



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

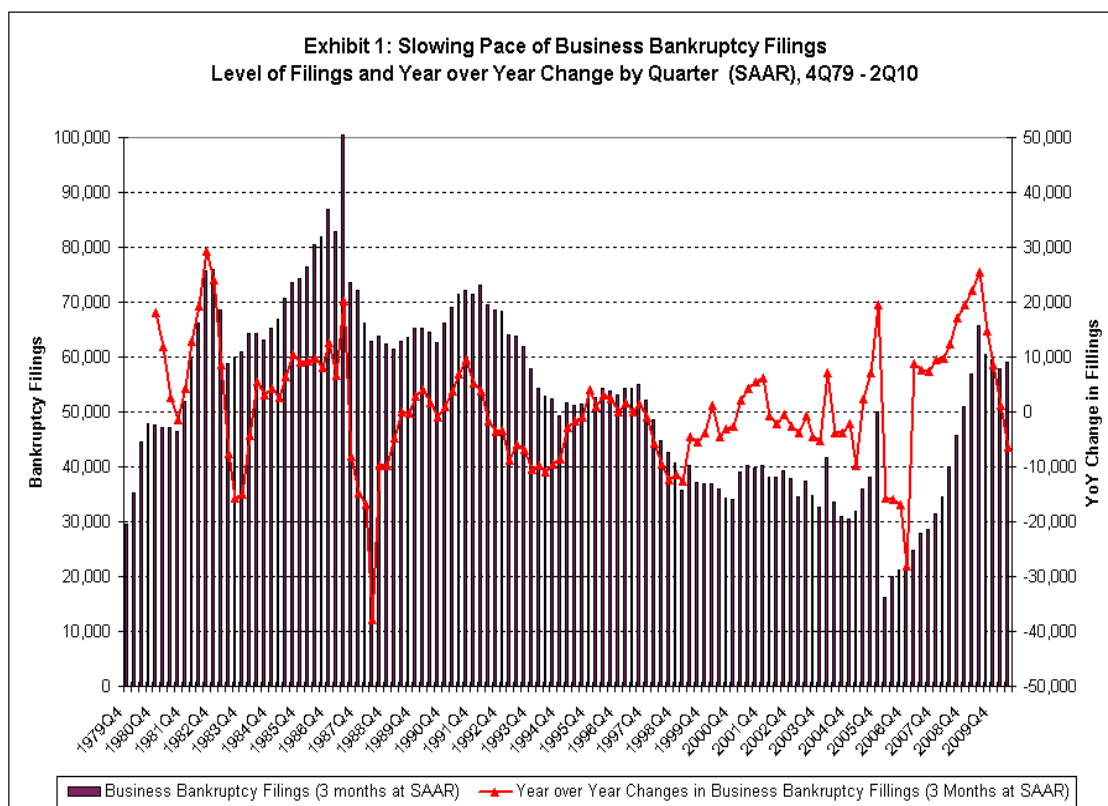
Chicago
101 North Wacker Drive
Suite 100
Chicago, IL 60606
+1 312 332 3429

SIGNS THAT BUSINESS BANKRUPTCIES ARE STABILIZING

Business bankruptcies in the U.S. appear to be stabilizing, but remain at a high level overall with considerable differences in trends across states. That is negatively impacting bank credit quality. Positively, the pace (quarterly year-over-year changes) of filings slowed over the last three quarters and 2Q10's filings fell below 2Q09 levels. Nonetheless, we are not out of the woods yet. National filings increased on a sequential quarterly basis, countering three consecutive quarterly declines. Moreover, at the state level, trends still remain uneven as some states evidenced large decreases in filings while others reflected increases. DBRS anticipates that bank credit quality will continue to be pressured by elevated bankruptcy filings over the near-to-intermediate term and regional differences will likely continue factoring into bankruptcies and bank credit trends.

There were pluses and minuses in the 2Q10 bankruptcy filings (released by the Administrative Offices of the U.S. District Courts). Positively, there was a decline in the pace of bankruptcy filings, on a seasonally adjusted annualized basis (SAAR) (See Exhibit 1), from 2Q09 through 1Q10. Moreover, there were 6,530 fewer filings during 2Q10 than in 2Q09. Nonetheless, and somewhat of a concern, the prior trend of sequential quarterly declines in filings stalled during 2Q10. Indeed, 2Q10 filings on a SAAR basis, increased to 59,127 during the quarter, up from 57,918 for 1Q10.

Exhibit 1: Slowing Pace of Business Bankruptcy Filings
Level of Filings and Year over Year Change by Quarter (SAAR), 4Q79 - 2Q10



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

Not since the 1990s has there been such a high level of bankruptcy filings, excluding the abnormally high levels of 2005 associated with changes in the U.S. bankruptcy laws. Indeed, the filings peaked in 2Q09 at a SAAR of 65,657. This pace was just over double the filings of 31,312 in 4Q07, when the economic downturn began.

This recovery is uneven across the U.S. The bankruptcy data at the state level continues to indicate that major states, such as California, New York and Texas contributed significantly to the increase in filings from trough to peak, due to their relative size. Positively, New York, Texas and Delaware experienced a sizeable decline in the pace of bankruptcies (See Exhibit 2) since 4Q09. One positive aspect of these improvements is that they are occurring in states across the regions of the U.S. While improvement is occurring in many

states, just under half of the states are still seeing increases in filings. In our view, an indicator that the economic recovery is strengthening is that fewer states are reporting increases in filings and more states are showing declining trends in their filings.

Exhibit 2: Business Bankruptcies: Uneven Improvement in States (SAAR*)				
		Recent Improvement	Increase to U.S. Peak in Downturn	Pace at U.S. Peak
Ranking	State	Delta 2Q10 vs. 4Q09	Delta 2Q09 vs. 4Q07	Level 2Q09
1	New York	-903	3,781	5,075
2	Texas	-403	2,356	4,957
3	Delaware	-336	2,047	2,381
4	Tennessee	-268	844	1,349
5	Idaho	-264	204	342
6	Alabama	-229	464	814
7	Utah	-224	391	616
8	Illinois	-208	1,165	2,246
9	Vermont	-196	555	596
10	Indiana	-140	230	915
42	Connecticut	97	107	484
43	Pennsylvania	106	326	1,457
44	Missouri	109	383	891
45	Minnesota	111	404	920
46	Washington	185	638	1,183
47	North Carolina	187	685	1,370
48	West Virginia	194	1,197	1,362
49	Oklahoma	220	341	653
50	Ohio	248	762	2,202
51	Florida	373	2,755	5,346
	United States	-337	34,345	65,657

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

Throughout the economic downturn, elevated bankruptcy filings have been driven by a steep decline in sales, the difficulties businesses face in refinancing their debt, and the more limited availability of new credit than before the crisis. High unemployment, slow growth and limited business expansion are constraining sales growth. Without stronger growth, more struggling businesses are running out of resources to weather the tough environment. One recent positive, which could benefit businesses and perhaps temper bankruptcies, is the modest improvement in bank credit. Specifically, the July 2010 Senior Loan Officer Opinion Survey (Survey), published by the Federal Reserve System, indicates that, on net, banks have eased standards and terms on loans in some categories, over the past three months. Moreover, this is the first Survey that has shown an easing of standards on C&I loans to small firms since 2006.

DBRS will continue to monitor business bankruptcies to ascertain future bank asset quality and credit costs.

For further information, please contact:

Mark Nolan
Vice President
U.S. Financial Institutions
+1 212 806 3234
mnolan@dbrs.com



PRIOR NEWSLETTER ARTICLES

(Please click on each title to access the article)

- | | |
|---|-----------------|
| U.S. Bankruptcies – No Evidence of a Peak for Households | August 26, 2010 |
| 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 |

ALL DBRS RATINGS ARE SUBJECT TO DISCLAIMERS AND CERTAIN LIMITATIONS. PLEASE READ THESE DISCLAIMERS AND LIMITATIONS AT www.dbrs.com/about/disclaimer. ADDITIONAL INFORMATION REGARDING DBRS RATINGS, INCLUDING DEFINITIONS, POLICIES AND METHODOLOGIES, ARE AVAILABLE ON www.dbrs.com. Please refer to www.dbrs.com for DBRS's [Privacy Policy](#), [Disclaimers](#), [Proprietary Rights](#), [Terms and Conditions of Use](#). To stop receiving these mailings, please send an email to dbrs_canada-unsubscribe@news2.dbrs with "unsubscribe" in the subject line.