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## NEWS

### US Bankruptcy Filings Rise 16.2% as Interest Rates, Inflation, and End of COVID Relief Hit Hard

"Two of the biggest factors—inflation and rising interest rates—are unlikely to shift rapidly, even if the new administration tries to address them," Scott A. Underwood, a founding partner at Underwood Murray, said in an interview.

November 07, 2024 at 06:38 PM

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Bankruptcy



By Tommaso Baronio

The Administrative Office of the U.S. Courts released a note Thursday sharing that personal and business bankruptcy filings rose 16.2% in the 12-month period ending Sept. 30, compared with the previous year.

The U.S. Courts registered over 504,100 annual bankruptcy filings in the year ending September 2024, compared with less than 433,650 cases in the previous year. Business filings rose 33.5%, from about 17,050 to over 22,760 in 2024. And non-business bankruptcy filings rose 15.5% to 481,350, compared with less than 416,610 last year.

"Bankruptcy totals for the previous 12 months are reported four times annually," the U.S. Courts found. "For over a decade, total filings fell steadily, from a high of nearly 1.6 million in September 2010 to a low of less than 380,635 in June 2022. Total filings have increased each quarter since then, but they remain far lower than historical highs."

"I was not surprised, the business filings had gone up nearly 40% in 2023, and the non-business ones had shown a steady increase. We're basically back to where we were pre-COVID," said Carmen Contreras-Martinez, a partner at the Am Law 200 firm Saul Ewing. She represents corporate clients involved in commercial disputes in state and federal courts.

Contreras-Martinez said that the most glaring reason is the rising interest rates.

"Tougher lending standards have also made it harder to access cash, particularly for small businesses and individual filers," Contreras-Martinez said. "Additionally, the end of COVID relief that many relied on has contributed to this. This combination has led to a flurry of filings, especially for businesses."

Contreras-Martinez said she is seeing an increase in 11 U.S. Code Subchapter V filings.

"More small to midsize businesses are taking advantage of these filings," she added. "I also believe that we, as practitioners, are becoming more experienced and adept at handling Subchapter V cases."

"Most of those cases are liquidations and that's what's going on here," said Thomas R. Lehman, a founding partner at LKLSG. He focuses his practice on bankruptcy, insolvency and employment practices defense. "People are going in and not reorganizing; they're just liquidating."

Lehman observed that many large companies are filing in other jurisdictions, such as in the District of Delaware, the Northern District of Texas and the Southern District of Texas.

"The reason is that you have a very seasoned bench," Lehman said. "Judges who come from business law firms—and they allow cases to move through very quickly."

Scott A. Underwood, founding partner at Underwood Murray, which specializes in complex bankruptcy and insolvency, said there is a market sentiment of uncertainty for the year ahead because of a new administration coming into office.

"We're likely to see a president with more congressional support to make policy changes," Underwood said. "That makes it harder to predict

whether the factors driving bankruptcy filings now will be as prevalent next year."

However, Underwood does not expect massive changes to happen quickly.

"Two of the biggest factors—inflation and rising interest rates—are unlikely to shift rapidly, even if the new administration tries to address them," Underwood said. "This trend will carry through early 2025, and we'll likely see continued bankruptcy filings, particularly among businesses in the service industry, manufacturing, and hospitality."

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