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Fewer Bankruptcies in Maine

After 6 long years of annual increases, the number of bankruptcies will fall in Maine for the first time this year. According to Epiq Systems Inc, a company that specializes in compiling nationwide bankruptcy statistics, this year it is estimated that there will be about 3,700 bankruptcy filings, a 10% decline from an all-time high of more than 4,100 filings last year. The number of filings has fallen for the third straight month. The 206 filings in July were the lowest since January 2009.

85% of Maine's bankruptcies are business bankruptcies and the downward trend of filings may indicate a picking up of the economy. One good sign is that banks are more willing to work with businesses to help them avoid bankruptcy by refinancing borrowers' loans, or extending the time borrowers' are allowed to repaying back debt.

President of TD Bank in Maine, Larry Wold, said that customarily banks would recoup some of their money through bankruptcy when businesses sold off their assets after filing for Chapter 7. But these days, there are few buyers willing to purchase the assets, so banks would instead start working with borrowers themselves. "Today, because of the weak economy, trying to liquidate assets in bankruptcy is just not a successful way to go about things," according to Wold. "It seems like a much better process to collect a little bit over time."

But another theory for the declining number of bankruptcies is that the number of businesses going bankrupt has reached its limit. All the struggling businesses have

already filed for bankruptcy leaving only the last few to do so. Lois Lupica, law professor at Maine Law Foundation at the University of Maine School of Law seems to think so. She said, "It could be we've exhausted all the businesses in financial distress. My guess is the businesses that found themselves in financial distress have already filed, and the businesses still remaining are the ones that are more established and better financed."

According to the Maine Bureau of Corporations, Elections and Commissions, Maine had over 80,000 registered businesses. In 2009, there were more than 3,000 bankruptcy filings compared to 2,943 in 2008. Even if the number of bankruptcies continues to decline every month till the end of the year, the total number of bankruptcies for 2010 would still be north of 3,000. This is far more than the 1,250 filings in 2006 before the economic recession.

Experts like Lupica do not see the reduced number of bankruptcy filings as an indicator that the economy is picking up, necessarily. Indicators such as low discretionary spending and an uncertain stock market indicate the economy is still struggling.