

Leveraged Loan Default Rates Seen Hitting 10% 12/08/2008

--Leela Parker

Leveraged loan default rates are on the rise and could hit 10% next year and 2010, said panelists Monday at **Opal Financial's** CLO & Structured Products Summit. Rising default rates, combined with declines in asset prices, the deterioration of overcollateralization levels and an increase in CCC-rated assets due to downgrades, are presenting collateralized loan obligation managers with new challenges.

Historically, CLO managers constantly reevaluated credit holdings and actively selected credits. Now, managers cannot rebalance the portfolio without some damage to the waterfall, said panelists. "CLOs are increasingly static deals," said **Steven Oh**, co-head of leveraged loans at **AIG Investments**. "Ultimately the structures will stay intact despite rising defaults."

Despite expectations of rising defaults and increasingly difficult market conditions, panelists hailed leveraged loans as a high-quality asset. "Market conditions aside, from a performance standpoint as an asset class most loans are very attractive," said **Eddy Piedra**, portfolio manager at **40|86 Advisors**.