

Equifax Study Shows the Ups and Downs of Commercial Credit Trends

Business Failures on the Rise, Small Business Bankruptcies on the Decline

Today's Economy: Understanding the Commercial Impact

Despite rising business failures and account delinquencies, the commercial landscape has revealed some surprises such as a double digit decline in small business bankruptcies during the second half of 2009," said Reza Barazesh, senior vice president, Commercial Information Solutions, Equifax. "While these trends send mixed economic signals, it is clear that small businesses remain in a fragile state trying to navigate strong market pressures. How long this trend will continue is the question."

When it comes to commercial credit trends, the story has two plots. According to an Equifax study on Q4 2009 data, there were both improvements and setbacks on the commercial bankruptcy, business failure and delinquency fronts. While Equifax analysis showed an average 15% decline in commercial bankruptcies for the second half of 2009, there was a 14% increase in the number of bankruptcies reported during Q4 2009 compared to the same period in 2008. Will this mixed trend continue or is it an anomaly? Further complicating the story are factors such as rising delinquencies and business failures, which continue to impact the commercial markets especially in the Pacific and Mountain regions.

To analyze the market's effect on today's businesses, Equifax examined key credit trends within the portfolios of top national and regional financial institutions, which extend about 75% of all commercial credit. While there were some mixed signals, it is unknown if these trends will sustain themselves in 2010. Equifax will continue to closely monitor commercial economic conditions to assess where the market is trending and report regularly on its findings. Stay tuned.

Regional Bankruptcy Trends: Pacific and Mountain Lead the Way

When it comes to analyzing commercial bankruptcy by region, research findings show mixed results. According to Equifax data, there was a smaller bankruptcy rate change for multiple geographical regions from Q3 2009 to Q4 2009 than in previous quarters. However, bankruptcy rate changes across multiple regions remained high from Q4 2006 to Q4 2009. In fact, 5 out of 9 regions saw a rate change of more than 50 basis points during this time period. Leading the way were the Pacific and Mountain regions, which continue to experience powerful headwinds. Both areas experienced a rate change of 72 and 61 basis points respectively from Q4 2006 to Q4 2009.

Region	Percentage of US Commercial Businesses	Q4 2006 Bankruptcy Rate	Q3 2009 Bankruptcy Rate	Q4 2009 Bankruptcy Rate	Q4 2006 - Q4 2009 Rate Change <small>* Reflects Basis Points</small>
Pacific	19.34%	0.98%	1.60%	1.70%	72
West South Central	10.08%	1.12%	1.57%	1.62%	50
Mountain	8.10%	0.97%	1.49%	1.57%	61
East South Central	4.67%	0.92%	1.40%	1.46%	54
East North Central	12.89%	0.88%	1.35%	1.41%	53
West North Central	5.93%	0.74%	1.17%	1.22%	47
New England	5.27%	0.67%	1.01%	1.06%	39
Middle Atlantic	13.48%	0.67%	0.97%	1.01%	34
South Atlantic	20.25%	0.59%	0.92%	0.96%	37
Total US	100.00%	0.81%	1.20%	1.27%	46

Transportation in First, Construction Has Highest Jump Over Time

Small business bankruptcies continue to climb in the transportation sector, surpassing all other industries. According to Equifax data, the bankruptcy rate for the transportation industry reached 2.64% in Q4 2009 – a powerful increase in the rate change from Q4 2006. Strongly impacted by these trends as well was the construction industry, which experienced the largest rate change from Q4 2006 to Q4 2009. Manufacturing, retail and mining also showed strong increases during the same time period.

Industry	Q4 2006 Bankruptcy Rate	Q3 2009 Bankruptcy Rate	Q4 2009 Bankruptcy Rate	Q4 2006 - Q4 2009 Bankruptcy Rate Change <small>* Reflects Basis Points</small>
Transportation	1.67%	2.53%	2.64%	97
Construction	1.39%	2.30%	2.43%	104
Manufacturing	1.48%	2.20%	2.30%	82
Retail	1.30%	2.16%	2.27%	96
Mining	1.17%	1.86%	1.97%	79
Wholesale	1.20%	1.85%	1.94%	73
Agriculture	0.89%	1.42%	1.50%	61
Services	0.86%	1.29%	1.35%	49
Finance	0.56%	1.07%	1.14%	58
Public Admin	0.13%	0.21%	0.21%	8
Total US	0.81%	1.20%	1.27%	46

Sign of the Times: Business Failures Rise

Equifax research on business failure uncovered some interesting findings in light of continued delinquencies and bankruptcy trends. According to Equifax, the percent of businesses with the highest risk of failure increased from 0.31% in Q4 2006 to 0.85% in Q4 2009. For the analysis, Equifax leveraged its Business Failure Risk Score, which projects the likelihood of business failure in the next 12 months.

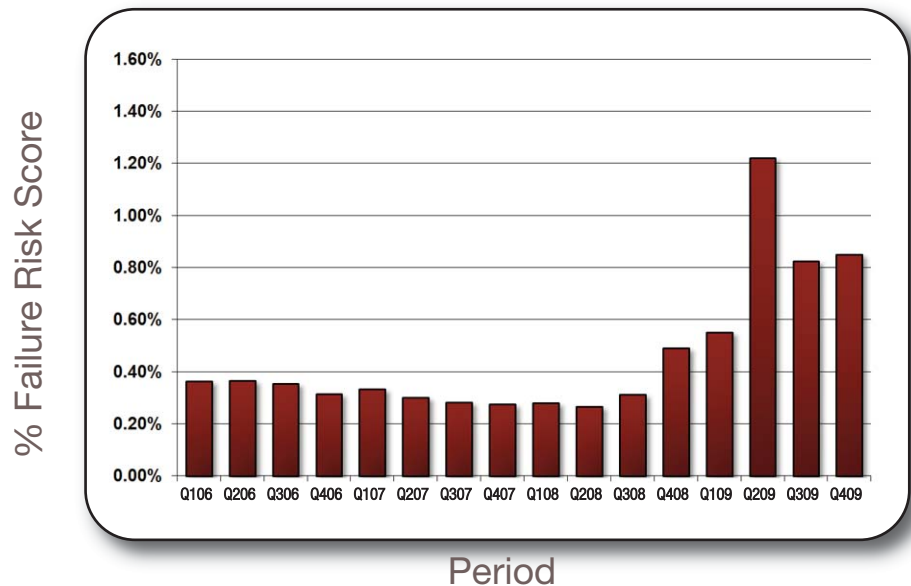


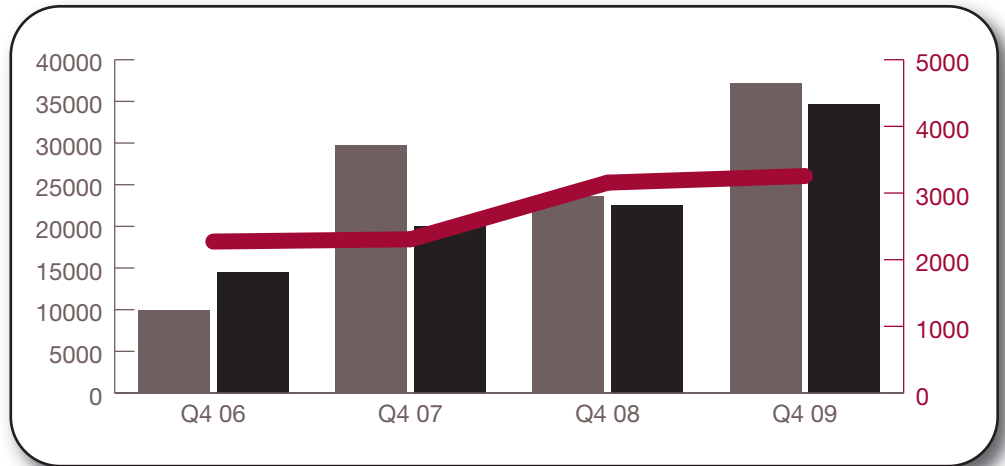
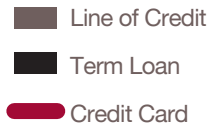
figure 1
Percent of Businesses with
Highest Risk of Failure

Note: Analysis conducted
using Equifax's Business Failure
Risk Score.

Delinquencies Trending Up for All Account Types

The chart below shows the average quarterly delinquency year over year for lines of credit, term loans and commercial credit cards from Q4 2006 to Q4 2009. According to Equifax data, average past due dollars for lines of credit reached \$37,160 in Q4 2009, a 273.4% increase over Q4 2006. Delinquencies for term loans saw the second highest rise, with a 139.8% increase in average dollar delinquency during the same period. Also not immune to this trend were credit cards, with the average account delinquency totaling \$3,255 in Q4 2009 – a 43.3% jump from Q4 2006.

figure 2
Delinquency Dollars



Equifax Commercial Information Solutions provides the information and expertise necessary for companies to best understand and manage their dealings with business customers, prospects and suppliers. Our exclusive partnership with the Small Business Financial Exchange, along with other proprietary sources, provides the best-in-class commercial credit risk data. Combined with highly predictive scoring and innovative technology, businesses can leverage this information to make quick, confident credit decisions and minimize potential losses.

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