

**Contact:**

defaultreport@moodys.com

1.212.553.1653

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## Global default rate forecast increases to 4.1% for August 2008

*Default rate may rise to historical average level in two years*

Moody's new forecasting model expects the corporate default rate to rise substantially, moving it closer to its long-run historical average level over the next two years, with the issuer-weighted global speculative-grade default rate projected to reach 4.1% a year from now and 5.1% by August 2009.

Higher spreads and diminished liquidity are putting distressed issuers at increased risk of default. However, as long as the U.S. economy avoids recession, the default rate will likely remain below its long-run historical average of approximately 5.0%.

Moody's forecasting model further shows future default rates varying significantly across regions, with a 4.5% default rate in the U.S. over the next 12 months, compared to a 3.0% default rate in Europe over this period.

*Moody's introduces new default rate forecasting model*

In this issue of the MDR we introduce Moody's new default rate forecasting model that forecasts defaults based on the state of the macro economy and the current distribution of Moody's ratings. This new model not only forecasts default rates, but also can be used to predict expected upgrade, downgrade and default rates for any set of issuers over any potential investment horizon, whether grouped by industry, region or rating category. The new forecasting model is described in two Moody's Special Comments, "Introducing Moody's Credit Transition Model," which is targeted to market practitioners and "A Cyclical Model of Multiple-Horizon Credit Rating Transitions and Default," which is targeted to econometricians. Both papers are available at [www.moodys.com](http://www.moodys.com).

As part of the introduction of Moody's new default prediction model, a number of new exhibits are included in this MDR. The exhibits provide details as to the global, US, and European default rate forecasts at one-year and five-year horizons, as well as the baseline macroeconomic assumptions used to generate those forecasts. We also project one-year US and European industry-specific default rates, and forecast one-year global rating migration rates. Baseline projections of the US unemployment rate and high yield bond spread are sourced from Moody's Economy.com's forecast model for the US macro-economy. For reference, we continue to include the global speculative-grade default rate forecast as derived from Moody's old forecasting model.

*Default rate remained low last month*

Despite recent volatility in the financial markets, the global default rate remained extremely low in August, falling to 1.4% from 1.5% in July. In Europe, the default rate remained unchanged at 2.9% from July to August. A year ago, the European default rate stood at 0.8%. In the US, the default rate declined slightly in August, also dropping from 1.5% to 1.4%. The rate in the US was 1.7% at the beginning of this year and 2.0% a year ago.

Only one Moody's-rated issuer defaulted in August. Fedders North America, Inc. filed voluntary petitions for reorganization under Chapter 11 of the U.S. Bankruptcy Code. Fedders defaulted on \$155 million of rated bonds, which sent the year-to-date total volume for defaulted bonds in 2007 to \$4.1 billion. So far in 2007, 13 Moody's rated issuers have now defaulted.

Also during the month, Ziff-Davis Media elected not to make the August 15th interest payment on its senior subordinated notes due 2009. However, the company has a 30-day grace period to make the payment before Moody's would define the missed payment as a default.

*(to be continued on page 2)*

Measured on a dollar volume basis, the global speculative-grade bond default rate ended August at 1.1%, down slightly from 1.2% in July. Among US speculative-grade issuers, the dollar-weighted bond default rate remained unchanged at 1.0% from July to August. The global and U.S. volume-weighted default rates represent sharp declines from a year ago at 3.7% and 4.2% respectively as a result of recent dearth of large defaulters.

Among European speculative-grade issuers, the dollar-weighted bond default rate slipped from 1.8% at the end of July to 1.7% at the end of August. The current European dollar-weighted bond default rate is significantly up from the 0.1% level it reached a year ago.

*Leveraged loan default rate unchanged at 0.3%*

August is the ninth consecutive month in which no Moody's-rated leveraged loan issuer defaulted. At the end of August, the trailing twelve month U.S. leveraged loan default rate remained unchanged at 0.3%.

## **Changes in Methodology**

The data contained in this month's MDR reflect certain methodological changes introduced in Moody's 2007 corporate default study:

### *Change in Universe of Study*

Moody's default rates now include corporate bank loan issuers in addition to bond issuers. The rated loan market has grown considerably since 1995 and has become an important source of capital for highly leveraged issuers. In 2002, only 17% of new speculative-grade rated issuers came to market with bank loans only (no bonds); that proportion increased to 52% in 2006. The net effect of this change is to increase the total number of issuers (and observed defaults) in the universe of study. Secondly, we completely omit data for some sub-sovereigns and GSEs that were included in prior years' reports. This change is consistent with the report's purpose as an all-corporate study.

### *Change in Senior Rating Histories*

The inclusion of loan issuers to the universe of study requires a restatement of estimated senior rating histories for some issuers. The credit ratings used in Moody's default statistics do not refer to the ratings of specific debt obligations. Rather, they are notional, issuer-level ratings derived from each issuer's outstanding rated bonds and loans. Because issuers do not always have identical classes of debt outstanding, it is necessary to put their ratings on an equal footing before one can calculate and compare default rates. Estimated senior ratings are derived by a statistical algorithm: first, the rating on each company's senior unsecured bonds is used; if an issuer does not have any rated senior unsecured bonds, the estimated senior rating is derived by statistically implying such a rating on the basis of rated subordinated or secured bonds or, in the case of loans, the issuer's corporate family rating. Senior rating histories are also adjusted to remove the effect of bond rating changes that are either i) associated with the introduction of Joint Default Analysis for banks and government-related issuers or ii) occurred without concurrent changes in corporate family ratings as a result of the application of Moody's PD rating/LGD assessment methodology.

### *Change in the Default Rate Forecasting Model*

Forecasts are now based on a model described in two Moody's Special Comments, "Introducing Moody's Credit Transition Model," which is targeted to market practitioners and "A Cyclical Model of Multiple-Horizon Credit Rating Transitions and Default, which is targeted for econometricians. Both were published in August 2007. For the sake of continuity, we continue to report, in Exhibit 25, forecasts based on the previous model, which is described in Predicting Default Rates: A Forecasting Model for Moody's Issuer-Based Default Rates," Moody's Special Comment, August 1999.

## Table of Contents

Exhibit	Title	Page
<b>Part I Trailing Twelve Month Default Rates</b>		
1	Issuer-Weighted Sepculative-Grade Corporate Default Rates	5
2	Issuer-Weighted Corporated Default Rates Ending August 2007	5
3	Issuer-Weighted Speculative-Grade U.S. Bond/Loan Default Rates	5
4	Issuer-Weighted U.S. Bond/Loan Default Rates Ending August 2007	5
5	Dollar-Weighted Speculative-Grade Bond Default Rates	5
6	Dollar-Weighted Bond Default Rates Ending August 2007	5
<b>Part II Issuer-Weighted Default Rate Forecasts</b>		
7	Global Speculative-Grade Default Rates (Actual and Forecast)	6
8	U.S. Speculative-Grade Default Rates (Actual and Forecast)	6
9	European Speculative-Grade Default Rates (Actual and Forecast)	6
10	Trailing Twelve Month Speculative-Grade Default Rate Baseline Forecasts	7
11	Five-Year Global Speculative-Grade Default Rates (Actual and Forecast)	7
12	Five-Year U.S. Speculative-Grade Default Rates (Actual and Forecast)	7
13	Five-Year European Speculative-Grade Default Rates (Actual and Forecast)	8
14	Five-Year Speculative-Grade Default Rate Baseline Forecasts	8
15	Unemployment Rates (Actual and Forecast)	9
16	High Yield Spread (Actual and Forecast)	9
17	Baseline Forecasts on Unemployment Rates and High Yield Spread	9
18	One-Year Default Rate Forecasts by Industry	10
19	One-Year Global Rating Migration Rates Ending August 2007	11
20	Global Rating Migration Rate Forecasts for the One-Year Period Ending August 2008	11
21	Rating Drivers (Current)	12
22	Rating Drivers (One Year Prior)	12
23	Speculative-Grade Portfolio Default Distributions	12
24	Investment-Grade Portfolio Default Distributions	12
25	Discontinued Model-Generated Issuer-Weighted Global Spec-Grade Default Rate Forecasts	13

## Table of Contents

<b>Exhibit</b>	<b>Title</b>	<b>Page</b>
<b>Part III Default Experience</b>		
26	Defaulted Corporate Issuer Counts	13
27	Defaulted U.S. Bond/Loan Issuer Counts	13
28	Default Counts Summary	13
29	Defaulted Debt Volume	14
30	Defaulted US Bond/Loan Volume	14
31	Default Volume Summary	14
32	Initial Bond Default Events in August 2007	14
33	Initial Loan Default Events in August 2007	14
34	Other Credit Events in August 2007	15
<b>Part IV Recovery Experience</b>		
35	Trailing Twelve Month Global Defaulted Bond Recovery Rates	15
36	Trailing Twelve Month Global Defaulted Bond Recovery Rates by Priority	15
37	Trailing Twelve Month U.S. Loan vs. U.S. Sr. Unsecured Bond Recovery Rates	15
38	Trailing Twelve Month U.S. Loan vs. U.S. Sr. Unsecured Bond Recovery Rates Summary	15
39	Moody's Bankrupt Bond Index	16
40	Moody's Bankrupt Bond Index Summary	16
<b>Part V Rating Changes</b>		
41	Trailing Twelve Month Rating Action Rates	16
42	Trailing Twelve Month Rating Drift	16
43	Fallen Angels in August 2007	16
44	Rising Stars in August 2007	17
<b>Part VI Changes/Remarks</b>		
45	Changes/Additions to Prior MDRs	17

## Part I: Trailing Twelve Month Default Rates

Exhibit 1: Issuer-Weighted Speculative-Grade Corporate Default Rates

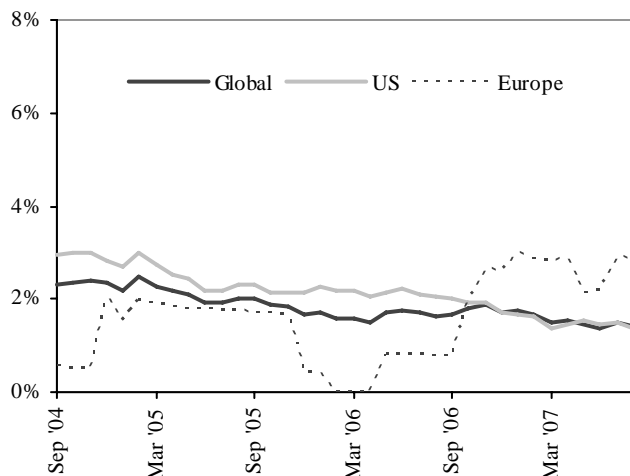


Exhibit 2: Issuer-Weighted Corporate Default Rates Ending August 2007

Rating	Global	US	Europe
Aaa	0.0%	0.0%	0.0%
Aa	0.0%	0.0%	0.0%
A	0.0%	0.0%	0.0%
Baa	0.0%	0.0%	0.0%
Ba	0.0%	0.0%	0.0%
B	0.5%	0.4%	1.4%
Caa-C	8.3%	7.3%	16.0%
IG	0.0%	0.0%	0.0%
SG	1.4%	1.4%	2.9%
All	0.5%	0.6%	0.6%

Exhibit 3: Issuer-Weighted Speculative-Grade U.S. Bond vs. U.S. Loan Default Rates

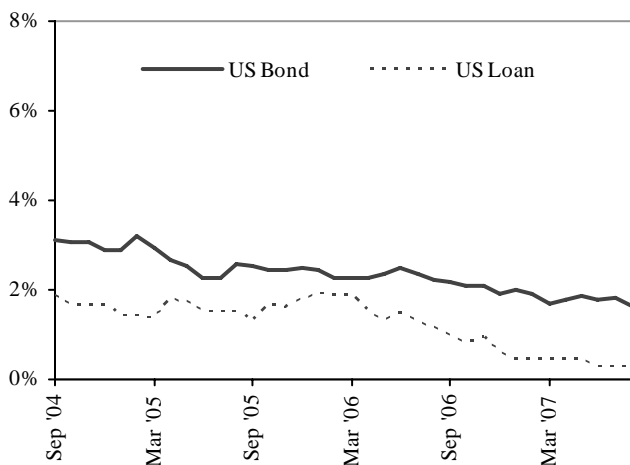


Exhibit 4: Issuer-Weighted US Bond/Loan Default Rates Ending August 2007

Rating	US Bond	US Loan
Aaa	0.0%	0.0%
Aa	0.0%	0.0%
A	0.0%	0.0%
Baa	0.0%	0.0%
Ba	0.0%	0.0%
B	0.5%	0.2%
Caa-C	8.6%	10.5%
IG	0.0%	0.0%
SG	1.7%	0.3%
All	0.6%	0.2%

Exhibit 5: Dollar-Weighted Speculative-Grade Bond Default Rates

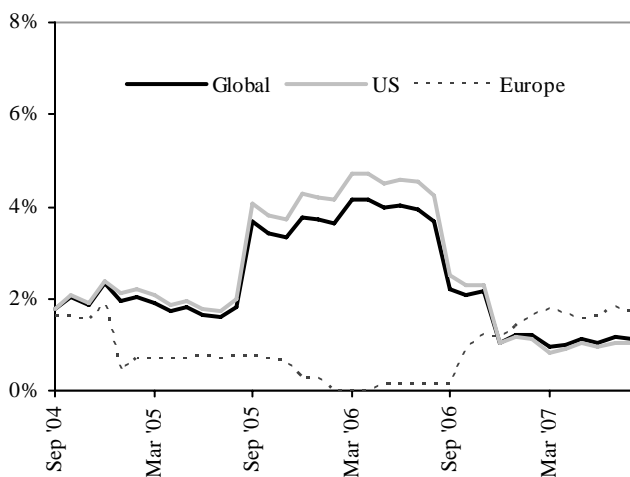


Exhibit 6: Dollar-Weighted Bond Default Rates Ending August 2007

Rating	Global	US	Europe
Aaa	0.0%	0.0%	0.0%
Aa	0.0%	0.0%	0.0%
A	0.0%	0.0%	0.0%
Baa	0.0%	0.0%	0.0%
Ba	0.0%	0.0%	0.0%
B	0.3%	0.3%	0.5%
Caa-C	7.4%	6.4%	12.4%
IG	0.0%	0.0%	0.0%
SG	1.1%	1.0%	1.7%
All	0.2%	0.3%	0.1%

## Part II: Issuer-Weighted Default Rate Forecasts\*

### Section A: Trailing Twelve Month Speculative-Grade Corporate Default Rate Forecasts

Exhibit 7: Global Speculative-Grade Default Rates (Actual and Forecast)

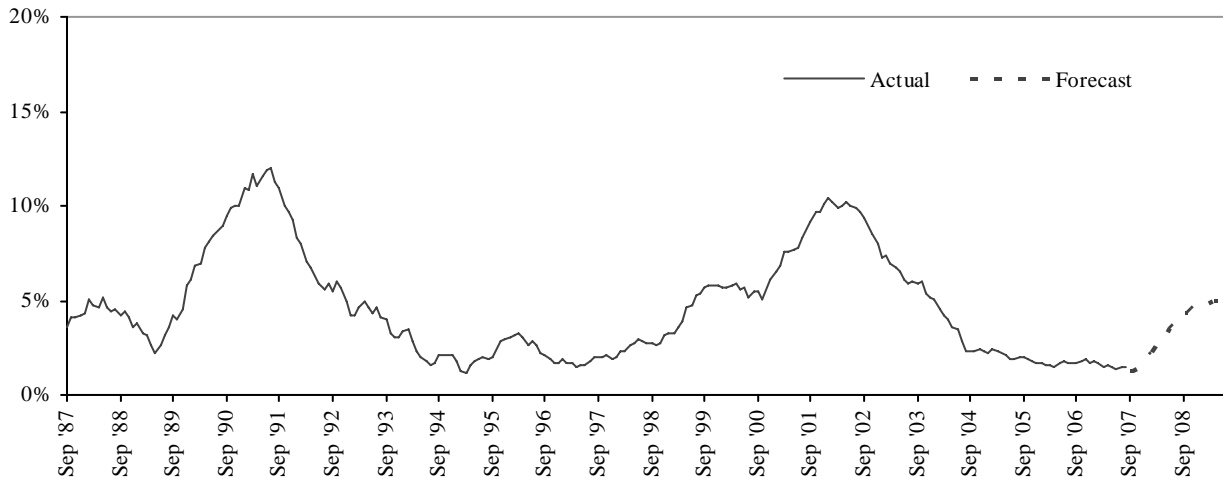


Exhibit 8: U.S. Speculative-Grade Default Rates (Actual and Forecast)

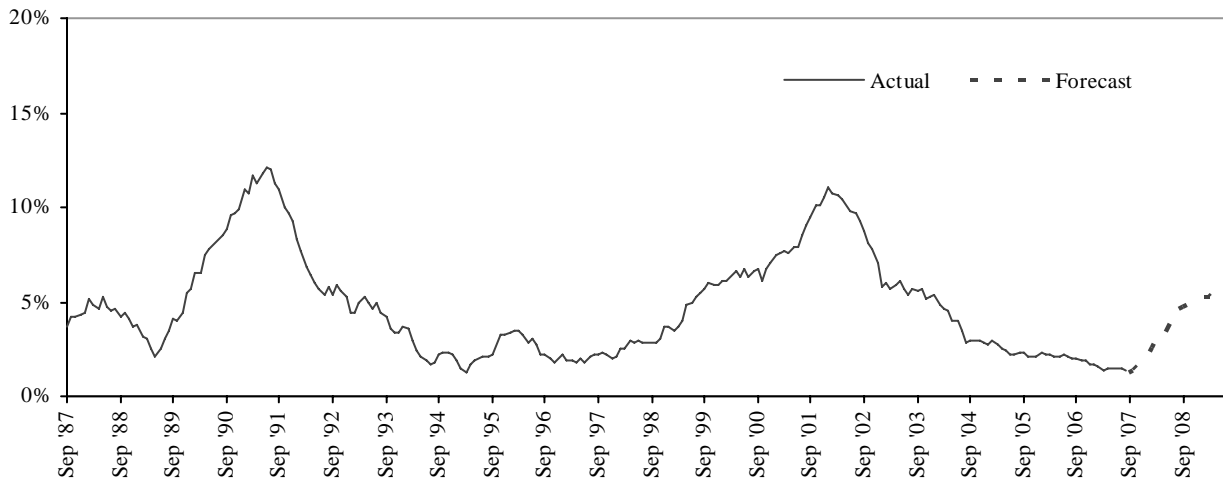
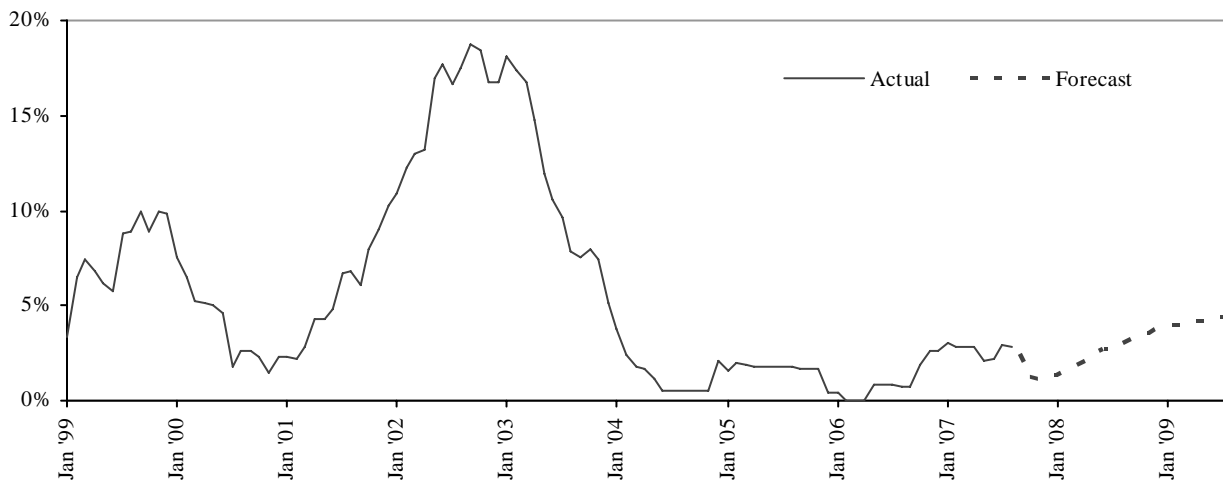


Exhibit 9: European Speculative-Grade Default Rates (Actual and Forecast)



\* See methodology details in Moody's Special Comment "Introducing Moody's Credit Transition Model" and "A Cyclical Model of Multiple-Horizon Credit Rating Transitions and Default", August 2007.

Exhibit 10: Trailing Twelve Month Speculative-Grade Default Rate Baseline Forecasts

	Sep 07	Oct 07	Nov 07	Dec 07	Jan 08	Feb 08	Mar 08	Apr 08	May 08	Jun 08	Jul 08	Aug 08
Global	1.3%	1.2%	1.4%	1.7%	1.9%	2.2%	2.6%	2.9%	3.1%	3.4%	3.7%	4.1%
U.S.	1.3%	1.4%	1.6%	1.9%	2.2%	2.5%	2.9%	3.3%	3.4%	3.8%	4.1%	4.5%
Europe	2.4%	1.3%	1.1%	1.4%	1.3%	1.6%	1.8%	2.1%	2.4%	2.7%	2.7%	3.0%

	Sep 08	Oct 08	Nov 08	Dec 08	Jan 09	Feb 09	Mar 09	Apr 09	May 09	Jun 09	Jul 09	Aug 09
Global	4.2%	4.4%	4.5%	4.6%	4.7%	4.8%	4.9%	4.9%	5.0%	5.0%	5.1%	5.1%
U.S.	4.7%	4.8%	5.0%	5.1%	5.2%	5.2%	5.3%	5.4%	5.4%	5.5%	5.5%	5.6%
Europe	3.2%	3.4%	3.6%	3.7%	3.8%	4.0%	4.0%	4.1%	4.2%	4.3%	4.4%	4.4%

Section B: Five-Year Issuer-Weighted Speculative-Grade Default Rate Forecasts

Exhibit 11: Five-Year Global Speculative-Grade Default Rates (Actual and Forecast)

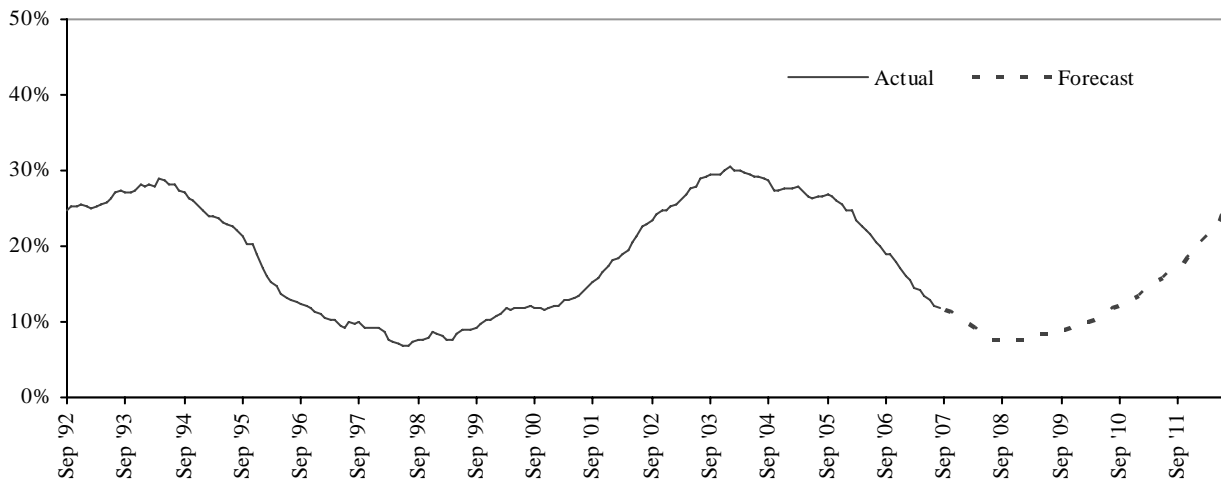


Exhibit 12: Five-Year U.S. Speculative-Grade Default Rates (Actual and Forecast)

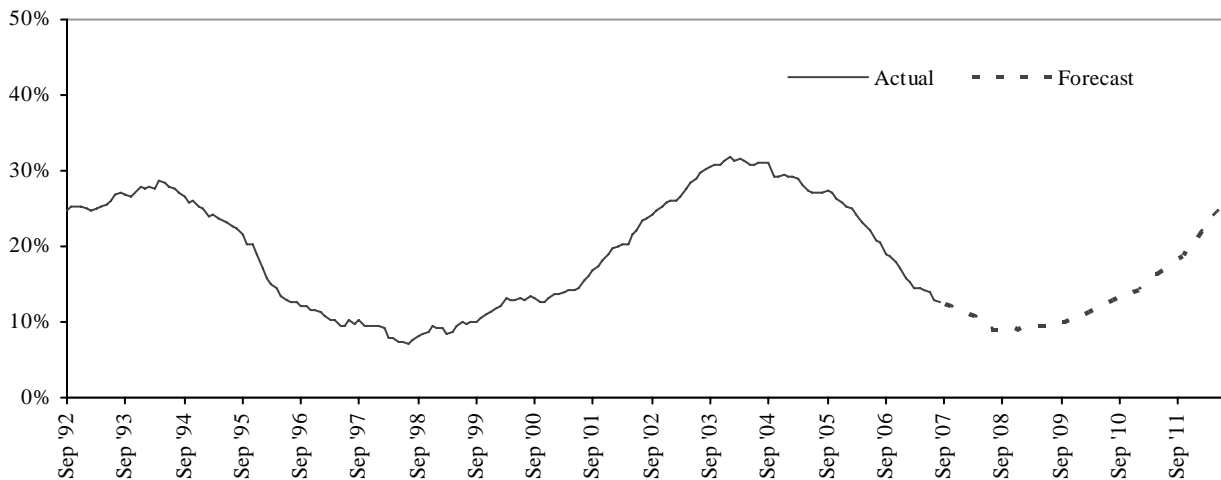


Exhibit 13: Five-Year European Speculative-Grade Default Rates (Actual and Forecast)

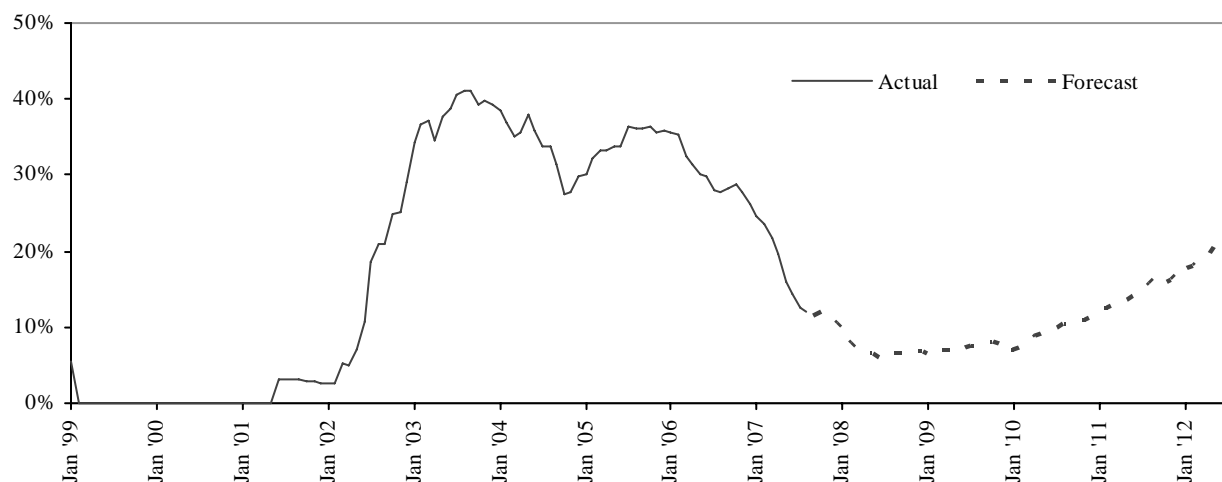


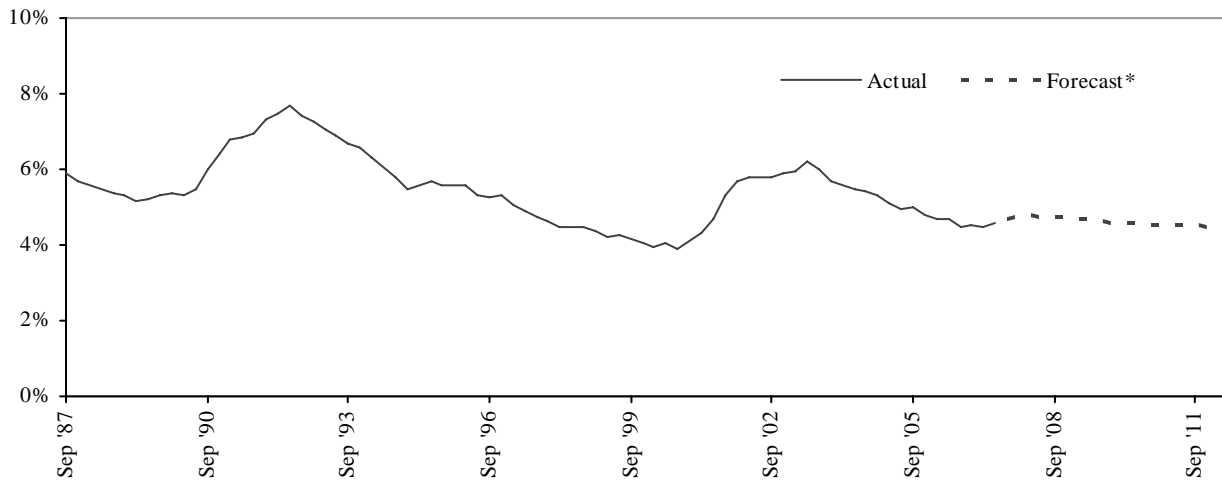
Exhibit 14: Five-Year Speculative-Grade Default Rate Baseline Forecasts

	Sep 07	Oct 07	Nov 07	Dec 07	Jan 08	Feb 08	Mar 08	Apr 08	May 08	Jun 08	Jul 08	Aug 08
Global	11.5%	11.3%	10.7%	10.3%	10.2%	9.7%	9.3%	8.9%	8.6%	8.3%	7.5%	7.5%
U.S.	12.4%	12.2%	11.7%	11.5%	11.6%	11.1%	10.8%	10.4%	10.1%	9.7%	9.0%	8.9%
Europe	11.6%	12.1%	11.7%	10.4%	9.3%	7.9%	7.2%	7.1%	6.5%	6.0%	6.4%	6.5%
	Sep 08	Oct 08	Nov 08	Dec 08	Jan 09	Feb 09	Mar 09	Apr 09	May 09	Jun 09	Jul 09	Aug 09
Global	7.5%	7.7%	7.7%	7.6%	7.7%	7.9%	8.0%	8.2%	8.4%	8.4%	8.7%	8.9%
U.S.	8.9%	9.0%	9.1%	8.9%	9.1%	9.3%	9.3%	9.5%	9.6%	9.6%	9.9%	10.2%
Europe	6.6%	6.5%	6.5%	6.8%	6.5%	7.0%	7.1%	7.2%	7.2%	7.5%	7.6%	7.7%
	Sep 09	Oct 09	Nov 09	Dec 09	Jan 10	Feb 10	Mar 10	Apr 10	May 10	Jun 10	Jul 10	Aug 10
Global	9.0%	8.9%	9.2%	9.4%	9.6%	9.7%	10.0%	10.3%	10.7%	11.0%	11.4%	11.7%
U.S.	10.1%	9.9%	10.3%	10.6%	10.9%	11.1%	11.3%	11.5%	11.9%	12.2%	12.6%	12.9%
Europe	7.9%	8.0%	7.8%	7.0%	7.2%	7.4%	8.0%	8.9%	9.2%	9.5%	9.8%	10.4%
	Sep 10	Oct 10	Nov 10	Dec 10	Jan 11	Feb 11	Mar 11	Apr 11	May 11	Jun 11	Jul 11	Aug 11
Global	12.1%	12.3%	12.7%	13.0%	13.4%	13.8%	14.4%	15.0%	15.2%	15.9%	16.4%	16.8%
U.S.	13.1%	13.4%	13.6%	13.9%	14.3%	14.7%	15.3%	15.9%	16.2%	16.9%	17.4%	17.8%
Europe	10.6%	10.9%	11.0%	11.3%	12.2%	12.6%	13.0%	13.6%	13.6%	14.4%	15.1%	15.6%
	Sep 11	Oct 11	Nov 11	Dec 11	Jan 12	Feb 12	Mar 12	Apr 12	May 12	Jun 12	Jul 12	Aug 12
Global	17.4%	17.7%	18.4%	19.1%	19.9%	20.6%	21.3%	22.2%	22.9%	23.8%	24.7%	25.6%
U.S.	18.3%	18.8%	19.6%	20.2%	21.1%	21.9%	22.7%	23.8%	24.4%	25.3%	26.2%	27.2%
Europe	16.5%	15.8%	16.2%	17.1%	17.8%	18.2%	18.9%	19.4%	20.3%	21.6%	22.3%	23.0%

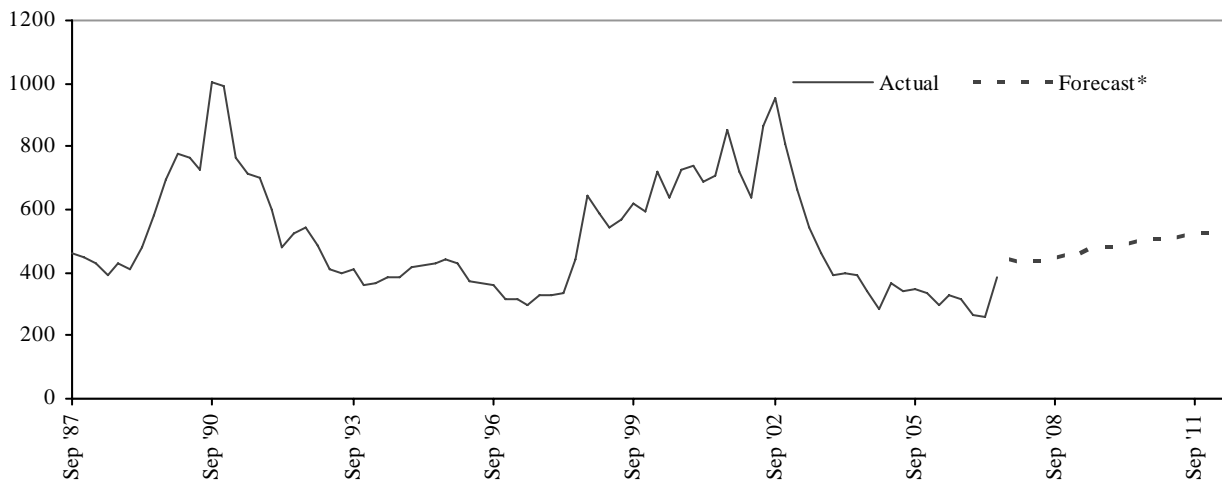
**Section C: Macroeconomic Drivers for the Default Rate Forecasts**

*(Baseline forecasts are sourced from Moody's Economy.com and the confidence intervals have been added by MIS.)*

**Exhibit 15: Unemployment Rates (Actual and Forecast)**



**Exhibit 16: High Yield Spread (bps) (Actual and Forecast)**



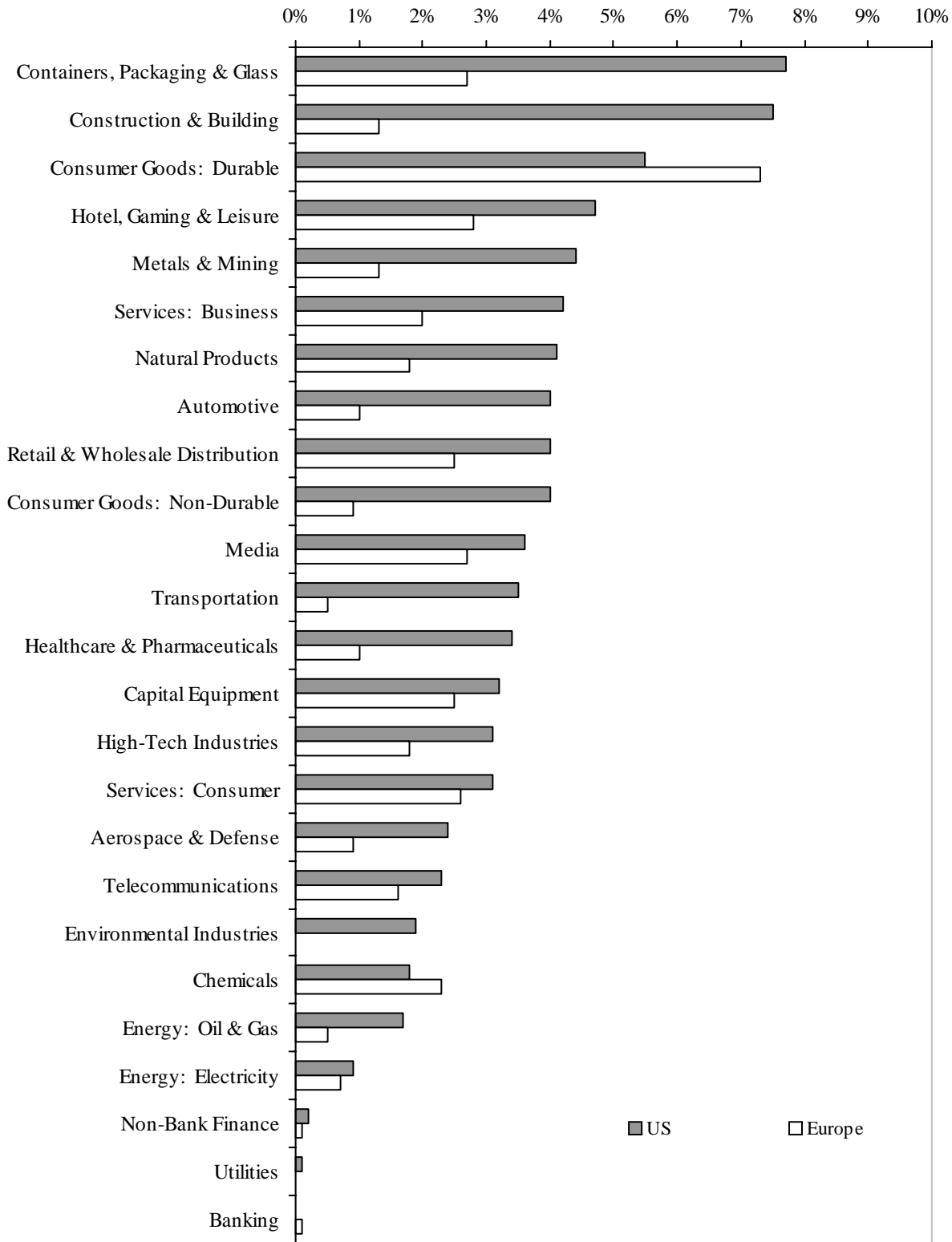
**Exhibit 17: Baseline Forecasts\* on Unemployment Rates and High Yield Spread (bps)**

	Sep 07	Dec 07	Mar 08	Jun 08	Sep 08	Dec 08	Mar 09	Jun 09	Sep 09	Dec 09
Unemployment	4.7	4.8	4.8	4.8	4.7	4.7	4.7	4.7	4.6	4.6
HY Spread	440.6	438.0	434.9	438.2	447.9	454.4	462.6	471.2	476.9	482.0
	Mar 10	Jun 10	Sep 10	Dec 10	Mar 11	Jun 11	Sep 11	Dec 11	Mar 12	Jun 12
Unemployment	4.7	4.6	4.5	4.5	4.5	4.5	4.5	4.5	4.5	4.5
HY Spread	440.6	495.8	502.4	507.4	511.6	515.7	520.1	522.3	525.7	529.1

\* Source: Moody's Economy.com

Section D: One-Year Corporate Default Rate Forecasts by Industry

Exhibit 18: One-Year Default Rate Forecasts by Industry



Section E: One-Year Global Rating Migration Rates (Actual and Forecast)

Exhibit 19: One-Year Global Rating Migration Rates Ending August 2007 (percent)

From	To	Aaa	Aa1	Aa2	Aa3	A1	A2	A3	Baa1	Baa2	Baa3	Ba1	Ba2	Ba3	B1	B2	B3	Caa1	Caa2	Caa3	Ca-C	WR	DEF
Aaa		94.4	3.9	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	1.7	0.0
Aa1		2.1	93.8	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	4.1	0.0
Aa2		0.4	4.5	85.7	0.8	2.9	1.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	4.5	0.0
Aa3		0.0	1.8	2.3	86.9	1.6	0.9	0.0	0.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	6.5	0.0
A1		0.1	0.0	0.6	2.5	93.0	1.0	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	2.6	0.0
A2		1.2	0.0	0.2	1.7	3.8	84.9	4.1	1.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	3.1	0.0
A3		0.0	0.7	0.0	0.2	0.0	8.1	77.6	5.7	1.7	0.2	0.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	5.4	0.0
Baa1		0.0	0.0	0.0	0.5	0.8	0.8	3.9	85.6	2.9	0.8	0.3	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	4.4	0.0
Baa2		0.0	0.0	0.0	0.0	0.0	0.2	0.5	5.7	80.8	5.4	0.0	0.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	7.1	0.0
Baa3		0.0	0.0	0.0	0.0	0.0	0.3	0.3	2.5	6.7	81.6	1.3	0.3	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	7.0	0.0
Ba1		0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	5.3	78.6	2.7	0.5	0.5	1.1	0.0	0.0	0.0	0.0	0.0	11.2	0.0
Ba2		0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	1.0	5.1	10.1	62.6	7.6	3.5	1.0	0.0	0.0	0.0	0.0	0.0	9.1	0.0
Ba3		0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.8	1.9	10.3	58.8	9.2	4.2	0.0	0.4	0.0	0.4	0.0	14.1	0.0
B1		0.3	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.3	1.4	7.9	67.4	7.9	1.7	0.3	0.0	0.0	0.0	12.4	0.3
B2		0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.5	3.2	9.0	57.6	10.7	2.2	1.0	0.0	0.0	15.6	0.2
B3		0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.2	1.9	7.9	61.6	8.1	2.8	0.2	0.2	16.3	0.7
Caa1		0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	2.0	10.9	60.9	5.4	1.5	1.5	16.3	1.5
Caa2		0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	4.3	4.3	51.1	2.2	4.3	22.8	10.9
Caa3		0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	66.7	0.0	14.3	19.0
Ca/C		0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	46.2	23.1	30.8

Exhibit 20: Global Rating Migration Rate Forecasts for the One-Year Period Ending August 2008 (percent)

From	To	Aaa	Aa1	Aa2	Aa3	A1	A2	A3	Baa1	Baa2	Baa3	Ba1	Ba2	Ba3	B1	B2	B3	Caa1	Caa2	Caa3	Ca-C	WR	DEF
Aaa		91.0	2.9	1.9	0.2	0.0	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	3.9	0.0
Aa1		2.7	85.4	5.6	2.0	0.4	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	3.9	0.0
Aa2		0.7	5.5	77.0	6.9	1.4	0.5	0.1	0.0	0.1	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	7.8	0.0
Aa3		0.1	0.7	2.6	83.2	3.9	1.4	0.4	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	7.4	0.0
A1		0.0	0.1	0.4	4.0	82.2	4.9	2.1	0.6	0.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	5.4	0.0
A2		0.0	0.0	0.2	0.8	4.2	81.7	4.8	1.7	0.6	0.2	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	5.6	0.0
A3		0.1	0.1	0.1	0.1	0.7	6.0	77.6	5.7	2.8	0.9	0.3	0.1	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	5.5	0.0
Baa1		0.0	0.1	0.0	0.1	0.1	1.3	4.8	79.1	6.1	2.1	0.6	0.2	0.1	0.1	0.0	0.1	0.0	0.0	0.0	0.0	4.9	0.1
Baa2		0.0	0.1	0.0	0.1	0.1	0.5	1.4	4.8	78.0	5.6	1.5	0.8	0.4	0.2	0.1	0.1	0.1	0.0	0.0	0.0	6.0	0.0
Baa3		0.1	0.0	0.0	0.1	0.2	0.3	0.5	1.7	6.7	76.0	4.0	2.2	1.2	0.4	0.3	0.2	0.1	0.1	0.0	0.0	5.6	0.2
Ba1		0.0	0.0	0.1	0.1	0.3	0.1	0.2	0.8	3.2	11.3	61.8	4.3	3.9	1.4	1.1	0.6	0.3	0.1	0.0	0.1	10.0	0.2
Ba2		0.0	0.0	0.1	0.1	0.1	0.2	0.2	0.5	0.9	3.7	10.8	56.9	5.5	3.2	2.7	1.4	0.9	0.3	0.2	0.2	11.5	0.6
Ba3		0.0	0.0	0.0	0.0	0.0	0.2	0.1	0.2	0.5	0.9	3.1	7.3	59.7	4.6	5.1	2.3	1.2	0.5	0.2	0.2	13.0	0.7
B1		0.0	0.0	0.0	0.0	0.1	0.2	0.1	0.3	0.2	0.3	0.7	2.5	7.3	61.1	6.0	4.7	2.0	1.1	0.3	0.3	11.5	1.1
B2		0.0	0.0	0.0	0.0	0.0	0.0	0.1	0.1	0.2	0.1	0.3	0.8	2.2	6.7	63.7	6.2	3.7	2.0	0.7	0.6	10.5	2.2
B3		0.0	0.0	0.1	0.0	0.0	0.0	0.1	0.1	0.1	0.1	0.1	0.2	0.4	2.5	5.0	62.3	5.2	4.9	1.5	1.5	11.2	4.6
Caa1		0.0	0.0	0.0	0.0	0.0	0.1	0.0	0.0	0.0	0.2	0.1	0.1	0.3	0.7	1.9	5.9	57.9	4.7	4.0	2.8	13.1	8.3
Caa2		0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.1	0.3	0.1	0.0	0.5	0.8	0.9	2.9	3.1	49.6	2.9	5.2	16.9	16.6
Caa3		0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.4	0.3	0.0	0.1	1.3	0.5	1.8	2.7	3.9	46.0	4.3	19.9	18.8
Ca/C		0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.7	0.0	0.0	0.0	0.3	0.1	0.4	1.9	0.8	1.6	2.5	35.3	20.5	35.7

## Section F: Rating Drivers for the Global Default Rate Forecasts

### Exhibit 21: Rating Drivers (Current)

Rating	Share Population	Last Rating Action		Average Duration*
		Up	Down	
Aaa	3.1%	37.9%		24
Aa1	4.4%	50.2%	11.0%	16
Aa2	3.9%	46.2%	16.5%	11
Aa3	10.4%	22.6%	9.3%	7
A1	12.5%	20.5%	7.5%	7
A2	6.9%	42.3%	24.4%	11
A3	5.7%	37.7%	33.1%	10
Baa1	6.3%	38.6%	32.2%	9
Baa2	6.2%	31.2%	39.4%	10
Baa3	5.3%	33.5%	37.1%	9
Ba1	2.9%	38.8%	30.3%	8
Ba2	2.9%	44.3%	23.2%	5
Ba3	3.8%	41.5%	21.5%	5
B1	5.2%	36.1%	21.8%	4
B2	6.4%	19.1%	26.1%	4
B3	8.1%	10.2%	21.2%	4
Caa1	3.9%	8.4%	36.7%	3
Caa2	1.5%	1.0%	54.6%	3
Caa3	0.4%	0.0%	69.6%	6
Ca/C	0.2%	0.0%	100.0%	2
Total	100.0%			

\* measured by number of quarters since last rating change

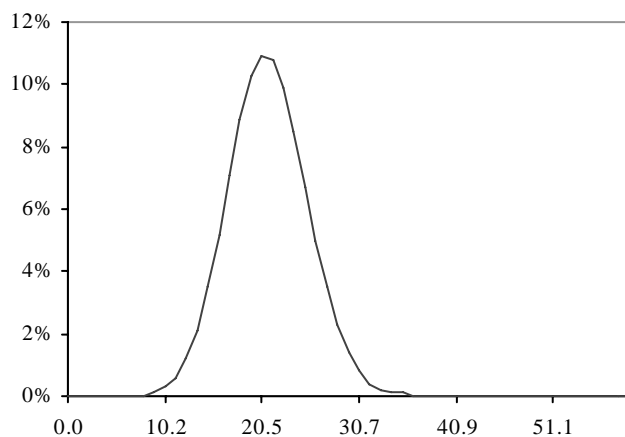
### Exhibit 22: Rating Drivers (One Year Prior)

Rating	Share Population	Last Rating Action		Average Duration*
		Up	Down	
Aaa	3.0%	36.9%		27
Aa1	4.0%	52.3%	10.8%	18
Aa2	4.1%	44.5%	21.2%	9
Aa3	9.5%	26.3%	13.8%	6
A1	12.0%	22.5%	8.1%	5
A2	7.0%	42.3%	26.8%	11
A3	6.8%	36.7%	35.0%	8
Baa1	6.4%	39.2%	31.9%	7
Baa2	6.8%	31.0%	41.8%	8
Baa3	5.3%	34.2%	38.6%	7
Ba1	3.1%	38.8%	34.6%	5
Ba2	3.3%	42.9%	28.8%	4
Ba3	4.4%	38.9%	25.2%	5
B1	4.9%	35.7%	19.6%	4
B2	6.8%	19.0%	28.0%	4
B3	7.2%	9.5%	25.6%	3
Caa1	3.4%	8.9%	40.1%	4
Caa2	1.5%	3.3%	65.2%	3
Caa3	0.4%	0.0%	71.4%	5
Ca/C	0.2%	0.0%	100.0%	4
Total	100.0%			

\* measured by number of quarters since last rating change

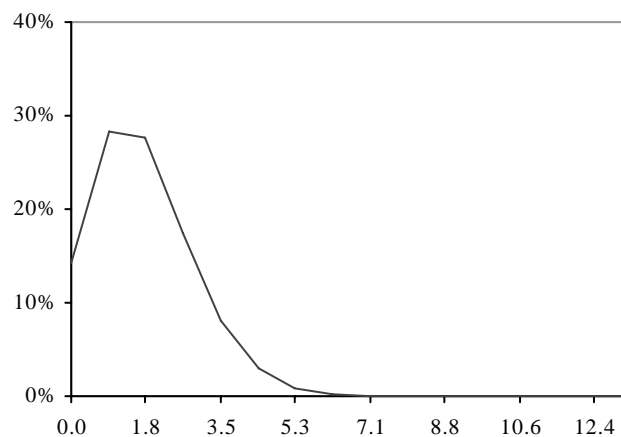
## Section G: Portfolio Default Distributions: Five Year Horizon

### Exhibit 23: Speculative-Grade Portfolio Default Distributions



Y-axis: Probability; X-axis: % of Portfolio Defaulting

### Exhibit 24: Investment-Grade Portfolio Default Distributions



Y-axis: Probability; X-axis: % of Portfolio Defaulting

Section H: Discontinued Model-Generated Issuer-Weighted Global Spec-Grade Default Rate Forecasts (include for reference only)

Exhibit 25: Panel A - Global Speculative-Grade Default Rates (Actual and Old Model Forecast)

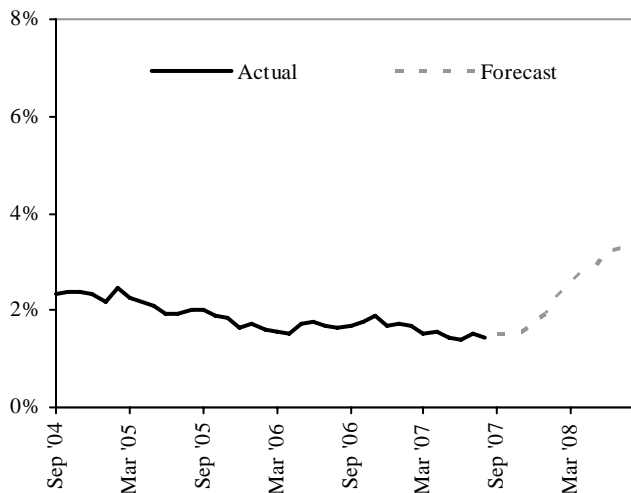


Exhibit 25: Panel B - Old Model-Generated Global Speculative-Grade Default Rate Forecasts

Sep 07	Oct 07	Nov 07	Dec 07	Jan 08	Feb 08
1.5%	1.5%	1.6%	1.8%	1.9%	2.3%
Mar 08	Apr 08	May 08	Jun 08	Jul 08	Aug 08
2.6%	2.8%	2.9%	3.2%	3.3%	3.5%

Part III: Default Experience

Exhibit 26: Defaulted Corporate Issuer Counts

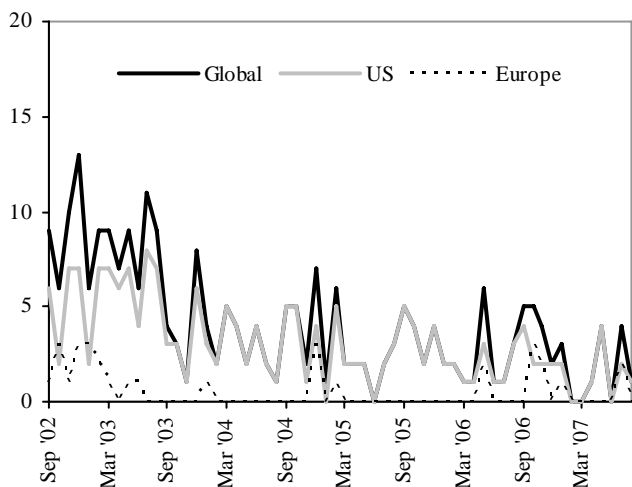


Exhibit 27: Defaulted U.S. Bond/Loan Issuer Counts

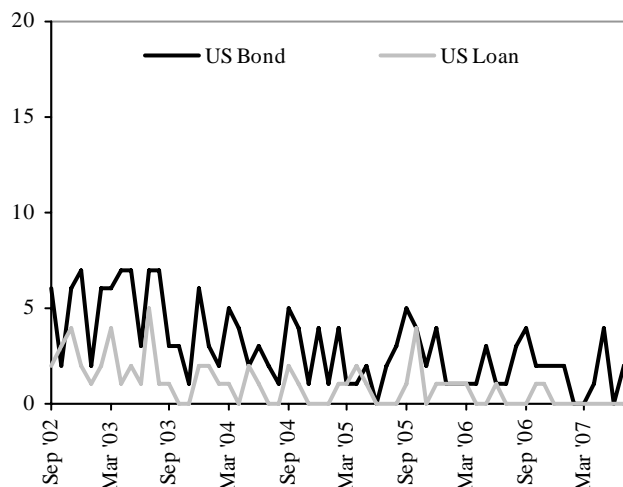


Exhibit 28: Default Counts Summary

	Corporate Issuer Counts			Bond Issuer Counts			Loan Issuer Counts		
	Global	US	Europe	Global	US	Europe	Global	US	Europe
August 2007	1	1	0	1	1	0	0	0	0
July 2007	4	2	2	4	2	2	0	0	0
June 2007	0	0	0	0	0	0	0	0	0
Year-to-date	13	10	3	14	10	4	0	0	0
5-yr Average	4	3	1	4	3	0	1	1	0
5-yr Stdev	3	2	1	3	2	1	1	1	0

Exhibit 29: Defaulted Debt Volume (US\$ Billion)

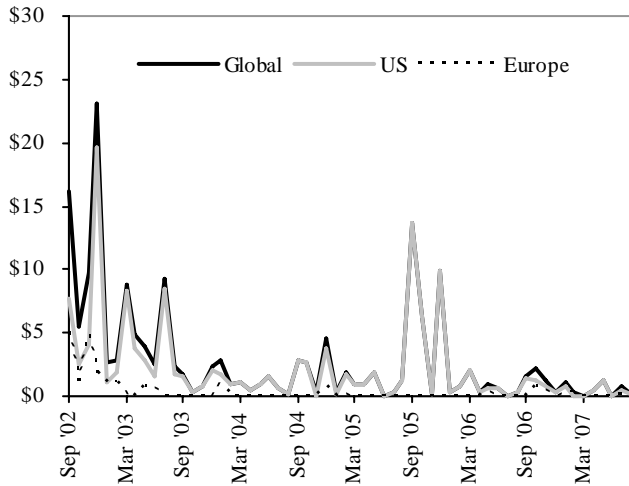


Exhibit 30: Defaulted U.S. Bond/Loan Volume (US\$ Billion)

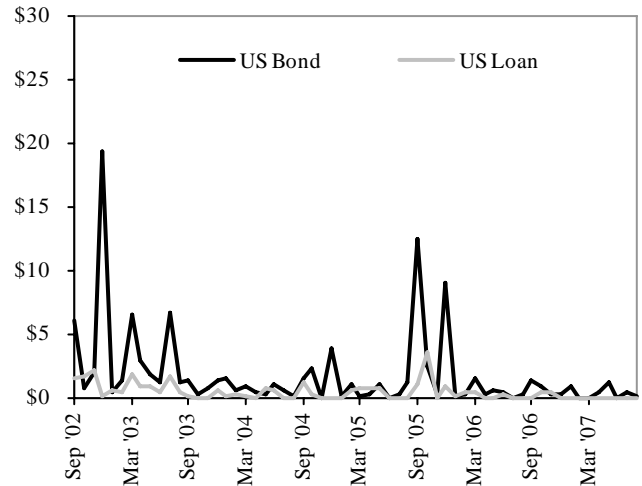


Exhibit 31: Default Volume Summary (in millions of US\$)

	Total Debt Volume			Bond Volume			Loan Volume		
	Global	US	Europe	Global	US	Europe	Global	US	Europe
August 2007	\$155	\$155	\$0	\$155	\$155	\$0	\$0	\$0	\$0
July 2007	\$727	\$525	\$202	\$727	\$525	\$202	\$0	\$0	\$0
June 2007	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Year-to-date	\$4,070	\$3,299	\$771	\$4,070	\$3,299	\$771	\$0	\$0	\$0
5yr Average	\$2,799	\$2,236	\$355	\$2,266	\$1,771	\$297	\$533	\$466	\$58
5yr Stdev	\$4,294	\$3,524	\$960	\$3,936	\$3,260	\$795	\$868	\$677	\$351

Exhibit 32: Initial Bond Default Events in August 2007

Company	Default Event	Amount*	Specific Industry	Domicile	Ratings**	
					At Default	1-Yr Prior
Fedders North America, Inc.	Chapter 11	\$155	Capital Equipment	United States	Caa2	Caa3

\* Defaulted bonds in millions of US dollars.

\*\* Estimated senior unsecured ratings, which do not necessarily refer to the rating of a particular debt issue.

Exhibit 33: Initial Loan Default Events in August 2007

None.

Exhibit 34: Other Credit Events in August 2007

Company	Credit Event	Initial Default Date	Initial Default Event
Port Townsend Paper Corporation	Reorganization plan confirmed	Jan 2007	Chapter 11
Premier Entertainment Biloxi LLC	Reorganization plan confirmed	Sep 2006	Chapter 11

Part IV: Recovery Experience

Exhibit 35: Trailing Twelve Month Global Defaulted Bond Recovery Rates (Per \$100 Par)\*

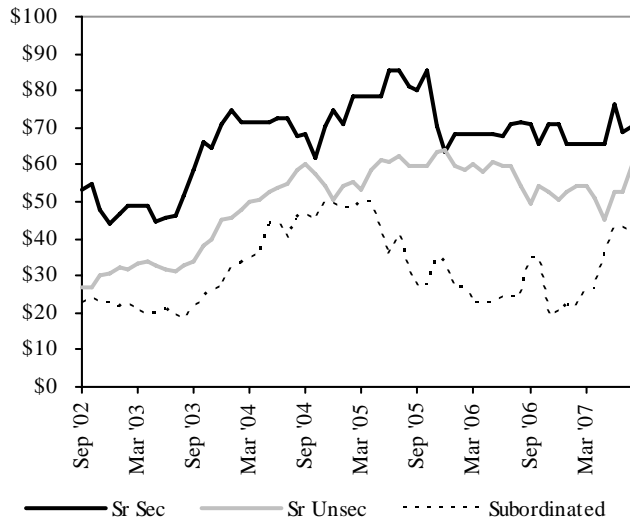


Exhibit 36: Trailing Twelve Month Global Defaulted Bond Recovery Rates by Priority\*

	Sr. Secured	Sr. Unsecured	Subordinated
Price	\$70.3	\$60.0	\$41.7
Count	4	26	11
5-yr Average	\$66.7	\$49.7	\$31.5
5-yr Stdev	\$10.8	\$11.1	\$10.1

Exhibit 37: Trailing Twelve Month U.S. Loan vs. U.S. Sr. Unsecured Bond Recovery Rates\*

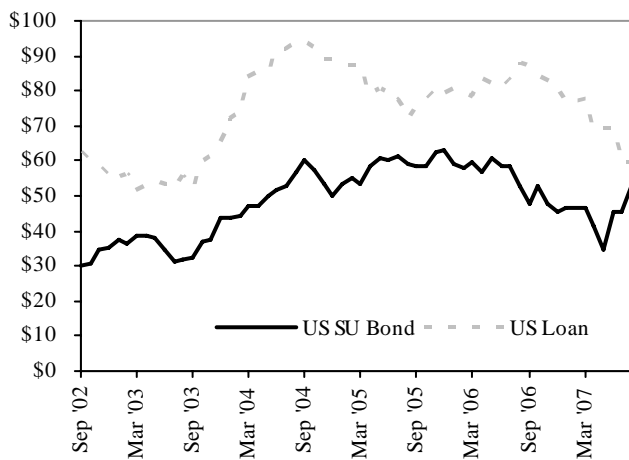


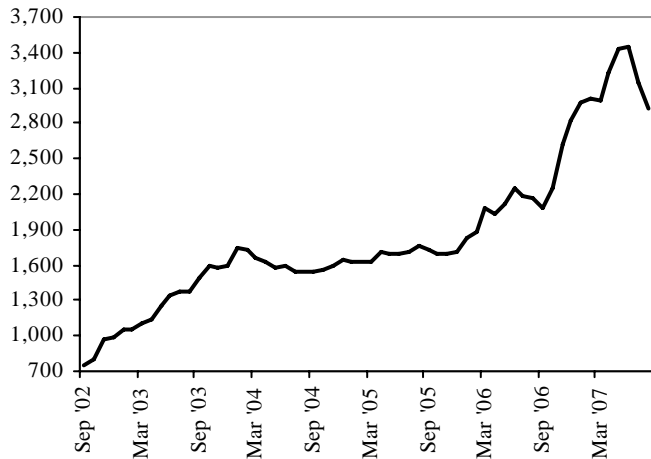
Exhibit 38: Trailing Twelve Month U.S. Loan vs. U.S. Sr. Unsecured Bond Recovery Rates Summary\*

	US Loan	US Sr. Unsec Bond
Price	\$59.4	\$52.9
Count	6	21
5-yr Average	\$74.4	\$48.4
5-yr Stdev	\$13.0	\$9.8

\* The average loan recovery of \$59.40 is based on six loan tranches. Out of the six recovery observations, three were from Le-Nature's, Inc. whose loans were traded at 42 cents on the dollar 30 days after default.

\* Recovery rates are measured by debt prices taken 30 days after default

Exhibit 39: Moody's Bankrupt Bond Index\*



\* MBBI=100 as of December 1980.

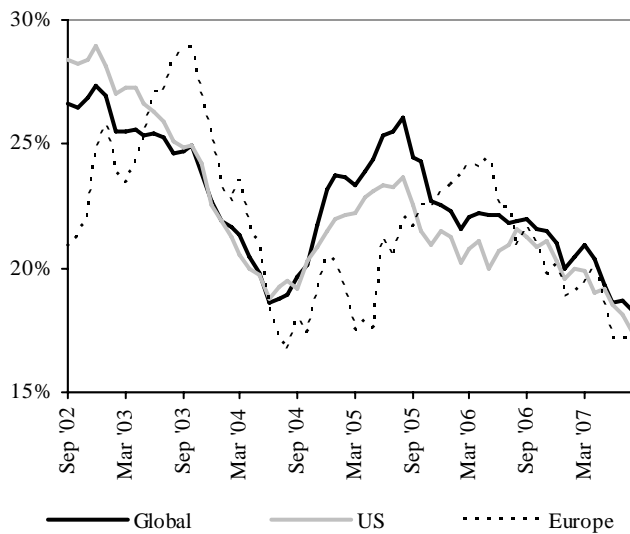
Exhibit 40: Moody's Bankrupt Bond Index Summary

	Level	Changes					
		1-Month	3-Month	6-Month	12-Month	YTD '07	YTD '06
Index	2,927	-7.0%	-14.7%	-2.9%	35.2%	3.8%	27.1%
Issuers	16	-20.0%	-40.7%	-54.3%	-52.9%	-55.6%	-27.8%
Issues	54	-6.9%	-27.0%	-53.8%	-55.7%	-54.2%	-53.4%
Total Par*	\$15	-8.6%	-22.0%	-51.9%	-55.6%	-52.0%	-18.0%

\* Measured in billions of US\$.

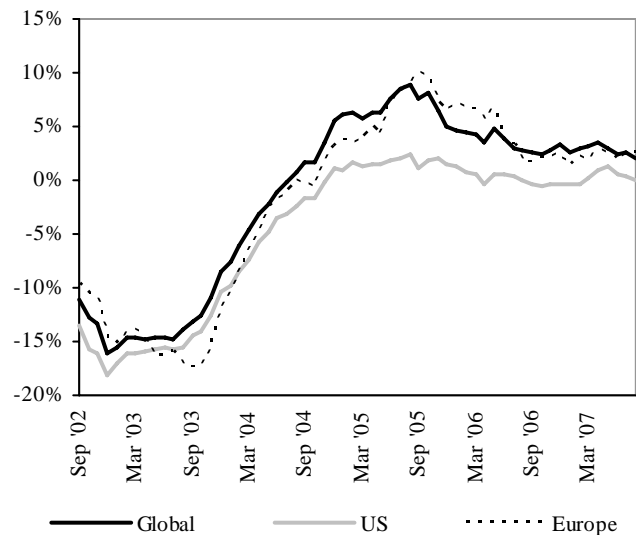
## Part V: Rating Changes

Exhibit 41: Trailing Twelve Month Rating Action Rates\*



\* Rating action rate = (issuer upgrades + issuer downgrades) / rated issuers

Exhibit 42: Trailing Twelve Month Rating Drift\*



\* Rating drift = (issuer upgrades - issuer downgrades) / rated issuers

Exhibit 43: Fallen Angels in August 2007

Issuer Name	Specific Industry	Domicile	Rating From*	Rating To*
Residential Capital, LLC	Non-Bank Finance: Real Estate	United States	Baa3	Ba1
Banca Italease S.p.A.	Banking	Italy	Baa3	Ba1

\* Estimated senior unsecured ratings, which do not necessarily refer to the rating of a particular debt issue.

## Exhibit 44: Rising Stars in August 2007

Issuer Name	Specific Industry	Domicile	Rating From*	Rating To*
Absolut Bank	Banking	Russia	Ba3	Baa3
Furukawa Co., Ltd.	Capital Equipment	Japan	Ba2	Baa3
Banco Votorantim S.A.	Banking	Brazil	Ba1	Baa3
Banco Votorantim S.A. (Nassau Branch)	Banking	Bahamas	Ba1	Baa3
Voto-Votorantim Overseas Trading Op. III	Capital Equipment	Cayman Islands	Ba1	Baa3

\* Estimated senior unsecured ratings, which do not necessarily refer to the rating of a particular debt issue.

## Part VI: Changes/Remarks

### Exhibit 45: Changes/Additions to Prior MDRs

Starting from the July Default Report, we introduce Moody's new default rate forecasting model that forecasts defaults based on the state of the macro economy and the current distribution of Moody's ratings. This new model not only forecasts default rates, but also can be used to predict expected upgrade, downgrade and default rates for any set of issuers over any potential investment horizon, whether grouped by industry, region or rating category.

Default rate forecasts in exhibit 7-24 are based on this new forecasting model. For reference purpose only, we are also reporting the default rate forecasts based on the old forecasting model in exhibit 25 (panel A and B).

The new forecasting model is described in two Moody's Special Comments in 2007, "Introducing Moody's Credit Transition Model," which is targeted to market practitioners and "A Cyclical Model of Multiple-Horizon Credit Rating Transitions and Default," which is targeted to econometricians. Both documents are available at [www.moody.com](http://www.moody.com).

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