

# S&P Credit Market Services: Expanding World of S&P Ratings

From pre-issuance to post-issuance, financial decision makers are utilizing a growing range of S&P products and services to identify, measure, and manage credit risk. These S&P offerings are creating additional growth opportunities.

**S&P rated over \$3 trillion in new debt and published more than 1 million new and revised ratings in 2008**

## How Standard & Poor's Plays a Role in a Changing Market

Pre-Issuance	Issuance	Post-Issuance
Benchmarking data, tools, and analysis to help issuers and related parties analyze and gauge the ratings impact of strategic decisions	Credit ratings and rationales serve as tools to help investors during the investment process	Products and services for monitoring and modeling creditworthiness and/or transaction performance to help market participants make informed decisions, evaluate ongoing risk, and meet regulatory requirements

## Representative S&P Products and Services

Pre-Issuance	Issuance	Post-Issuance
<p><b>Small Business Portfolio Evaluator:</b> An analytical model that helps issuers and underwriters assess the gross default and prepayment risk of small business loan portfolios</p> <p><b>Analytics on Demand:</b> A leading provider of data, analytics, software, and services to the structured finance community</p> <p><b>Rating Evaluation Service:</b> A confidential assessment of how potential strategic actions may impact creditworthiness</p> <p><b>LEVELS (Loan Evaluation and Estimate of Loss System):</b> A model to determine the foreclosure frequency, loss severity, and credit enhancement levels required for residential mortgage loan securitizations</p> <p><b>CDO Evaluator:</b> A variety of benchmarks that enhance collateralized debt obligation (CDO) analysis. CDO Evaluator can be used to analyze mixed pools of assets containing not only corporate and asset-backed securities (ABS) credits but also emerging-market corporate credits</p>	<p><b>Issue Ratings:</b> S&amp;P's traditional ratings on specific financial obligations or programs</p> <p><b>Issuer Ratings:</b> Assesses the creditworthiness or overall financial capacity of an obligor to pay its financial obligations</p> <p><b>Bank Loan and Recovery Ratings:</b> Issue-specific ratings that go beyond the overall corporate creditworthiness of the borrower to capture the impact of covenants, collateral, and other repayment protection provided specifically to holders of the senior bank debt</p> <p><b>Counterparty Credit Ratings:</b> Evaluates the creditworthiness of both public and private companies—whether or not the rated company issues in the public debt markets</p> <p><b>Financial Strength Ratings:</b> Represents Standard &amp; Poor's opinion of the financial security characteristics of an insurance organization, with respect to the organization's ability to pay under its insurance policies and contracts, in accordance with its terms</p>	<p><b>Market-Derived Signals:</b> Captures the market's sentiment regarding a company's perceived credit risk. Based upon credit default swap spreads and augmented using proprietary modeling techniques that adjust for certain variables</p> <p><b>ABSXchange:</b> An Internet-based portal that offers deal performance data, portfolio monitoring capabilities, cash-flow analysis, and detailed reporting for the structured finance market</p> <p><b>RatingsDirect:</b> Service for tracking S&amp;P's global credit ratings, research, and risk analysis</p> <p><b>Leveraged Commentary &amp; Data:</b> Daily loan market information for bankers and investors</p> <p><b>CDS Accelerator:</b> A desktop-based program that enables efficient quantification and analysis of the risk profiles of new and existing synthetic collateralized debt obligation (CDO) transactions</p>

## S&P's Rating Track Record: Meeting the Test of Time

**What is an S&P credit rating?** It is an opinion about credit risk—the ability and willingness of an issuer to meet its financial obligations in full and on time. Credit ratings also indicate credit quality—the relative likelihood that an issue may default. S&P's global ratings scale provides a benchmark for evaluating the relative credit risk of issuers and issues worldwide.

**How S&P ratings perform:** The tables (at right) show the default rates experienced for each rating category over many years. For example, the 5-year cumulative default rate for a corporate bond rated AAA has been 0.27%, or less than three defaults for every 1,000 ratings. The 5-year cumulative default rate for AAA-rated structured finance issues has been 0.18%, or less than 2 per 1,000. The tables underscore another key point: Over time, the higher the S&P rating, the fewer defaults have been experienced.

**Global Corporate Cumulative Average Default Rates<sup>(a)</sup> (1981–2008) (%)**

Rating	Time horizon (years)														
	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15
AAA	0.00	0.00	0.09	0.18	0.27	0.37	0.40	0.47	0.51	0.55	0.55	0.55	0.55	0.60	0.65
AA	0.03	0.08	0.14	0.25	0.34	0.45	0.56	0.65	0.73	0.83	0.92	0.99	1.08	1.15	1.20
A	0.08	0.20	0.34	0.52	0.72	0.95	1.21	1.45	1.69	1.94	2.17	2.35	2.53	2.68	2.91
BBB	0.24	0.68	1.17	1.79	2.43	3.06	3.59	4.12	4.63	5.16	5.68	6.12	6.63	7.15	7.70
BB	0.99	2.88	5.07	7.18	9.07	10.90	12.41	13.74	15.00	16.02	16.89	17.64	18.28	18.76	19.33
B	4.51	9.87	14.43	17.97	20.58	22.67	24.46	25.93	27.17	28.41	29.54	30.50	31.45	32.32	33.14
CCC/C	25.67	34.10	39.25	42.29	44.93	46.24	47.45	48.09	49.53	50.33	51.03	51.77	52.33	52.93	52.93
Investment grade	0.12	0.33	0.57	0.88	1.19	1.51	1.80	2.07	2.34	2.62	2.87	3.08	3.30	3.52	3.76
Speculative grade	4.06	7.99	11.48	14.32	16.59	18.51	20.13	21.49	22.75	23.86	24.84	25.69	26.48	27.16	27.82
All rated	1.47	2.94	4.25	5.37	6.30	7.11	7.80	8.40	8.95	9.46	9.92	10.30	10.68	11.02	11.38

**Global Structured Finance Cumulative Average Default Rates<sup>(a, b)</sup> (1978–2008) (%)**

Rating	Time horizon (years)									
	1	2	3	4	5	6	7	8	9	10
AAA	0.08	0.15	0.17	0.18	0.18	0.19	0.20	0.20	0.20	0.20
AA	0.14	0.43	0.50	0.60	0.73	0.84	0.93	0.97	0.99	1.01
A	0.27	1.01	1.37	1.65	1.91	2.17	2.48	2.70	2.80	2.89
BBB	0.68	3.01	4.79	6.51	8.26	9.68	10.46	11.14	11.68	11.98
BB	2.02	5.64	8.31	9.81	11.03	12.39	13.43	13.98	14.21	14.28
B	4.64	8.84	12.36	14.65	16.66	18.42	19.77	20.86	21.62	22.01
CCC	43.80	50.63	55.11	58.40	60.58	61.80	62.04	62.37	62.79	62.79
CC	23.56	32.53	40.59	45.86	49.20	49.76	49.76	49.76	49.76	49.76
Investment grade	0.26	0.95	1.37	1.72	2.04	2.28	2.43	2.54	2.60	2.64
Speculative grade	6.51	10.57	13.74	15.71	17.31	18.79	19.88	20.62	21.07	21.27
All rated	1.13	2.26	3.01	3.54	3.98	4.33	4.55	4.69	4.77	4.82

Sources: Standard & Poor's Global Fixed Income Research and Standard & Poor's CreditPro®

(a) Average default rates are based on Conditional on Survival methodology

(b) AAA ratings from the same transaction are treated as a single rating in the calculation of this table