
Credit Crunch Looms in 2012, Analysts Say

By Editor Test *Wed, Mar 17, 2010*

Junk bonds are set to mature at a rate of \$155 billion in 2012, \$212 billion in 2013 and \$338 billion in 2014, up from only \$21 billion in 2010.

Starting in 2012, more than \$700 billion in high-yield corporate debt will begin to come due, causing concern among bond analysts, *The New York Times* reported.

Junk bonds are set to mature at a rate of \$155 billion in 2012, \$212 billion in 2013 and \$338 billion in 2014, up from only \$21 billion in 2010. That will create what bond analysts call a “maturity wall.”

The concern is that the U.S. government—which must borrow or refinance an estimated \$2 trillion in 2012—could absorb much of the available capital or push up interest rates, crowding out private borrowers and possibly causing defaults or bankruptcies.

“An avalanche is brewing in 2012 and beyond if companies don’t get out in front of this,” said Kevin Cassidy, a senior credit officer at Moody’s Investors Service, which warned March 15 that the U.S. and other Western nations were moving closer to losing their gilded Aaa credit ratings.

On the junk bond side, private equity firms and many nonfinancial companies borrowed huge amounts on easy terms before 2007, with debt maturities of five to seven years. Many firms whose debt matured in 2009 and 2010 have extended their loans to 2012 and later.

The situation in 2012 could resemble the meltdown in mortgage-backed securities. In the mid-2000s, junk bonds were packaged into collateralized loan obligations, then hedged and used as collateral for still more risky loans. “The question is, ‘Should these deals have ever been financed in the first place?’” asked Anders J. Maxwell, a corporate restructuring specialist at Peter J. Solomon Company in New York.

That could hurt private equity firms like Bain Capital and Kohlberg Kravis & Roberts, who led leveraged buyouts in the pre-crisis boom. Hospital owner HCA, taken private in 2006 for \$33 billion, must pay or refinance \$13.3 billion between 2012 and 2014. TXU, a giant Texas utility, has to refinance \$20.9 billion in that period.

Depending on the economy and the demand for high-yield debt, those high-risk borrowers could be crowded out of the debt market by better-rated borrowers, like the U.S. government and corporations with good credit.

The federal budget deficit in 2012 will total \$974 billion, according to the Treasury Department, and \$859 billion in old bonds will have to be refinanced. In both 2013 and 2014, the U.S. will need to raise \$1.4 trillion.

Another \$1.2 trillion in investment-grade debt will have to be refinanced between 2012 and 2014, including

\$526 billion in 2012. An estimated \$59.7 billion in commercial mortgage-backed securities will also mature in 2012.

© 2010 RIJ Publishing. All rights reserved.