



Wave of corporate bankruptcies on way, report says

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NEW YORK -- Corporate bankruptcy filings, subdued by the high availability of credit in recent years, should hit courts in a wave within the next six to 18 months, according to a report released Wednesday.

The survey said 70.7 percent of 90 respondents expect "the next big wave of restructurings" are on their way, according to an analysis by the American Bankruptcy Institute and Dow Jones' Daily Bankruptcy Review.

Loan default rates have stayed lower than predictions so far this year. However, the bankruptcy experts who contributed to the report, which included lawyers, bankers and investors, expect defaults will soon move back up, leading to a greater number of filings.

Attorney Robert Bernstein, who responded to the survey, said turnaround managers had recently been reporting an uptick in activity, which anecdotally indicates that an increase in bankruptcy filings is not far behind. "It's not next week, but it's certainly feeling like it's coming," he said.

The cyclical downturn over the past couple years is "attributable to hyper-liquidity, too much money chasing after too few good deals," John Penn of Haynes & Boone LLP said. "The effect of this liquidity is it props up the weaker companies and defers when they have to face the music. The trigger is when the liquidity dries up."

The effect of higher interest rates, survey respondents said, was the most likely impetus that would send more companies into bankruptcy court for protection.

The so-called liquidity bubble will burst, Prof. Edward Altman of the New York University Stern School of Business said. "The question is when."

"Companies are simply not keeping up and yet they are indulged in larger and more credit facilities year after year," said Anders Maxwell of Peter J. Solomon Co., a M&A and restructuring advisory firm that maintains a watch list of companies at risk. "That is only sustainable as long as liquidity, and mechanisms providing the liquidity, are preserved, and it doesn't take much to upset the apple cart."

The industry seen as most vulnerable was real estate and construction, with weakness also in sectors such as airlines, manufacturing, transportation and consumer products. Eighty percent of respondents said the real estate industry was "very" or "extremely" vulnerable. Two-thirds of respondents named retail as also being in danger.

Personal bankruptcies have also been dampened as of late, but that downturn is more related to the passage of the Bankruptcy Abuse Prevention and Consumer Protection Act of 2005, which was enacted in October. Corporate bankruptcies, on the other hand, have been little affected by the act. Bernstein said the low occurrence of corporate filings so far this year leaves insufficient data to analyze the act's effect on commercial bankruptcies so far.

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