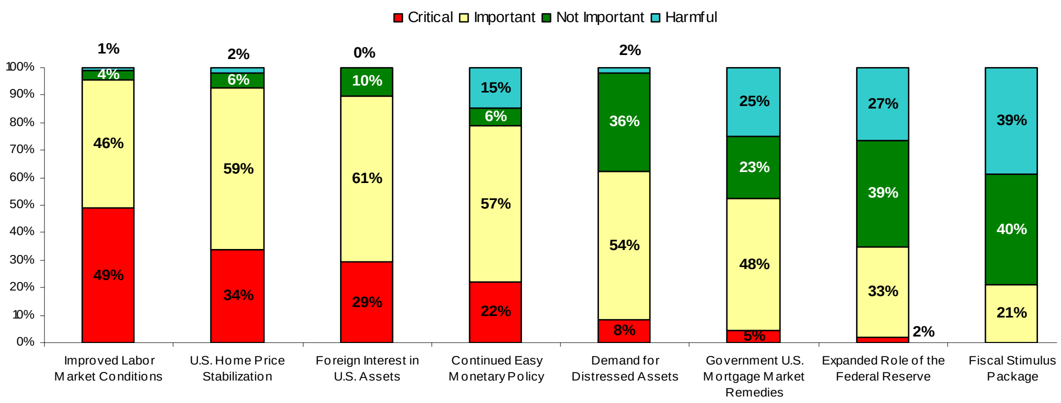




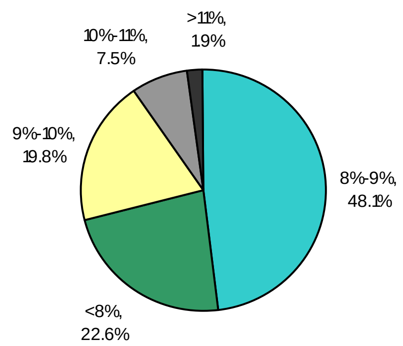
Source: Fitch Ratings / Fixed Income Forum January 2010 Survey of Fixed Income Investors

Worries Shift from Event Risks to Duration of Labor Market Weakness

Factors Relevant to Supporting the Credit Markets

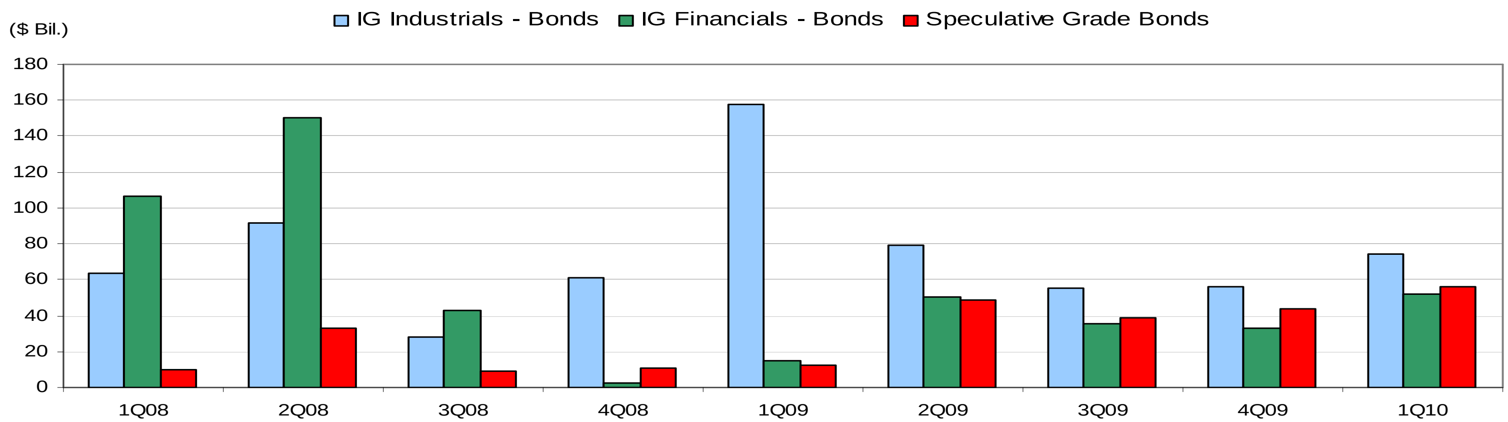


Unemployment in 2011

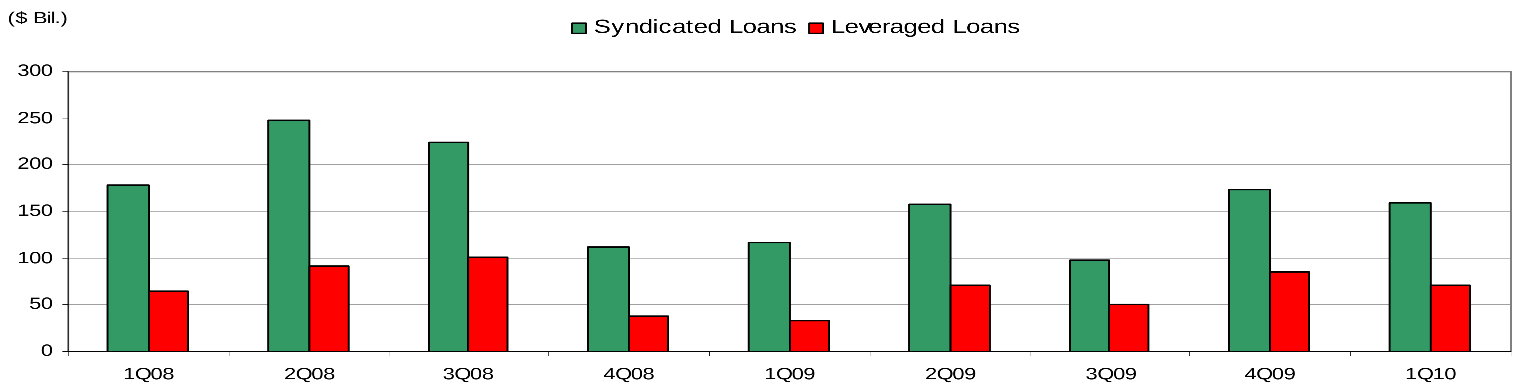


Source: Fitch Ratings / Fixed Income Forum January 2010 Survey of Fixed income Investors

Investment Grade Industrials Rushed to Market Early in 2009 and Issuance has Remained Firm

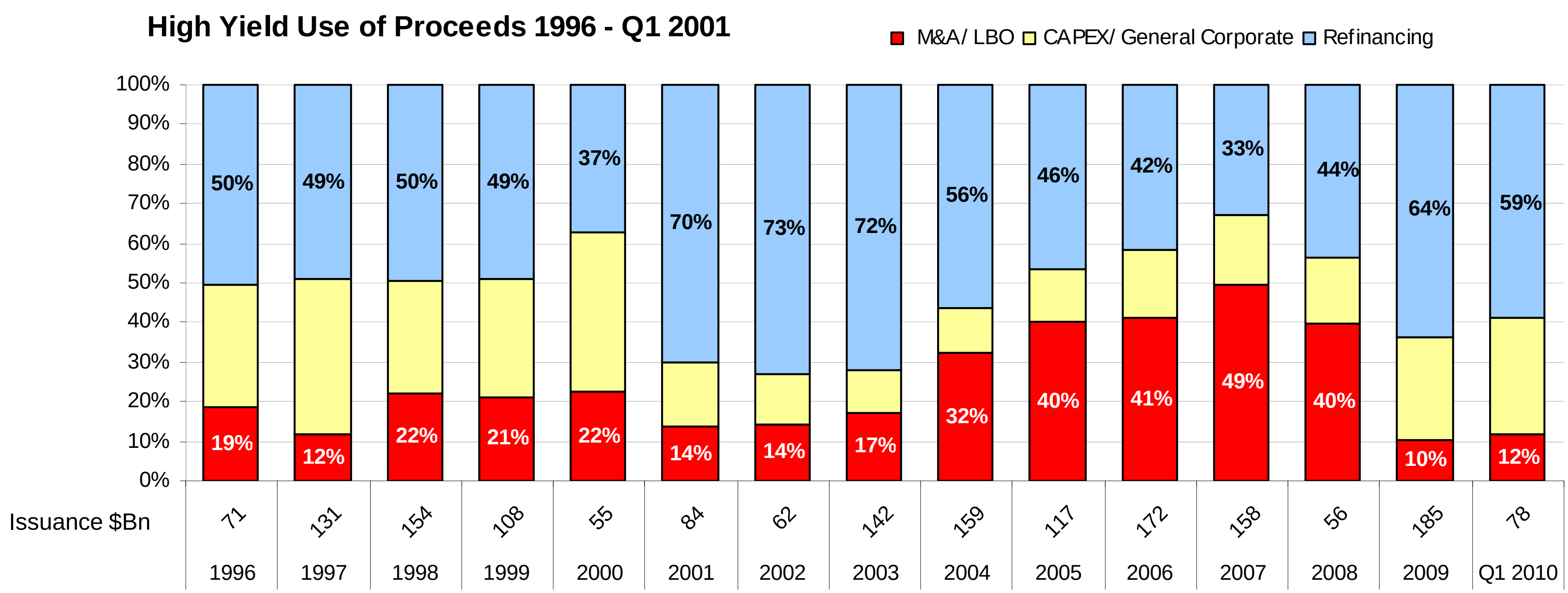


Source: Bloomberg, Fitch



Source: Reuters / LPC

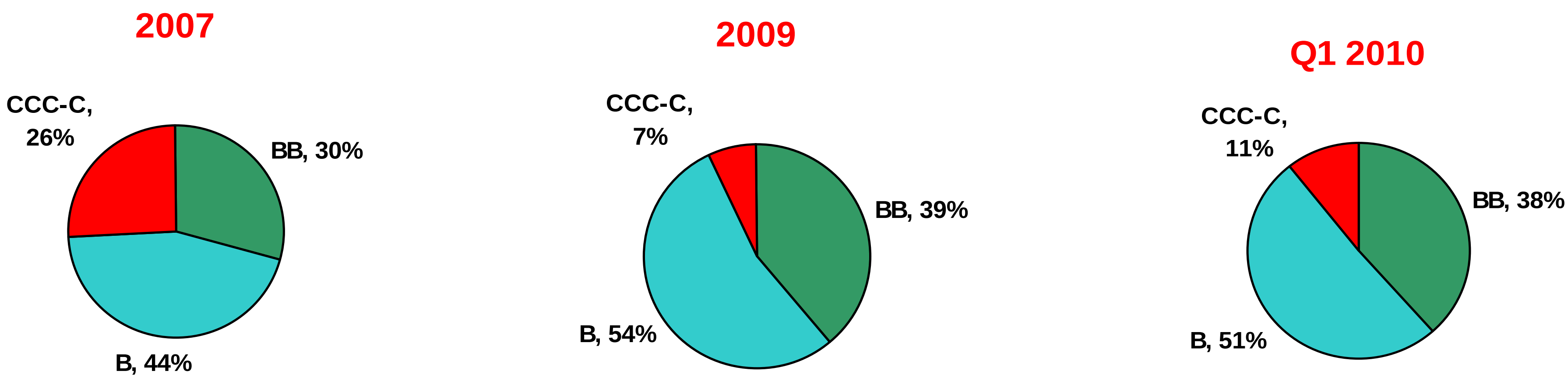
Refinancing Dominant Use of Speculative Grade Issuance and Major Factor in Shrinking Default Rate



Source: Bank of America Merrill Lynch

Issuance is Still Conservative Relative to Market Rating Mix but Risk Appetite is Improving

High Yield New Issuance Rating Mix



Source: Fitch U.S. High Yield Default Index, Bloomberg

Buying Time: Maturities Successfully Pushed Out but Debt Burden Remains High - Absent Strong Growth, Default Risk is Still Considerable Even if Deferred

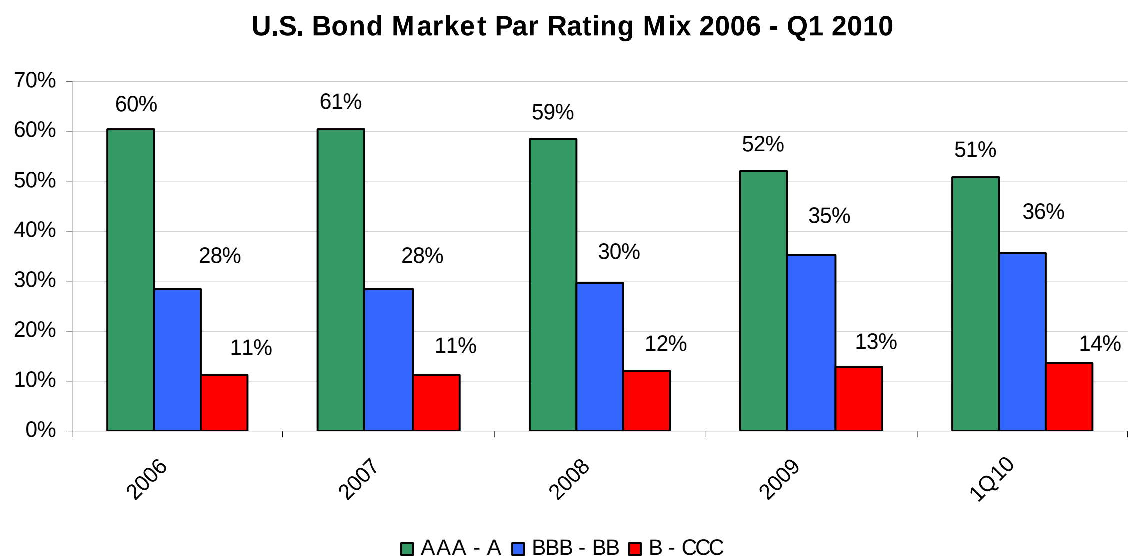
U.S. Corporate Bond Market Maturity Schedule
($ Bil., As of Mar. 31, 2010)

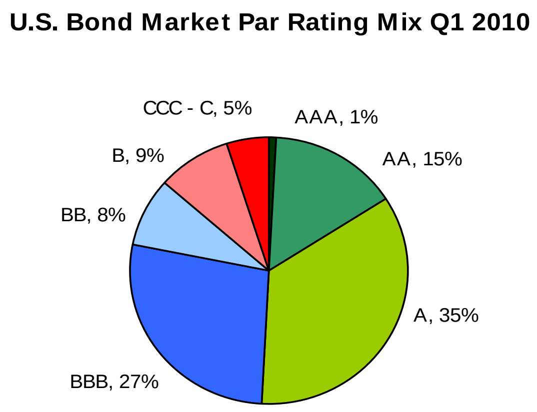
	9 mo. 2010	% of O/S	2011	% of O/S	2012	% of O/S
Investment Grade	201	7.1%	258	9.1%	276	9.8%
Speculative Grade	17	2.1%	46	5.8%	51	6.4%

Source: Bloomberg, Fitch

40% Consists of Bonds Sold 2005 - 2007

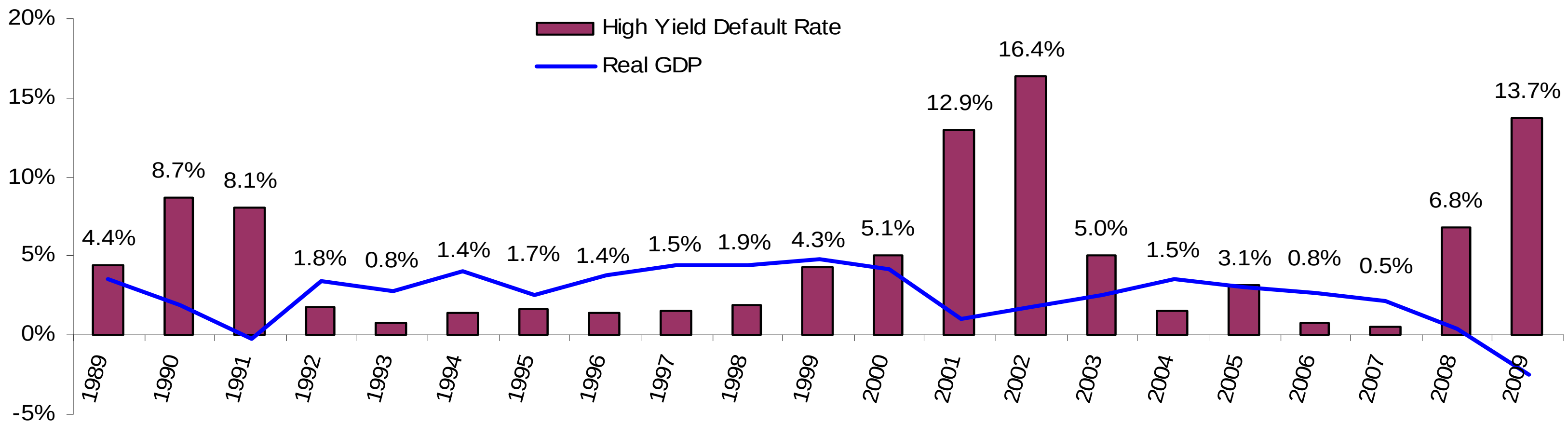
First by Design and Then by Crisis, Market's Rating Mix Continues to Deteriorate





Source: Fitch, Bloomberg

Has the Credit Cycle Shortened?



Source: Fitch U.S. High Yield Default Index

Conclusion

- Corporate Defaults Down Dramatically in 2010 - Test of Sustainability is the Strength of the Economic Recovery

- Negative Rating Drift has Stabilized but Debt Remains High – Lower Rated Credits and Smaller Companies Particularly Vulnerable

- Considerable Risks Remain and New Ones Continue to Emerge – Most Recent Example: Spike in Energy Costs

- Longer Term Impact of Credit Shock Still Unknown: 2001 / 2002 Downturn Led to Cash Hoarding. Will Lean Cost Structures / Persistently High Unemployment Mark this Downturn?

- Strategic Mergers, Optimal Leverage, Liquidity Further Redefined

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