Large and Small Companies Exhibit Diverging Bankruptcy Trends

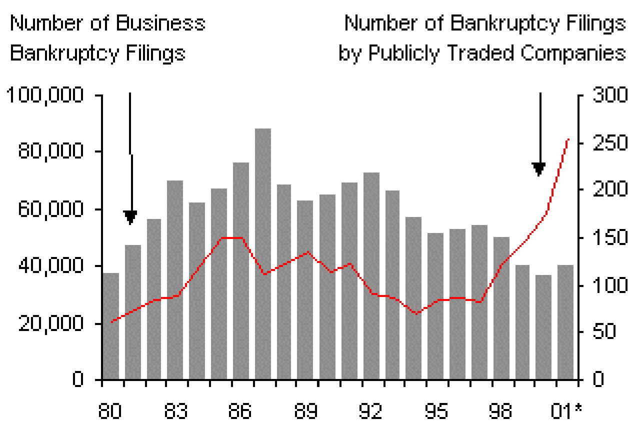
January 31, 2002

Recent bankruptcy trends for publicly traded companies are markedly worse than for smaller companies, according to an FDIC report issued today. Today's Bank Trends report, entitled "Large and Small Companies Exhibit Diverging Bankruptcy Trends," concludes that credit quality will remain a key issue for the banking industry this year. For most FDIC-insured institutions, the outlook for 2002 depends on the extent to which weakness in the corporate sector trickles down to smaller businesses and consumers.

A total of 257 publicly traded companies filed for bankruptcy last year, representing a new record and a 46 percent increase over the prior year's record of 176 filings (see Chart 1).[1] Bankruptcies among publicly traded companies began to run counter to the trend of declining business bankruptcies around 1997. Analysts at BankruptcyData.com indicate that the number of bankruptcy filings by publicly traded companies was distributed fairly evenly across industry sectors in 2001. The telecom industry was disproportionately represented, however, accounting for 36 of the 257 filings, or 14 percent. The assets entering bankruptcy by industry tended to be more concentrated, with 33 percent of public company assets entering bankruptcy in 2001 related to the energy sector.

Chart 1

Publicly Traded Companies Are Filing for Bankruptcy in Record Numbers While Overall Business Bankruptcy Filings Have Declined



*Note: The number of business bankruptcies in 2001 is an annualized figure based on quarterly filings through the third quarter. The number of filings by publicly traded companies in 2001 reflects totals through year-end.

Source: Administrative Office of the U.S. Courts (Haver Analytics); BankruptcyData.com

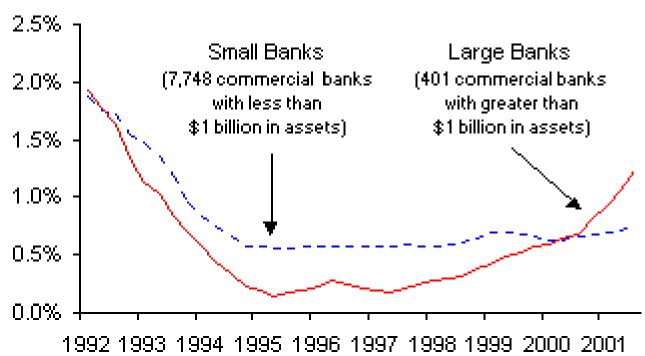
A number of factors could be driving this divergence in bankruptcy rates. First, profits at larger firms have declined more dramatically than overall corporate profits. Second, larger firms seem more likely to have been disproportionately affected by weakness in foreign markets and imports made cheaper by a strong dollar. Finally, a dramatic increase in leverage at larger firms compared to smaller firms, encouraged by easy access to capital, has also played an important role.

Stress in the corporate sector has been reflected in other measures of corporate credit quality. Standard & Poor's reports that 211 bond issuers defaulted on $115.4 billion in debt in 2001, posting the highest default volume on record, both in terms of the dollar volume and number of defaults.[2] There were 3.6 times as many downgrades as upgrades in 2001among speculative-grade issuers rated by Moody's Investors Service, while downgrades outnumbered upgrades by 2.3 to 1 among investment-grade issuers.[3] Bank Call Report data also reflect the fact that financial trouble has appeared more quickly in credits to larger firms. Since the second quarter of 2000, large commercial banks have experienced higher and more rapidly rising loss rates on commercial and industrial (C&I) loans than small commercial banks (see Chart 2).

Chart 2

C&I Loan Loss Rates Are Rising Faster at Larger Banks than at Smaller Banks

Four Quarter Moving Average C&I Charge-off Rate



Note: C&I = commercial and industrial
Source: FDIC Bank Call Reports (Research Information System); adapted from the FDIC *Quarterly Banking Profile*

For the full Bank Trends report, entitled "Large and Small Companies Exhibit Diverging Bankruptcy Trends," go to: http://www.fdic.gov/bank/analytical/bank/index.html

[1] Data on publicly traded bankruptcy filings provided by ***BankruptcyData.com.***
[2] Standard & Poor's. "Record Corporate Defaults in 2001; Improvement Seen by Year's End." January 14, 2001. (http://www.standardandpoors.com/ProductsAndServices/RiskManagementSolutions/ResearchAndRiskManagement/Articles/011402_corpdefault.html) [3] Moody's Investors Service. "U.S. Corporate Rating Downgrades Exceed Upgrades in 2001; Worst Fall Since 1991." Moody's Credit Perspectives, Volume 5, Number 2, January 14, 2002.