

# Business bankruptcies fall 23% as banking climate improves

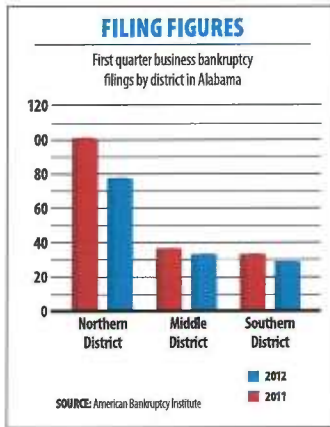
BY AN TREMISE COLE | STAFF

Business bankruptcy filings for the Northern District of Alabama fell 23 percent in the first quarter of 2012, following the national trend of returning to more normal levels after filings surged leading to and following the recession.

The number of business bankruptcies in the Northern District, including the Birmingham metro area, dropped to 78 filings in the first quarter of 2012 from 101 filings in 2011's first quarter, according to data compiled by the American Bankruptcy Institute, based in Alexandria, Va. Business bankruptcy filings nationwide fell to 15,833 in the first three months of 2012, down 19 percent from the same period in 2011.

"Bankruptcies surged nationwide in the period from 2007 to 2009, but the cycle has been correcting itself over the last year," said Eric Pruitt, shareholder at Baker Donelson Bearman Caldwell & Berkowitz PC. "Business bankruptcies were part of the significant increase in filings that continued from 2007 until 2011, when the filings started to decrease. The financial environment, while still in flux, has started to stabilize, which is likely impacting the filings."

Business filings for northern Alabama climbed in the first years of the Great



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**Ahmad Ijaz**  
University of Alabama

Recession, from 11 in the first quarter of 2007 to 71 and 114 during the same periods in 2008 and 2009, respectively.

Pruitt said many lenders were proactive in addressing defaulted business loans during the 2007 to 2009 economic downturn, which impacted the increased bankruptcy filing rate. He expects the number of filings in the Northern District of Alabama to decrease from peak levels since lenders have dealt with many of the problem loans on their books over the last few years.

C. Ellis Brazeal III, a partner at Jones Walker LLC, agreed that the banks' substantial progress in working through the defaulted loans has led to fewer bankruptcies. But he worried that bankruptcy filings could increase again with another serious downturn in the economy.

Ahmad Ijaz, director of economic fore-

casting at the University of Alabama's Center of Business and Economic Research, said the economy is improving, but not at a desired pace, and businesses are still cautious about hiring. Despite the economic uncertainty, Ijaz, like other experts, forecasts a continued decline in business bankruptcies this year.

"For one thing, business conditions are improving," he said. "And secondly, even though credit markets are still relatively tight, most banks are now a little more willing to lend to small businesses than they were a year ago."

Chapter 7 filings made up the bulk of northern Alabama's business bankruptcy filings with 64 filings in the first quarter, a 6 percent dip from the 68 Chapter 7 filings

in the first quarter of 2011. There were nine Chapter 11 reorganizations, which allow a business to file for bankruptcy protection while it restructures debt and continues operating, in the first quarter. That was a 59 percent decline from the 22 Chapter 11 filings in the first quarter of 2011.

Ijaz noted that some of the bankruptcies may not necessarily be because of sluggish economy but a natural phenomenon.

"There is a very high probability that a new business will go bankrupt," he said. "Therefore, we have to distinguish between how many of the firms filing for bankruptcies are new startups or existing or established firms."

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