



Zeeshan Haider
Analytical Coordinator
Financial Analyst -
Financial Institutions Group
+1 212 806 3257
zhaider@dbrs.com

Alan G. Reid
Managing Director -
Financial Institutions Group
+1 212 806 3232
areid@dbrs.com

Roger Lister
Chief Credit Officer -
Financial Institutions Group
+1 212 806 3231
rlister@dbrs.com

William Schwartz
Senior Vice President - U.S.
Financial Institutions Group
+1 212 806 3233
wschwartz@dbrs.com

Steven Picarillo
Senior Vice President -
Financial Institutions Group
+1 212 806 3238
spicarillo@dbrs.com

Toronto
DBRS Tower
181 University Avenue
Suite 700
Toronto, ON M5H 3M7
+1 416 593 5577

New York
140 Broadway
35th Floor
New York, NY 10005
+1 212 806 3277

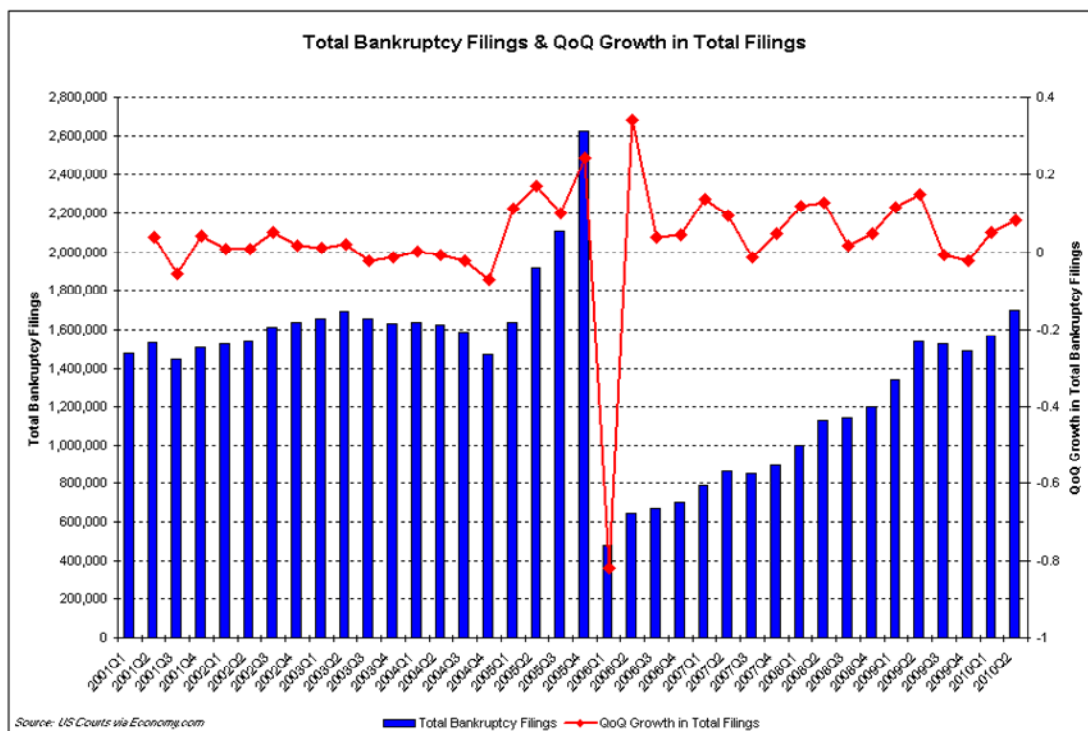
Chicago
101 North Wacker Drive
Suite 100
Chicago, IL 60606
+1 312 332 3429

U.S. BANKRUPTCIES – NO EVIDENCE OF A PEAK FOR HOUSEHOLDS

U.S. bankruptcies continue to increase as the “perfect storm” of events continues to batter U.S. households.

Bankruptcy filings in the United States rose 20% during the 12-month period ending June 30, 2010, according to statistics recently released by the Administrative Office of the U.S. Courts. For the 12 month period ending June 30, 2010, a total of 1,572,597 bankruptcy cases were filed in federal courts, compared to 1,306,315 bankruptcy cases filed in the 12-month period ending June 30, 2009. This is the highest number of bankruptcy filings for any period since the Bankruptcy Abuse Prevention and Consumer Protection Act of 2005 took effect. Given the still weak unemployment and housing fundamentals, DBRS does not expect these trends to materially improve in the near term. As such, U.S. banks’ consumer-related credit costs will remain elevated.

Exhibit 1



Filings for the 3-month period ended June 30, 2010, totaled 422,061, reaching the highest of any quarter in fiscal year 2010 and the highest for any April-June quarter since the 2005 third quarter filings (See Exhibit 1). On a monthly level, total filings for June were 136, 737, down from the March 2010 peak of 162,558, however, June’s filings were still the third largest of the year. Monthly and quarterly filings, however, are volatile, especially in a weak economy, nonetheless, the trend is clearly more negative.

Furthermore, excluding the period from April to December 2005, which was impacted by a rush to file prior to changes in bankruptcy laws, the recently released statistics indicate that quarterly filings reached the second highest level since March 1995, and the highest level since the quarter ended June 30, 2003. The surge in bankruptcies indicates that U.S. households continue to be impacted by the difficult economic conditions including still weak housing markets, high levels of unemployment, and significant pre-recession debt burdens. DBRS views the trends in filings as further evidence that the difficult credit environment for financial institutions with significant consumer-related loan exposures is being prolonged.

Bankruptcy filings are still very regional (See Exhibit 2). At the state level, however, trends are more uneven, with only three states showing improving trends in total bankruptcies. Some states are seeing largely flat filings, while others are still experiencing sizable increases. As with other forms of credit, regional differences within banks’ loan portfolios are likely to again factor into their credit trends. Specifically, banks

located within the Midwest and in regions particularly hard hit by declining real estate values including Arizona, Florida, California and Nevada should see performance lag that of peers located in less stressed markets.

Exhibit 2

Total Bankruptcies by State: Contributors & Detractors (SAAR*)				
Ranking	State	Recent Improvement	Increase to U.S. Peak in Downturn	Pace at U.S. Peak
		Delta 2Q10 vs. 4Q09	Delta 2Q10 vs. 4Q07	Level 2Q10
1	Tennessee	-3,377	6,617	49,161
2	Delaware	-162	2,439	4,498
3	West Virginia	-96	2,082	6,427
4	South Carolina	12	2,350	9,598
5	Alaska	17	451	1,127
6	Mississippi	47	3,124	14,546
7	North Carolina	163	8,152	27,873
8	District Of Columbia	188	572	1,354
9	Vermont	241	888	1,793
10	North Dakota	242	436	1,718
42	Ohio	4,742	25,120	74,008
43	Virginia	4,970	18,728	40,638
44	New Jersey	5,075	22,472	43,305
45	Maryland	5,304	18,191	33,196
46	Colorado	6,374	19,343	35,985
47	Georgia	7,301	27,903	80,917
48	Arizona	8,348	33,795	46,518
49	Illinois	9,613	43,441	87,179
50	Florida	20,139	71,764	120,290
51	California	41,393	185,603	272,156
	United States	203,265	802,326	1,695,152

*SAAR - Seasonally Adjusted Annual Rate
Source: US Courts - Bankruptcy Statistics via Economy.com, DBRS Ltd.

While the standard D's (divorce, disability, death, and dismissal) are responsible for a large part of bankruptcy cases, depressed home values and diminished home equity continue to impact the level of bankruptcy filings and little relief is expected. This is particularly well illustrated by the recently released housing data. Sales of existing homes fell significantly in July, and inventory of previously owned homes for sale has increased to a 12.5 months supply. All of these factors suggest ongoing weaknesses in certain, already depressed housing markets. Add in persistently high levels of unemployment, the result is that many households are caught in a perfect storm. With more than one in four homeowners "underwater" on their mortgage, more borrowers are likely to walk away, adding to the housing supply and putting downward pressure on prices. As such, until these trends begin to reverse DBRS sees personal bankruptcy filings remaining at elevated levels for the near- to intermediate term.

DBRS will look to a slowing rate of non-business bankruptcy filings coupled with a moderation in new jobless benefit claims, and an increase in housing sales as evidence that the economy is improving and a more normal rate of credit costs are ahead. Job creation remains key to stabilizing the economy, as well as bank balance sheets.

For further information, please contact:

Steven Picarillo
Senior Vice President
Financial Institutions Group
+ 1 212 806 3238
spicarillo@dbrs.com



PRIOR NEWSLETTER ARTICLES

(Please click on each title to access the article)

Commercial Banks Await A Business Recovery...	August 19, 2010
2Q10 Compilation of Financial Institutions Newsletters	August 6, 2010
U.S. Banks 2Q10 Earnings: Positive Trends Continue, But Downside Risks Remain	July 28, 2010
Households Still Deleveraging – Good for Credit Quality, But Not for Lending Growth	July 20, 2010