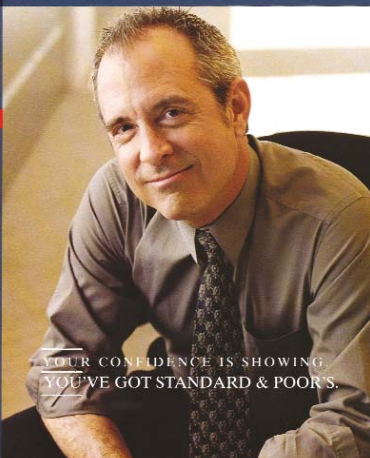


**STANDARD & POOR'S**

## Loss Given Default

Data, Models, and Services from Risk Solutions



**OUR CONFIDENCE IS SHOWING YOU'VE GOT STANDARD & POOR'S.**

**RISK SOLUTIONS**

- Internal Rating Systems
- Probability of Default
- LOSS GIVEN DEFAULT**
- Credit Portfolio Analysis
- Basel II
- Training

## Data, Models, and Services for Risk Managers, Portfolio Managers, Originators, Securitizers, and Investors

### Your credit risk assessment is not complete without loss data and analysis.

"What have you got to lose?" We can help you answer that question with our Loss Given Default services. Leveraging more than 140 years of Standard & Poor's expertise in credit risk assessment.

Standard & Poor's Risk Solutions offers a comprehensive set of Loss Given Default and Exposure at Default (EAD) data, models, and services that enable commercial banks, investment banks, broker-dealers, investors, and insurance companies to reliably estimate potential economic losses for a wide range of exposures.

Standard & Poor's is a global leader in managing loss data concerns for banks that need to supplement internal data.

"On August 23, 2007, the global bonds of the private finance business units at JPM & CO. (JPMorgan Chase and Co.) were sold to a Special Purpose Vehicle (SPV) in response to the committee's auction. The price of the bonds was significantly higher than comparable loans..."

To challenge the proposal, the four banks pooled forces and hired Standard & Poor's Risk Solutions to analyze the defaults and loss characteristics of their combined private finance portfolios.

Source: Robinson, Eric, ABA M. 2004, Jr. Basel II: Accounting for Credit Risk. (Principles of Risk Management, Lecture 10) © 2004. Harvard Business School, December 9, 2002. Copyright © 2002 by the President and Fellows of Harvard College. Reprinted by permission.

### Gain confidence in your LGD data, processes and reporting.

Working with experienced professionals from Standard & Poor's Risk Solutions, you'll build a transparent and rigorous infrastructure for your Loss Given Default and Exposure at Default (EAD) analysis and reporting.

Data. You need data for Basel II, for pricing, for facility ratings, and for models, but the general lack of data is a major obstacle, and where data is available, it is often inconsistent in form, format and content. To overcome these issues, Risk Solutions has helped banks form consortia to share and organize data using specialized data collection methodologies, templates, and tools. These same resources can be customized for your own use to more effectively utilize your own internally generated LGD and EAD data.

Services. Risk Solutions helps you build facility rating systems, benchmark your LGD and EAD experience against peers, train your staff, build your own LCD models and implement your internal rating systems. Risk Solutions' tools and techniques help you firm assign an internal rating for each facility, enabling you comply with the Advanced IRB approach of Basel II.

Models. To help you estimate Loss Given Default, Risk Solutions offers a family of LGD models appropriate to a wide range of industries for loans backed by a variety of collateral. A robust theoretical framework and a growing set of databases lay the foundation for models that we believe are superior to the industry standard beta distributions and provide users with full loss distributions.

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## Standard & Poor's Risk Solutions

### Risk Solutions' Offerings for Financial Institutions and Corporations Include:

**RISK SOLUTIONS**

- Providing a rich variety of advanced tools and services, Standard & Poor's Risk Solutions helps clients work more effectively in their credit assessment processes, reduce risk analysis, and improve credit risk, and train staff.
- Internal Rating System (IRS) Services. Risk Solutions provides Internal Rating System services to help you achieve your goals in credit risk management. We help banks develop, enhance, implement, and validate internal rating systems, and provide corporations assistance with their credit processes and limit setting.
- As part of our Internal Rating System services, we offer credit risk assessment templates, individually tailored by industry, to help estimate credit scores and decrease probabilities of default for your credit exposures. To ensure that all of our services can successfully be deployed in your organization, we provide custom designed training classes for your staff.
- Probability of Default (PD). To help clients with credit assessment, securitization and benchmarking rating performance, Risk Solutions provides Probability of Default data, models, and tools, as well as off-the-shelf and custom templates, by industry, to determine PDs and Rating Estimates.
- Loss Given Default (LCD). Risk Solutions provides Loss Given Default data, models, and tools for loss analysis, securitization and benchmarking.
- Credit & Risk Training. To keep your staff up to date on the latest credit risk measurement tools and techniques, Risk Solutions offers open enrollment and customized training courses in credit risk assessment and portfolio management.

Standard & Poor's is the world's foremost provider of independent credit ratings, indices, risk evaluation, investment research, data and valuation. As a central part of the world's financial infrastructure, Standard & Poor's has played a leading role for more than 140 years in providing investors with the independent benchmarks they need to feel more confident about their investment and financial decisions.

**CONTACT US:**

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 Or call: **Edward D Sullivan**, London 44 (0) 20 7740 2000, New York, Melbourne 61 3 9631 2000, Short Branch, New York 212 512 3555, York (Munich), Tokyo 81 3 3693 4721.

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**STANDARD & POOR'S**

The McGraw-Hill Companies

## STANDARD & POOR'S

Setting the Standard

### Default Filter™ — Default Probability Model Building

A complete system for model development with ongoing data management, validation and stress testing tools

**A powerful tool for assisting an institution's efforts to model default probability and comply with the Basel Committee's Based approach.**

Using customized models to estimate default probabilities allows you to incorporate your institution's own views of credit and ensure that models are tailored to your portfolio's specific characteristics. This can be particularly important for middle market exposures. Building custom models with the user-friendly Default Filter system meets these needs and maximizes the statistical stability of the model by incorporating regional and industry differences. Default Filter provides a utility that calculates the predictive power of the various credit factors and the statistical stability of the model by comparing the model results with observed outcomes. There is no built-in risk quantification function. The process returns stability to the models, as well as to estimate the impact of future conditions.

**Tools to Collect Your Credit Data and Ensure Data Integrity.** All modeling begins with data, and Default Filter provides a complete set of the tools you need to automate credit data centralization, data scrubbing, and data scrubbing. Default Filter uses Web-based Data Upload and Download facilities to automate the process of collecting and storing historical credit data into a single central database. In addition, Default Filter provides utilities that assist in reviewing, tuning, and creating historical financial, credit and macroeconomic data. These utilities provide ready-made solutions to accommodate regional and industry differences.

**Once the data are clean, Default Filter provides statistical diagnostics, programs to guide users in organizing company data into representative historical groups, for default risk modeling for valuation purposes and for rating data control.**

**Build-in Validation.** Errors are revealed that automatically show model output and model accuracy with respect to defaults, non defaults and partials.

**A Tool Kit to Build Models Based on Your Credit Factors.** With Default Filter, credit factors can be quantified on qualitative. The system incorporates your bank's own approach to include into the modeling process. A credit factor input is customizable to accommodate regional and industry differences. Default Filter provides a utility that calculates the predictive power of the various credit factors and the statistical stability of the model by comparing the model results with observed outcomes. There is no built-in risk quantification function. The process returns stability to the models, as well as to estimate the impact of future conditions.

## STANDARD & POOR'S

### LossStats™ Database

Public loss information on defaulted bank loans and high yield debt

**LossStats**

Standard & Poor's Risk Solutions' Loss Given Default tools, techniques, and services help financial institutions estimate potential economic losses for a wide range of exposures.

The Standard & Poor's LossStats Database is a comprehensive and robust set of consistently assembled credit loss information, it captures credit loss information on more than 2,300 defaulted bank loans and high-yield bonds, as well as other debt instruments, totaling over \$300 billion. This far-reaching database was created from more than 240 unique financial public and private U.S. companies that have defaulted since 1978. Source data is obtained from bankruptcy documents, Securities & Exchange Commission filings, news articles, press releases, and Standard & Poor's proprietary default studies and research.

**Key Features Allow Costly Analysis.** Standard & Poor's analysis recognizes after the defaulted obligor has emerged from a bankruptcy, completed a reorganization, completed a distress exchange or earned a default. The database contains default information on debt type, seniority on the balance sheet and collateral. This allows users to customize their analysis using different combinations of debt structures and collateral. All recoveries are provided in both present value and nominal terms. Users can calculate recoveries with any discount rate or rates. Even coverage back to the last time when payment was paid.

**Three Recovery Methods Help Measure.** The Economic Loss Instruments are valued at three critical points in the recovery process:

- Emergent Pricing. Trading prices of pre-portfolio instruments at the time of bankruptcy, or when analysts have had time to absorb all data, evaluate the instruments and value the debt.
- Settlement Pricing. The earlier available public trading prices of instruments received in a settlement.
- Liquidation Event Pricing. The value for illiquid securities instruments at the time of a liquidation event subsequent acquisition, significant ratings upgrades or downgrades, refinancing, further bankruptcies or distressed liquidation of the pre-portfolio instrument. This is the first date when a price can be determined after bankruptcy.