

## AN EXPLANATION OF "JUNK" BOND RATINGS

Bonds are generally classified into two groups - "investment grade" bonds and "junk" bonds. Investment grade bonds include those assigned to the top four quality categories by either Standard & Poor's (AAA, AA, A, BBB) or Moody's (Aaa, Aa, A, Baa).

The term "junk" is reserved for all bonds with Standard & Poor's ratings below BBB and/or Moody's ratings below Baa. Investment grade bonds are generally legal for purchase by banks; junk bonds are not.

The specific definitions assigned to junk bond ratings by the services help define the magnitude of the risk associated with them. Because Standard & Poor's definitions are somewhat more comprehensive, they are quoted here:

**BB, B, CCC, CC, C:** Debt rated BB, B, CCC, CC, and C is regarded, on balance, as predominantly speculative with respect to capacity to pay interest and repay principal in accordance with the terms of the obligation. BB indicates the lowest degree of speculation and C the highest degree of speculation. While such debt will likely have some quality and protective characteristics, these are outweighed by large uncertainties or major risk exposures to adverse conditions.

**BB:** Debt rated BB has less near-term vulnerability to default than other speculative issues. However, it faces major ongoing uncertainties or exposure to adverse business, financial, or economic conditions which could lead to inadequate capacity to meet timely interest and principal payments.

**B:** Debt rated B has a greater vulnerability to default but currently has the capacity to meet interest payments and principal repayments. Adverse business, financial, or economic conditions will likely impair capacity or willingness to pay interest and repay principal.

Because a B rating is the single most common rating found in a junk bond portfolio, Moody's definition of its B rating follows:

Bonds which are rated B generally lack characteristics of the desirable investment. Assurance of interest and principal payments or of maintenance of other terms of the contract over any long period of time may be small.

To resume with Standard & Poor's:

**CCC:** Debt rated CCC has a currently identifiable vulnerability to default, and is dependent upon favorable business, financial, and economic conditions to meet timely payment of interest and repayment of principal. In the event of adverse business, financial, or economic conditions, it is not likely to have the capacity to pay interest and repay principal.

**D:** Debt rated D is in payment default.

Clifford G. Dow, Sr., CFA, ChFC, CFP®  
*Chief Investment Officer*  
1998

*Securities offered through Delta Equity Services Corporation. Advisory services offered through Delta Global Asset Management, an SEC Registered Investment Advisor. 579 Main Street, Bolton, MA 01740 978.779.5361 FINRA SIPC MSRB*