

Prospectus

Bankruptcy Data by County For Credit Risk and Marketing Applications

- **Current County Bankruptcy Filings Database**
 - **Historical County Bankruptcy Filings Database**
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Important information about new SMR Research Data Products

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SUMMARY DESCRIPTION

Here is a startling fact:

Among all sizeable counties in the United States – spanning every state in the union – the same one has had the highest personal bankruptcy filing rate per 1,000 adults for the last 11 years!

In fact, this county has been the worst for every quarter of the last 11 years. And, this dubious record probably goes back even deeper in time. We only began collecting the data in 1989.

You may be wondering: Which county? And, why?

If so, you are about halfway toward the most important question: If this kind of consistent record is common, shouldn't I use local area bankruptcy track records in risk control and marketing?

Yes, you should. Especially now. Personal filings will almost surely set a new record in 2001 – as we predicted last year, using the same database we are now offering for sale.

Bankruptcy prediction and scoring aren't new ideas. But they are typically based on credit report data alone – very helpful, but not complete. If you disagree – and you feel bankruptcies at your shop are as well under control as they possibly could be – read no further.

The "mystery county" is Shelby County, TN, the heart of Memphis. During 2000, there were 22.91 personal bankruptcy filings for every 1,000 adults living in the county. That's roughly one of every 23 households going bankrupt over just one year. And in 2001, the number will be higher.

Why would this happen? Unemployment in Memphis typically is low. Home prices are rising; incomes are up. Overall consumer loan losses in this area are not the worst in the nation; but bankruptcies always are.

It could be lawyer advertising. It could be that in Shelby, everyone by now knows people who have used bankruptcy to their advantage, so stigma disappears. But how do you find data on advertising and social stigma – both geographic variables – in a credit report?

You don't. That's why we recommend adding a geographical variable to your consumer bankruptcy predictive system or method. It should help. And unlike credit report data, you can get this data variable for hundreds – not hundreds of thousands – of dollars.

This Prospectus has the details. An Order Form is inserted. Thanks.

What We've Learned from the Data

There are more than 3,000 counties in the United States. For all of them, SMR's database has quarterly updated numbers of personal bankruptcy filings – and filing rates per 1,000 adults – for the last 69 consecutive quarters.

What have we learned over all this time?

1. There is a huge span in bankruptcy filing rates from one place to another. Looking only at the more sizeable counties, Shelby, TN, was worst in 2000 at 22.91 filings per 1,000 residents; Middlesex County, MA, (Boston) was best at 2.30 per 1,000.

If you work on math models, you know that a 10-fold variance in one of your data items should make it extremely predictive.

2. Once counties develop a very high bankruptcy rate, they almost never revert to a low rate, relative to the national average rate.

3. Counties with high filing rates and low filing rates may exist within the same states. But within each county, the rate seldom or never will jump from low to high or vice versa from one quarter to the next. **Changes move predictably.**

4. Counties with high rates are not always the ones with the fastest-growing rates.

5. Some places are consistently more interest-rate sensitive than others, tending to rise more quickly after a major change in long-term interest rates.

6. Some places are consistently more sensitive than others to U.S. economic downturns or booms, with bankruptcy rates changing faster and deeper when the economy turns.

These are just some of the facts that make us believe that county-level statistics will add to credit report data as bankruptcy predictors. **These data show the influence of factors that just aren't in the credit data: lawyer advertising, falling social stigma, employers who don't provide medical insurance, reduced incomes, and the like.**

Note that our county-level data are appropriate for **serious** users. If you just need a general sense of where bankruptcies are good or bad – for example, by state or metro area – use SMR's **Consumer Credit Risk Quarterly**.

Geographics And Fair Credit

Any use of geographical data in credit risk or marketing raises issues about U.S. fair credit laws. We advise you to check with your lawyers on this. SMR is not a law firm and cannot assure that your use of these data will pass muster.

Geographics And Fair Credit (continued)

However, we do know this: We have no data by neighborhood or zip code. We have no filings data on protected groups by race, ethnicity, marital status, or age. Our database is just a track record of local results, as tabulated by the U.S. courts.

Regarding "effects test" results, we do know that the lowest-income counties in the nation tend to have the lowest bankruptcy rates. Middle-income places show peak rates, and high-income places are in between. That should be somewhat reassuring.

Also, since some bankruptcy drivers (like advertising) obviously are geographic in nature, then a geographic data item used in modeling would appear to be a business necessity.

Specific Data Available

Model-builders may want all the county-level historical bankruptcy data they can get. If so, we offer it all: currently 45 quarters worth, from 1989 through the end of 2006. We call this the **Historical County Bankruptcy Filings Database**.

More casual users may only need more recent data to see which counties are best or worst, or rising or falling.

For these users, we offer data on three time periods: 12 months of filings ended most recently, 12 months of filings ended three months earlier, and 12 months of filings for the year-earlier period. (At the moment, for instance, you would get filings for all of 2006, 12 months ended September 30 of 2006, and all of 2005). We call this the **Current County Bankruptcy Filings Database**.

In both databases, we provide numbers of filings in each quarter, broken out by Chapter 7 (liquidation) and Chapter 13 (reorganization). We also offer filing rates per 1,000 adults for the total filings and filings within each chapter. Note that the rare personal filing under Chapter 11 of the code is a type of reorganization and is included in our Chapter 13 counts.

Since the proposed new federal bankruptcy law would shift some people from Chapter 7 to Chapter 13, this may be a good time to see which places have more of each. Nationally, Chapter 7 filings dominate, but in many local areas, there are already more of the Chapter 13 filings.

The **Current County Bankruptcy Filings Database** comes in Excel spreadsheet format.

But the Historical County Bankruptcy Filings Database contains nearly 1 million statistics, so you may want to think about the right way for us to format the data. SMR can produce data in flat and delimited ASCII files (suitable for importation into many programs), or in Microsoft Access.