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The Year in Bankruptcy, Part 1

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The authors review the past year's bankruptcy developments.

A "roller-coaster ride of financial and economic uncertainty" would be one way to describe 2011. Limiting the script to financial and economic developments, however, would leave a big part of the story untold, as we chronicle the (not so certain) aftermath of the Great Recession. Impacting worldwide financial and economic affairs in 2011 was a seemingly endless series of groundbreaking, thought-provoking, and sometimes cataclysmic events, including:

- One of the worst nuclear disasters in history (Fukushima Daiichi, Japan);
- The Arab Spring and the removal of two autocrats (Hosni Mubarak and Colonel Muammar el-Qaddafi);
- The death of Apple founder Steve Jobs, shortly after Apple surpassed Exxon Mobil to become the world's most valuable company;
- The deaths of the most wanted terrorist in human history (Osama bin Laden) and a North Korean dictator (Kim Jong-il);
- The "Occupy Wall Street" movement;
- Phone Hackgate;

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- Breaching the seven billion mark in global population;
- The end of a nine-year war in Iraq; and
- The beginning of the second decade of the (most recent) war in Afghanistan.

Among the most memorable business and financial sound bites and keywords of 2011 were the following:

- Austerity measures;
- 99 percenters and one percenters;
- Orderly Liquidation Authority;
- Living wills;
- SIFIs (systemically important financial institutions);
- Insider trading;
- Deficit-reduction supercommittee;
- Rehypothecation;
- The Volcker Rule;
- The Buffett Rule; and
- Debtmaggedon.

In the U.S., the hallmarks of 2011 could readily have belonged to 2009 or 2010:

- high unemployment;
- depressed home values;
- high home-foreclosure rates;
- a high poverty rate and a widening income disparity between rich and poor;
- a national deficit of historic proportions; and
- a (well deserved) crisis of confidence in a dysfunctional political leadership riven by vituperative partisan politics.

Still, the U.S. fared better in 2011 than many other countries.

The eye of the global financial storm moved to Europe in 2011 — Greece, Italy, France, Portugal, Spain, and Ireland, in particular — where the maelstrom now threatens to dismantle the 27-nation European Union, or at least the 17-member eurozone, which now confronts the very real prospect of a Great Recession II if austerity measures fail to provide enduring financial triage.

THE U.S. — MIXED MESSAGES

President Obama released a fiscal year 2012 budget on February 14, 2011, projecting that 2011 would see the biggest one-year debt jump in history, or nearly $2 trillion, to reach $15.476 trillion by September 30, 2011, the end of the fiscal year. That would have equated to 102.6 percent of gross domestic product ("GDP") — the first time since World War II that that figure has been reached. The budget projected that the U.S. government would run a deficit of $1.645 trillion in 2011.

The U.S. Government Accountability Office issued its report on the 2011 fiscal year on December 23, 2011. It states that the U.S. officially closed its books on fiscal year 2011 with approximately $15.3 trillion in debt — still an all-time record — equating to 100.3 percent of GDP. The deficit, however, was $1.299 trillion, slightly more than the $1.293 billion deficit in 2010 and less than the $1.413 trillion deficit in 2009. By contrast, 2007's deficit was just $160 billion.

On August 5, 2011, Standard & Poor's ("S&P") removed the U.S. from its list of risk-free borrowers for the first time, cutting its rating of long-term federal debt to AA+, one notch below the top grade of AAA. It described the decision as a judgment about the nation's leaders, writing that "the gulf between the political parties" had reduced its confidence in the government's ability to manage its finances. The U.S. had maintained the highest credit rating since S&P first designated it AAA in 1941. The downgrade ignited one of the most harrowing stretches in Wall Street history, with wild swings in the financial markets captivating the nation and the world. Even so, the U.S. Treasury had no trouble attracting investors in subsequent auctions of government securities, perhaps reflecting the deep cynicism towards ratings agencies harbored by investors in the wake of the financial crisis.

The downgrade came shortly on the heels of a last-minute agreement in Washington to raise the U.S. debt limit and ward off "Debtmaggedon," a possible default by the U.S. government on its obligations. The deal reached by lawmakers provided for cuts of approximately $2.5 trillion from the deficit over a decade. $1.5 trillion of the cuts were to be determined by a deficit-reduction "supercommittee" comprising 12 lawmakers evenly split between Democrats and Republicans. However, on November 21, 2011, the (not so) supercommittee conceded that panel members failed to come up with a plan, setting up what is likely to be a yearlong political fight over the automatic cuts to a broad range of military and domestic programs that would go into effect starting in 2013 as a result of the committee's inability to reach a deal.

Ninety-two federally insured banks closed their doors in 2011, compared to 157 in 2010 and 140 in 2009. The Federal Deposit Insurance Corporation's list of "problem" banks — banks whose weaknesses "threaten their continued financial viability" — as of November 22, 2011, stood at 844, compared to 860 as of the end of fiscal year 2010.

After starting the year at nine percent and rising as high as 9.2 percent in June 2011, the U.S. unemployment rate finished the year at 8.5 percent, the lowest since February 2009, according to a U.S. Bureau of Labor Statistics report released on January 6, 2012. The total number of unemployed Americans seeking work stood at 13.1 million at the end of 2011, compared to 14.5 million at the end of 2010. The number of long-term unemployed (those jobless for 27 weeks or more) was little changed at 5.6 million and accounted for 42.5 percent of the unemployed. Approximately 7.2 million Americans were receiving unemployment benefits at the end of 2011. Congress agreed in December to extend the emergency benefits that half of these unemployed workers depend on for another two months, instead of letting them lapse at the end of 2011.

Fewer Americans filed for personal bankruptcy in 2011. 1.35 million Americans filed for Chapter 7 or Chapter 13 relief in 2011, 12 percent fewer than in 2010, according to the National Bankruptcy Research Center. Chapter 7 filings were down 17 percent from the previous year, and Chapter 13 filings dropped off 25 percent. This represents the first decrease in personal bankruptcies since 2006.

Income disparity was a big part of U.S. headlines in 2011. On October 30, 2011, the U.S. Congressional Budget Office released a report showing that the richest one percent of Americans have increased their income 275 percent since 1979, while other Americans have increased their income only 18 to 40 percent. This development and the widespread perception that Wall Street bankers responsible for the recent financial crisis are not being punished for their transgressions sparked "Occupy Wall Street" and hundreds of similar demonstrations throughout the U.S.

According to U.S. Census Bureau data released September 13, 2011, the nation's poverty rate rose to 15.1 percent (approximately 46.2 million in poverty) in 2010, up from 14.3 percent (approximately 43.6 million) in 2009, the highest level since 1993. Nearly 50 million Americans were without health insurance at the end of 2011. On August 2, 2011, the U.S. Department of Agriculture reported that the number of Americans receiving food stamps rose to a record 45.75 million in May 2011.

According to RealtyTrac, Inc., 1.9 million U.S. homes entered the foreclosure process in 2011, the lowest level since 2007, when the recession began.

State and Municipal Distress

Headlines in 2011 continued to herald the dire financial straits of U.S. states and municipalities. A study released on February 3, 2011, by Robert Novy-Marx of the University of Rochester and Joshua Rauh at Northwestern University showed that U.S. cities, counties, and states face a $3.6 trillion gap between their pension assets and their pension obligations to retirees. It was also reported on January 21, 2011, by the Center on Budget and Policy Priorities, a Washington research group, that states must contend with $140 billion in budget deficits for the 2012 fiscal year. A total of 44 states and the District of Columbia forecast budget shortfalls for the 2012 fiscal year, with the most cash-strapped states including California, with a projected shortfall of $25.4 billion; New Jersey at $10.5 billion; and Illinois at $15 billion.

Most U.S. municipalities have recourse to Chapter 9 of the Bankruptcy Code to sort out their financial problems, but they rarely file for bankruptcy. Fewer than 40 Chapter 9 cases have been filed during the last four years — four in 2008, 12 in 2009, seven in 2010, and 13 in 2011. Noteworthy Chapter 9 debtors in 2011 included: Jefferson County, Alabama (the largest Chapter 9 filing in history); Harrisburg, Pennsylvania (whose bankruptcy case was subsequently dismissed); and Central Falls, Rhode Island. Confronted with an increasing volume of actual or prospective municipal failures, state legislatures and executives have been anything but idle, in many cases scrambling to implement an array of tools designed to offer viable alternatives to a Chapter 9 filing or, in some cases, to preclude a filing altogether.

Unlike municipalities, states cannot seek bankruptcy protection. Some U.S. lawmakers briefly considered establishing a state bankruptcy option in 2011 to address the risk of underfunded state pension plans, but backed off after legal and financial experts warned that such an option would wreak havoc with municipal bond markets and could amount to an unconstitutional intrusion upon state sovereignty.

Business Bankruptcy Filings

Business bankruptcy filings dropped off (again) in calendar year 2011, especially public-company bankruptcy filings. According to court data compiled by Bloomberg News, there were 74,000 business filings in 2011, 19.5 percent fewer than in 2010. Chapter 11 filings in 2011 totaled 11,400, 16.6 percent fewer than the 13,619 Chapter 11 cases filed in 2010.

The drop-off can be attributed to a number of factors. For example, defying expectations, the anticipated tsunami of debt maturities never arrived in 2011 to catapult a large number of borderline businesses into default and bankruptcy. Many companies (and their lenders) successfully pursued an “amend and extend” (or, as expressed in some circles, “extend and pretend”) strategy.

The number of bankruptcy filings by public companies (defined as companies with publicly traded stock or debt) for 2011 was 86, according to data provided by New Generation Research, Inc.’s BankruptcyData.

com, compared to 106 public-company filings in 2010 and 211 in 2009. The year 2011 added only 12 names to the billion-dollar bankruptcy club, compared to 19 in 2010 and 56 in 2009. The largest bankruptcy filing of 2011 — MF Global Holdings Ltd., with $40.5 billion in assets — was the eighth-largest filing of all time, based upon asset value. Seventeen public companies with assets greater than $1 billion exited from bankruptcy in 2011, most, however, by means of liquidating Chapter 11 plans. Two of the most prominent names on the list were Lehman Brothers Holdings Inc. (whose Chapter 11 plan was confirmed but not yet effective in 2011), the largest bankruptcy filing ever, and Motors Liquidation Company, formerly known as General Motors Corporation, which filed the largest bankruptcy case in 2009.

Globally, according to Thomson Reuters, distressed debt and bankruptcy restructuring activity totaled $179.3 billion during 2011, a 43.7 percent decline from 2010. The number of completed deals decreased by 24.9 percent to 416 transactions. U.S. deal activity totaled $57.3 billion during 2011, a 60.1 percent decrease compared to last year. There were 233 restructuring transactions announced in 2011, a 24.6 percent increase compared to the previous year. The real estate and media and entertainment industries accounted for half of the U.S. debt restructuring market.

Where Do We Go from Here?

The outlook for 2012 in the U.S. business bankruptcy world looks like a reprise of 2011 in many respects. Most industry experts predict that the volume of big-business bankruptcy filings will remain steady in 2012 (although Fitch Ratings recently predicted that the number and size of corporate bankruptcies will double this year). Also expected is a continuation of the business bankruptcy paradigm exemplified by the proliferation of prepackaged or prenegotiated Chapter 11 cases and quick-fix Section 363(b) sales, sometimes involving credit bidding by existing secured lenders. Much of what actually occurs will depend heavily on developments in Europe, which consistently defy accurate prognostication.

Middle-market restructurings — cases involving companies valued between $200 million and $1 billion — are likely to increase in 2012, judging by the uptick in such work near the end of 2011. A number of middle-market companies that were able to push off maturity dates in previous years are now overleveraged and have started seeking restructuring advice. Their inability to line up refinancing in a tight credit market may mean that bankruptcy is the most preferable strategy.

As in 2011, companies that do enter bankruptcy waters in 2012 are more likely to wade in rather than free-fall, as was often the case during the Great Recession. More frequently, struggling businesses are identifying trouble sooner and negotiating prepacks or Section 363 sales before taking the plunge, in an effort to minimize restructuring costs and satisfy lender demands to short-circuit the restructuring process. Industries pegged as having companies "most likely to fail" (or continue foundering) in 2012 include shipping, health care, publishing, restaurants, entertainment and hospitality, home building and construction, and related sectors that rely heavily on consumers.

EUROPE — THE GREAT RECESSION II?

In Europe, the 27-member European Union is facing the defining crisis of its 19-year existence (in its current form). Most of the problems revolve around difficulties associated with attempting to implement a unified fiscal policy for the 17 EU countries that use the euro. The crisis and popular backlash against draconian austerity measures toppled no fewer than two EU governments in 2011. Bowing to popular and EU-wide pressure, both Greek prime minister George Papandreou and Italian prime minister Silvio Berlusconi resigned in November 2011, forced out by a loss of confidence that they could successfully steward their nations through the financial crisis.

On November 28, 2011, the Organisation for Economic Co-operation and Development stated that the euro crisis remains "a key risk to the world economy." The Paris-based research group sharply cut its forecasts for wealthy Western countries and cautioned that growth in Europe could come to a standstill. The warning came just hours after Moody's Investors Service issued its own bleak report on Europe's rapidly escalating sovereign debt crisis. The credit agency warned that the problems may lead multiple countries to default on their debts or exit the euro, which would threaten the credit standing of all 17 countries in the currency union.

S&P warned on December 5, 2011, that it might strip the eurozone's two biggest economies, Germany and France, of their AAA long-term credit ratings because of the crisis. The agency also said that the ratings of 13 other eurozone countries are vulnerable. S&P followed through on the threat on January 13, 2012, downgrading the credit ratings of France, Italy, and seven other European countries.

European leaders agreed on December 9, 2011, to sign an intergovernmental treaty that would require them to enforce stricter fiscal and financial discipline in their future budgets. However, efforts to achieve unanimity among the 27 members of the EU failed, as Britain and Hungary refused to go along. All 17 members of the EU that use the euro agreed to the new treaty, but Britain's refusal casts doubt on whether the deal can be successful.

ASIA — A MIXED BAG

S&P lowered its sovereign credit rating for Japan to AA- from AA on January 27, 2011, warning that the Japanese government's already high debt burden is likely to continue to rise further than anticipated before the financial crisis. Japan's economic outlook was dealt another blow when a devastating earthquake and tsunami in March 2011 caused one of the worst nuclear disasters in history, forcing Japan's major automakers to cease production temporarily and causing a worldwide shortage of auto parts. Moody's Investors Service also lowered Japan's credit rating by one notch in August, warning that frequent changes in administration, weak prospects for economic growth, and its recent natural and nuclear disasters make it difficult for the government to pare down its huge debt.

On July 1, 2011, Russian regulators averted the collapse of one of the largest Russian banks by providing a bailout package of 395 billion rubles to Bank of Moscow, suggesting that the bank's problems with bad loans are more severe than previously acknowledged. The bailout, worth $14.15 billion, raised the specter of balance-sheet problems at other Russian banks, which had a tendency during the recession to roll over loans to struggling companies, rather than force them into bankruptcy courts.

China fared considerably better during 2011. On March 14, 2011, economics research firm IHS Global Insight reported that China, ending a 110-year run for the U.S. as the world's dominant producer, overtook the U.S. as the world's largest manufacturer. This marks the first time since 1850 that China has held that crown, the latest sign of the nation's economic resurgence. On April 25, 2011, the International Monetary Fund forecast that the size of China's economy will surpass the economy of the U.S. in 2016, more than a decade earlier than most forecasters have suggested.

MARKET VOLATILITY

U.S. stock markets had a relatively good, albeit volatile, year compared to their Asian and European counterparts. After opening 2011 at 11,577.51, reaching a high of 12,928.45 on May 2 and bottoming out at 10,362.26 on October 4, the Dow Jones Industrial Average finished the year at 12,217.56, a 5.53 percent increase over 2010. The S&P 500 and NASDAQ Composite Indices finished 2011 at about the same place they started, the former ending at almost break-even and the latter finishing 2011 slightly down.

Nearly all European and Asian markets finished 2011 down, some sharply down. In Asia, Japan's Nikkei 225 was down nearly 16 percent, the Hong Kong Hang Seng Index finished down 19.7 percent, China's benchmark was down 21 percent, and Australia's benchmark S&P ASX 200 ended the year down 14.5 percent. In Europe, the Deutsche Borse AG German Stock Index (DAX) was off 14.7 percent, the Euro Stoxx 50 Price Index finished down more than 13 percent, London's FTSE 100 Index was down 5.6 percent for the year, and France's CAC 40 was off about 18 percent.

According to Bloomberg News data, nearly $6.3 trillion was erased from global stock markets in 2011, as the eurozone financial crisis reverberated across the world in the latter half of the year, calling into question the future of the world's largest currency bloc. Global stock market capitalization dropped 12.1 percent to $45.7 trillion, while the euro ended the year as the worst-performing major currency.

HIGHLIGHTS OF 2011

January 4 The Roman Catholic Archdiocese of Milwaukee files for Chapter 11 protection to manage sexual-abuse claims. Milwaukee is the eighth American diocese, out of 194, to file for bankruptcy protection.

January 7 U.S. Federal Reserve Chairman Ben S. Bernanke tells senators that he expects the recovery to be "moderately stronger" in 2011. He also states that "[i]t could take four to five more years for the job market to normalize fully," noting that the sector has "improved only modestly at best."

The highest court in Massachusetts rules against Wells Fargo & Co. and U.S. Bancorp in two foreclosure cases that cast doubt over whether some home loans were properly handled when securitized. The defeat provides ammunition to mortgage-bond investors who have accused servicers of systematically shoddy loan documentation.

January 10 U.S. Federal Reserve Chairman Ben Bernanke rules out a central bank bailout of state and local governments strapped with big municipal debt burdens, saying the Fed has limited legal authority to help and little will to use that authority.

January 12 In a desperate ploy reflecting the severity of the state's financial crisis, the Illinois state legislature votes to increase the income tax rate to five percent from its current rate of three percent, a 67 percent increase and the first increase in two decades. The rate for corporate taxes would rise to seven percent from its current rate of 4.8 percent. Illinois faces a budget deficit of as much as $15 billion.

In its 2011 Global Risks report, the World Economic Forum reports that the risk that perilous government finances will trigger sovereign debt defaults remains one of the biggest threats facing the world in 2011.

January 18 The U.S. Financial Stability Oversight Council, the council of financial regulators created by the Dodd-Frank Act to oversee the stability of the U.S. financial system, takes its first big steps to set tentative guidelines to limit trading by banks for their own accounts and to restrict the growth of the biggest financial companies. It also proposes rules as to how large nonbank financial companies will be regulated by the Federal Reserve because they constitute a potential threat to the stability of the nation's financial system on the basis of their size.

The recommendations include a report on the Volcker Rule, the ban on trading by banks for their own accounts, and proposed rules on regulating nonbank financial companies.

January 25 After 19 days of hearings and interviews with more than 700 witnesses, the Financial Crisis Inquiry Commission issues a 545-page report concluding that the 2008 financial crisis was an "avoidable" disaster caused by widespread failures in government regulation, corporate mismanagement, and heedless risk taking by Wall Street.

According to the report, 12 of the 13 largest U.S. financial institutions "were at risk of failure" at the nadir of the 2008 financial crisis, while at least 50 hedge funds tried to capitalize on it.

The Standard & Poor's ("S&P")/Case-Shiller Home Price Indices report that a new slide in U.S. housing prices has begun in earnest, with averages in major cities across the country falling to their lowest point in many years.

Neil Barofsky, the Special Inspector General for TARP, reports that, after two years, many of the goals of the Home Affordable Modification Program, launched in

	March 2009 to provide mortgage servicers an incentive to modify mortgages on the verge of foreclosure, have been largely unmet.
January 26	The U.S. Congressional Budget Office projects that the government's budget deficit will soar to nearly $1.5 trillion in 2011, $414 billion higher than its previous estimate in August 2010. The deficit was $1.4 trillion in 2009 and $1.3 trillion in 2010.
February 1	The Dow Jones Industrial Average closes above 12,000 for the first time in 2.5 years, yet another sign that the U.S. economy is extending its recovery from the recession. The S&P 500 also reaches a milestone, closing above 1,300 for the first time since August 2008. The Dow fell to a low of 6,547 in March 2009.
February 2	The U.S. Treasury announces that it has collected nearly $243 billion of the $245 billion in TARP money it provided to financial firms in 2008 and 2009. The department expects eventually to receive a $20 billion profit on TARP funds it disbursed to banks through repayments, dividends on outstanding loans, and sales of warrants in banks.
February 3	A study released by Robert Novy-Marx of the University of Rochester and Joshua Rauh at Northwestern University shows that U.S. cities, counties, and states face a $3.6 trillion gap between their pension assets and pension obligations to retirees. It is also reported by the Center on Budget and Policy Priorities, a Washington research group, that states must contend with $140 billion of budget deficits next fiscal year. State pension plans cover 24 million active and retired workers, about eight percent of the U.S. population of 309 million in 2010.

The United Nations Food and Agriculture Organization reports that its monthly food price index moved to a record high in January 2011 due to higher global prices of cereal, sugar, and vegetable oils.

February 7 For the first time since the onset of the credit crisis, Moody's Investors Service records a month in which not a single company defaulted on its debt.

February 9 The U.S. Agriculture Department reports that reserves of corn in the U.S. have hit their lowest level in more than 15 years, reflecting tighter supplies that will lead to higher food prices in 2011. Increasing demand for corn from the ethanol industry is a major reason for the decline.

February 11 World stock markets end the day mostly higher, as 82-year-old President Hosni Mubarak of Egypt resigns his post and turns over all power to the military, ending his 30 years of autocratic rule and bowing to a historic 18-day popular uprising that has transformed politics in Egypt and around the Arab world, but at a cost, by some estimates, of more than $300 million per day to the Egyptian economy. The success of the popular protest in Egypt comes amid widespread and sometimes violent unrest throughout "MENA" — the Middle East and neighboring northern African countries, including Jordan, Syria, Iran, Bahrain, Saudi Arabia, Yemen, Algeria, Morocco, Libya, and Tunisia.

February 14 President Obama releases a fiscal year 2012 budget that projects an annual deficit of more than $1 trillion before government shortfalls decline to "sustainable" levels for the rest of the decade. The budget paints the bleakest picture yet of the current fiscal year, which is on track for a record federal deficit and will see the government's overall debt surpass the size of the total U.S. economy.

Financial and legal experts tell U.S. legislators that establishing a state bankruptcy option to address the risk of underfunded state pension plans would wreak havoc with municipal bond markets and could amount to an unconstitutional violation of state sovereignty.

February 28 Bank of America Merrill Lynch's Global Broad Market Index, which tracks the performance of more than 19,000 securities valued at about $39 trillion, reports that bond market investors are showing the greatest confidence in global economic growth since credit markets crashed three years ago.

The Institute for Supply Management reports that U.S. businesses unexpectedly grew in February at the fastest pace in two decades, indicating that manufacturing remains at the forefront of the recovery.

March 4 The U.S. Labor Department reports that the nation's employers added 192,000 jobs in February, pushing the unemployment rate down to 8.9 percent, the first time it has fallen below nine percent in nearly two years.

March 7 As TARP winds down, the Congressional Oversight Panel ("COP"), the U.S. Treasury Department, and outside analysts agree that the government's unprecedented effort to prop up the financial system staved off major disaster and at far less cost than anticipated. The newest estimates put TARP's total cost between $25 billion and $50 billion.

March 8 In what prosecutors call the biggest insider-trading case in U.S. history, Raj Rajaratnam, cofounder of the N.Y.-based Galleon Group hedge fund, which at its peak managed nearly $7 billion in assets, goes on trial in federal district court for 14 counts of securities fraud and conspiracy. He is accused of making $45 million trading on illegal information scoured from a network of sources that spanned Wall Street and corporate America.

March 9 Forbes releases its list of world billionaires for 2011, the 25th year that it has been tracking global wealth. The 2011 Billionaires List breaks two records: total number of listees (1,210) and combined wealth ($4.5 trillion). BRICs led the way: Brazil, Russia, India, and China produced 108 of the 214 new names. These four nations are home to one in four members, up from one in 10 five years ago. Before this year, only the U.S. had ever produced more than 100 billionaires. China now has 115 and Russia 101.

Atop the heap is Mexican telecom mogul Carlos Slim Helú; with an estimated net worth of $74 billion, he has pulled far ahead of his two closest rivals. Bill Gates, No. 2, and Warren Buffett, No. 3, are now worth $56 billion and $50 billion, respectively.

March 11 World markets are shaken as Japan is devastated by an earthquake measuring 9.0 on the Richter scale, the fifth-largest recorded since 1900, and an ensuing tsunami that kills nearly 20,000 and displaces hundreds of thousands more in the northern part of the country near Sendai. Six of Japan's Fukushima Daiichi nuclear reactors operated by Tokyo Electric Power Company are damaged by the quake, in what later becomes the worst nuclear accident since Chernobyl in 1986. The plant will not be declared "stable" until December 16.

March 14 Japan's $5 trillion economy, the third-largest in the world, is threatened with severe disruptions and partial paralysis, and the collective anxiety from the earthquake and tsunami causes a rout in the Japanese stock market. The main Nikkei index falls 6.2 percent, the worst drop in three years. The broader TOPIX, or Tokyo Stock Price Index, drops 7.4 percent. Worried about the severe strains on banking and financial systems, the Bank of Japan pumps about $180 billion into the economy, and the government considers an emergency tax increase to help finance relief and recovery work.

Economics research firm IHS Global Insight reports that China, ending a 110-year run for the U.S. as the world's dominant producer, has overtaken the U.S. as the world's largest manufacturer. China manufactured 19.9 percent of the world's goods in 2010, while the U.S. accounted for 19.4 percent. This marks the first time since 1850 that China has held the crown as the world's largest manufacturer, the latest sign of the nation's economic resurgence.

March 16 — The Federal Deposit Insurance Corporation ("FDIC") reports that it paid out nearly $9 billion to cover losses on loans and other assets at 165 failed institutions that were sold to stronger companies during the financial crisis. FDIC officials expect to make an additional $21.5 billion in payments from 2011 to 2014.

March 17 — The G-7 join in a highly unusual effort to stabilize the value of the yen by intervening in currency markets. It is the first time since 2000 (to stabilize the euro) that the G-7 have made a coordinated intervention into the currency markets. During the 1990s, the yen and the dollar were also the targets of similar coordinated interventions.

March 29 — The FDIC, as mandated by Dodd-Frank, votes unanimously to propose new rules that would prohibit Wall Street banks from selling packages of risky mortgages to investors without holding on to a stake in the loans. The proposed rule would require banks to retain at least five percent of the credit risk on securities backed by mortgages on all but the safest loans, leaving the banks with "skin in the game." So-called qualified residential mortgages, conservative loans that meet strict underwriting criteria, are eligible for an exemption. The proposal does not apply to securities carrying a government guarantee, which represent more than 90 percent of the market.

The FDIC also spells out details on what information "systemically significant" banks and nonbank financial companies must include in resolution plans — so-called living wills — and credit exposure reports required under Dodd-Frank.

April 1 The U.S. Department of Labor reports that the unemployment rate dipped to 8.8 percent, the lowest since March 2009.

April 6 Portugal's caretaker government gives in to market pressures and joins Greece and Ireland in seeking an emergency bailout of as much as €100 billion as the government is forced to pay much higher rates to sell more debt.

April 8 With less than two hours to spare, U.S. congressional leaders and President Obama head off a shutdown of the government that would have shuttered federal facilities and furloughed thousands of workers under a tentative budget deal that would cut $38 billion from federal spending in 2011.

The Organisation for Economic Co-operation and Development ("OECD") issues a report finding that the U.S. spends far more on health care than any of the other 29 OECD nations and gets less health for its money. Annual public and private health-care spending in the U.S. stands at $7,538 per person, 2.41 times the OECD average and 51 percent more than the second-biggest spender, Norway. Meanwhile, average U.S. life expectancy is 77.9 years, less than the OECD average of 79.4.

April 11 FinAid.org and Fastweb.com, which compile estimates of student debt, including federal and private loans, report that U.S. student-loan debt outpaced credit-card debt in 2010 for the first time and is likely to top $1 trillion in 2011, as more students go to college and a growing share borrow money to do so.

April 21 The U.S. Federal Reserve Board announces it is launching two studies examining whether the Bankruptcy Code needs revisions in order to better handle failures of big financial companies, as required by Dodd-Frank.

One study will examine the adequacy of Chapter 7 and Chapter 11 for facilitating bankruptcies of systemically important financial companies. Questions the study will explore include whether a new chapter or subchapter of the Bankruptcy Code should be created to address unique issues raised by financial-firm failures.

April 25 The International Monetary Fund ("IMF") forecasts that China's economy will surpass the economy of the U.S. in 2016, more than a decade earlier than most forecasters suggest. The IMF predicts that China's economy will increase from $11.2 trillion in 2011 to $19 trillion in 2016, while the U.S. economy will expand at a slower pace — from $15.2 trillion to $18.8 trillion during that period.

The Pew Center on the States releases a report showing that the gap between the promises U.S. states have made for public employees' retirement benefits and the money they have set aside grew to at least $1.26 trillion in fiscal year 2009, resulting in a 26 percent increase in one year.

The Widening Gap: The Great Recession's Impact on State Pension and Retiree Health Care Costs finds that state pension plans represented slightly more than half of this shortfall, with $2.28 trillion stowed away to cover

$2.94 trillion in long-term liabilities — leaving about a $660 billion gap. Retiree health care and other nonpension benefits accounted for the remaining $604 billion. States have amassed $635 billion in nonpension liabilities but saved just $31 billion to pay for them — slightly less than five percent of the total cost.

April 28 The Special Inspector General for TARP ("SIGTARP") reports that roughly $146 billion in bank bailout money has not yet been repaid to the U.S. Treasury Department as of the end of March 2011, and the return on those investments remains "unknowable." More than 550 banks have not repaid their bailout funds.

SIGTARP is the program's remaining watchdog after the COP closed in April. The Congressional Budget Office continues to drop its estimate of TARP's eventual cost, lowering it to $19 billion in March. The Public-Private Investment Program, which buys up toxic mortgage-backed securities, earned $1.2 billion for Treasury in the first quarter and is scheduled to last at least seven more years.

April 29 The Financial Accounting Standards Board modifies its rules on repurchase agreements designed in part to prohibit the types of abuses in the Lehman Brothers' "Repo 105" repurchase agreements that helped hide the firm's quarterly obligations and contributed to its downfall in the 2008 financial crisis.

May 1 World markets open higher as news is released that U.S. troops and CIA operatives shot and killed Osama bin Laden in Abbottabad, Pakistan, a city of 500,000 people that houses a military base and a military academy.

May 2 Japan's Parliament passes a ¥4 trillion ($49 billion) disaster relief budget as ruling and opposition lawmakers put aside their differences and seek to quickly launch efforts to rebuild the country's quake-hit northeast.

Chrysler Group LLC announces that rising vehicle sales led to a small net profit for the first quarter, the automaker's first since exiting bankruptcy almost two years ago.

May 6 Student-aid Web sites Fastweb.com and FinAid.org report that the average student debt of newly minted U.S. college graduates in 2011 is $22,900, the most ever and 47 percent more than a decade ago.

May 10 The U.S. Postal Service announces that it lost $2.2 billion for the quarter that ended March 31, warning of defaults on payments to the government if a law forcing it to prepay into a massive employee health fund is not changed. As an agency under the executive branch, the post office cannot technically go bankrupt, but it has to fund its own operations and could become insolvent, which could create havoc inside the federal government and impact its obligations to pay other agencies, such as the U.S. Office of Personnel Management.

May 11 Billionaire investor Raj Rajaratnam, who once ran the Galleon Group, one of the world's largest hedge funds, is found guilty of fraud and conspiracy, becoming the most prominent figure convicted in the government's crackdown on insider trading on Wall Street. A federal jury in Manhattan convicted Mr. Rajaratnam of all 14 counts he faced. He could face as much as 19.5 years in prison under federal sentencing guidelines.

May 16 The U.S. government reaches its $14.3 trillion debt limit and begins taking what Treasury Secretary Timothy Geithner calls "extraordinary measures" to meet obligations while lawmakers and President Obama seek a budget deal to raise the limit.

May 17	The U.S. Securities & Exchange Commission ("SEC") proposes rules meant to improve the system by which such firms as Moody's Investors Service and S&P assign ratings to bonds and other securities. Some of the proposals advanced are intended to address conflicts of interest that can compromise the objectivity of the ratings. However, the proposals would not change what some say is the rating industry's fundamental conflict of interest. Rating firms would still be selected and paid by the very companies they are rating or whose investment products they grade.
May 24	Chrysler repays nearly $5.9 billion in U.S. government loans (with interest) extended in March 2009 as part of a $12.5 billion government bailout. It also repays Canadian taxpayers approximately $1.6 billion in loans (with interest). AIG, whose near-collapse in the fall of 2008 led to one of the biggest bailouts of the financial crisis, has its first new stock offering since then, pricing 300 million shares at $29 each to raise a total of $8.7 billion. The sale includes 200 million shares held by the federal government, which realized $5.8 billion — a small profit of about $60 million — and lowered U.S. taxpayers' stake in the company to 77 percent from 92 percent.
May 31	According to the S&P/Case-Shiller Home Price Indices, U.S. home prices fell 4.2 percent in the first quarter, hitting a new post-bubble low after falling 3.6 percent in the fourth quarter of 2010.
June 3	The U.S. Labor Department reports that the U.S. unemployment rate ticked up to 9.1 percent from 9.0 percent in April.
June 7	Real estate data firm CoreLogic Inc. reports that nearly 40

percent of U.S. homeowners who took out second mortgages are underwater on their loans, more than twice the rate of owners who did not take out such loans.

Online real estate database Zillow reports that sales of U.S. homes foreclosed on in the previous 12 months made up 24 percent of the market in April, up from 16 percent one year ago. It is the 10th straight month of increases and yet another record high.

June 9 The U.S. Federal Reserve surpasses China as the single largest creditor of the U.S. government. As a result of its asset purchase program (QE2), the Federal Reserve at the end of the first quarter of 2011 held about 14 percent of total outstanding federal debt (debt held by the public). China is ranked second. In late March, it owned Treasuries worth $1.145 trillion, slightly less than 12 percent of the total amount outstanding.

June 21 JPMorgan Chase agrees to pay $153.6 million to settle federal civil accusations that it misled investors in a complex mortgage securities transaction in 2007, just as the housing market was beginning to plummet. In a case simultaneously brought and settled, the SEC asserts that JPMorgan's investment bank had structured and marketed a security known as a "synthetic collateralized debt obligation" without informing buyers that a hedge fund which helped select the assets in the portfolio stood to gain, in most cases, if the investment lost value. The settlement comes after a $550 million agreement the SEC reached with Goldman Sachs last year to resolve similar claims.

June 28 French Finance Minister Christine Lagarde becomes the first woman to be appointed to the helm of the IMF, taking on one of the most powerful positions in global finance as a worsening crisis in Greece threatens the euro currency union and rattles financial markets worldwide. Her appointment follows the resignation last month of Dominique Strauss-Kahn due to a sexual-assault charge.

June 29 Bank of America announces plans to set aside $14 billion to pay investors who bought securities it assembled from mortgages that later soured, generating an anticipated second-quarter loss of as much as $9.1 billion. The charge represents the banking industry's biggest single settlement tied to the subprime-mortgage boom and the subsequent financial crisis of 2008. The losses stem largely from mortgages underwritten by Countrywide Financial, the subprime-mortgage lender that Bank of America bought in 2008.

June 30 The U.S. Federal Reserve ends its $600 billion bond-buying program, known as QE2, without offering any hints of more monetary easing to come.

A federal judge sentences Lee B. Farkas, a former mortgage-industry executive accused of masterminding one of the largest bank fraud schemes in history, to 30 years in prison. The case against Mr. Farkas, the former chairman of the mortgage firm Taylor, Bean & Whitaker, stands as the single biggest prosecution stemming from the financial crisis. As chairman of Taylor Bean, Mr. Farkas orchestrated a plot that caused the demise of Colonial Bank and cheated investors and the government out of billions of dollars. Colonial filed for bankruptcy in August 2009, making it the sixth-largest bank failure in history.

July 1 Russian regulators avert the collapse of one of the largest Russian banks by providing a bailout package of 395 billion rubles ($14.15 billion) to Bank of Moscow, suggesting the bank's problems with bad loans are more severe than previously acknowledged. The bailout raises the specter of balance-sheet problems at other Russian banks, which had a tendency during the recession to roll over loans to struggling companies, rather than force them into bankruptcy courts.

Minnesota encounters its second government shutdown in six years as Democratic governor Mark Dayton and Republican lawmakers fail to reach a compromise on closing the state's $5 billion budget gap.

July 5 — Thomson Reuters data reports that M&A deals totaling about $1.4 trillion were announced in the first half of 2011, a 35 percent increase over the same time last year. It is the strongest start to dealmaking since the financial crisis, as corporate boards, armed with cash and cheap financing, felt comfortable enough to seek out growth by acquisitions.

Moody's Investors Service cuts Portugal's debt rating to junk status, ratcheting up the pressure on eurozone governments to work out a lasting solution to their financial woes.

Media mogul Rupert Murdoch's News Corporation announces that 168-year-old tabloid *News of the World* will close after revelation of a widespread phone-hacking scandal involving prominent politicians, celebrities, police, and murder and terrorist victims, among others. The "Hackgate" scandal will shake media giant News Corporation to its core, leading to the abandonment of a $12 billion bid for the satellite company British Sky Broadcasting, the resignation of several top executives (including the publisher of *The Wall Street Journal*) as well as the commissioner and assistant commissioner of Scotland Yard, and a full blown investigation by the English Parliament, with scathing criticism directed toward Prime Minister David Cameron for his close ties to the News Corporation executives involved.

July 6 — The FDIC implements a rule allowing regulators to recover up to two years of Wall Street executives' pay if, through "negligence," they are found responsible for the collapse of a major financial firm. The provision is part of a broader FDIC rule detailing how creditors would be handled when the agency unwinds a failed nonbank financial institution under the orderly liquidation provisions of Dodd-Frank.

July 7 — Federal regulators adopt the first in a series of new rules for the derivatives market, giving the government broad new authority over the $600 trillion industry that played a central role in the financial crisis. The rules, approved unanimously by the Commodity Futures Trading Commission (the "CFTC"), greatly expand the government's ability to police insider trading and other fraud. Another crucial rule requires hedge funds and other large firms to disclose details about their derivatives trading to the CFTC.

July 13 — A bill that would punish Pennsylvania's financially troubled capital, Harrisburg, and dozens of other small- to medium-sized cities for seeking federal bankruptcy protection is signed by Governor Tom Corbett. Under the law, any of more than 50 cities within a certain population range — third-class cities that include Allentown, Erie, Reading, Bethlehem, Lancaster, and Wilkes-Barre — that is deemed by the state to be financially distressed would lose all state aid if it files for bankruptcy protection before July 1, 2012.

July 15 — European regulators unveil the results of their banking "stress tests," but the small number of lenders that flunked the exams provokes skepticism. Eight banks failed the tests, with a combined shortfall of €2.5 billion ($3.54 billion) in capital under a simulated worst-case economic scenario, according to the European Banking Authority. The EU regulators say another 16 banks narrowly passed the tests, which examined the abilities of 90 top lenders across Europe to endure a deteriorating economy and strained financial system.

The Italian Parliament gives the green light to a draconian austerity budget designed to cut the country's soaring deficit by 2014 and reassure nervous financial markets. The Parliament approved a €48 billion ($68 billion) austerity package aimed at averting a full-blown financial crisis. The plan is designed to signal to financial markets that the world's eighth-largest economy is serious about staying out of the debt crisis engulfing Europe.

July 19 The U.S. Government Accountability Office issues a report entitled "Bankruptcy: Complex Financial Institutions and International Coordination Pose Challenges," explaining that the effectiveness of winding down failed complex financial institutions through the Bankruptcy Code, compared to winding down institutions through other processes such as FDIC receivership under the Orderly Liquidation Authority created by Dodd-Frank, is unclear. According to the report, measuring the effectiveness of the Bankruptcy Code for facilitating orderly liquidations or reorganizations of complex and internationally active financial institutions is difficult because there have been few large-scale bankruptcies, there is a lack of data, and many times there is government involvement. In addition, the complex activities and organizational structures of financial institutions make analysis more difficult.

July 21 Fiat SpA acquires the remaining Chrysler Group LLC shares held by the U.S. and Canadian governments, returning the Detroit automaker to private ownership. The U.S. Treasury says the closing of the transaction leaves the government with a $1.3 billion loss on its investment in Chrysler, an amount it is "unlikely to fully recover."

European leaders agree to reduce Greece's debt burden in a last-ditch effort to preserve the euro and stem a broader financial panic. The pact, negotiated in Brussels, is part of a rescue package of €109 billion, or $157 billion, for Greece, the most troubled economy in the eurozone. It will force many investors in Greek debt to accept some losses on their bonds. The deal will also provide substantial debt relief for Ireland and Portugal.

August 1 — European and Asian financial markets heave a sigh of relief over a last-minute agreement in Washington to raise the U.S. debt limit and ward off "Debtmaggedon," shrugging off for now the lingering concerns about longer term global growth prospects and the debt crisis in the euro area.

The deal cuts approximately $2.5 trillion from the deficit over a decade. The first $900 billion to $1 trillion will come directly from domestic discretionary programs (about a third of it from the Pentagon) and will include no new revenues. The next $1.5 trillion will be determined by a deficit-reduction "supercommittee" of 12 lawmakers that could recommend revenues or entitlement reforms but is unlikely to do so, since half its members come from each political party. If the committee is deadlocked or its recommendations are rejected by either house of Congress, then a dreaded guillotine of cuts would come down: $1.2 trillion in across-the-board spending reductions that would begin to go into effect by early 2013.

August 2 — The U.S. Senate approves the debt-ceiling bill by a margin of 74 to 26. The bill is immediately signed by President Obama, averting a possible default on U.S. debt obligations and preserving the nation's AAA rating.

	The U.S. Department of Agriculture reports that the number of Americans receiving food stamps rose to a record 45.75 million in May 2011.
August 5	S&P removes the U.S. government from its list of risk-free borrowers for the first time, cutting its rating of long-term federal debt to AA+, one notch below the top grade of AAA. It describes the decision as a judgment about the nation's leaders, writing that "the gulf between the political parties" reduced its confidence in the government's ability to manage its finances. The downgrade ignites one of the most harrowing stretches in Wall Street history, with wild swings in the financial markets captivating the nation and the world. The U.S. Department of Justice closes its criminal investigation of the circumstances surrounding the September 2008 collapse of Washington Mutual Bank — the biggest bank failure in U.S. history — without filing charges against former executives.
August 7	Hugh Carey, the two-term New York governor who helped New York City avert bankruptcy in 1975 by imposing financial controls and made tough choices on the state level to cut taxes and balance the budget, dies at the age of 92.
August 9	Trepp, a leading provider of CMBS and commercial mortgage information, reports that in July the delinquency rate for U.S. commercial real estate loans in CMBS shot up 51 basis points to 9.88 percent, the highest delinquency rate in the history of the CMBS market.
August 10	Apple surpasses Exxon Mobil Inc. to become the world's most valuable company. Apple's market capitalization of $337 billion exceeds Exxon's market capitalization of $331 billion. The power shift, while largely symbolic, is

a substantial milestone for Apple, which has enjoyed a triumphant comeback since the 1990s, when it struggled to stay afloat before Steve Jobs returned to take the helm.

August 16 — Less than two weeks after S&P rocked financial markets by downgrading its ratings on U.S. long-term debt, rival ratings service Fitch Ratings affirms its AAA credit rating for the U.S. The affirmation "reflects the fact that the key pillars of the U.S.'s exceptional creditworthiness remains [sic] intact: its pivotal role in the global financial system and the flexible, diversified and wealthy economy that provides its revenue base."

August 23 — The number of banks on the FDIC's list of institutions most at risk for failure falls to 865, the first decrease in the number of problem banks since the third quarter of 2006. There were 48 bank failures in the first half of 2011, far fewer than the 86 failures in the first six months of 2010. The year 2010's total of 157 collapsed banks was the highest since the last severe recession, in the early 1990s.

August 24 — Moody's Investors Service lowers Japan's credit rating by one notch, warning that frequent changes in administration, weak prospects for economic growth, and its recent natural and nuclear disasters make it difficult for the government to pare down its huge debt.

September 2 — The federal agency that oversees the mortgage giants Fannie Mae and Freddie Mac begins filing lawsuits against more than a dozen big banks, accusing them of misrepresenting the quality of mortgage securities they assembled and sold at the height of the housing bubble; it seeks billions of dollars in compensation. The litigation alleges that the banks, which assembled the mortgages and marketed them as securities to investors, failed to per-form the due diligence required under securities law and missed evidence that borrowers' incomes were inflated or falsified. When many borrowers were unable to pay their mortgages, the securities backed by the mortgages quickly lost value. In part as a result of the deals, Fannie and Freddie lost more than $30 billion, losses that were borne mostly by taxpayers.

September 8 In a highly anticipated speech to the U.S. Congress, President Obama proposes a $447 billion jobs stimulus package, which would include $240 billion in cuts to Social Security payroll taxes (by extending employee payroll tax cuts due to expire in December and introducing new cuts for employer contributions), payments to unemployed workers, incentives for companies that hire workers, and increased federal spending on infrastructure.

Taking a bleak view of Saab Automobile's prospects for recovery, a Swedish court rejects the troubled carmaker's application for protection from creditors. On September 21, 2011, Saab will on appeal obtain protection from its creditors as the automaker awaits investments from Chinese investors. However, the company will throw in the towel on December 19, 2011, filing for liquidation, after its hopes of receiving a lifesaving investment from Chinese investors collapse in the face of opposition from its former owner, General Motors.

September 12 S&P raises the 2011 global corporate default tally to 28, slightly fewer than half the 61 issuers that defaulted by this time last year. Regionally, 19 of the defaulters were based in the U.S.; three were based in New Zealand; two were in Canada; and one each was in the Czech Republic, France, Israel, and Russia. Of the total defaulters by this time in 2010, 44 were U.S.-based issuers; eight were in the region comprising Australia, Canada, Japan, and New

Zealand; seven were from the emerging markets; and two were European issuers.

September 13 The FDIC gives the largest, most systemically important financial companies until July 2012 to provide "living wills" detailing how to divide up their assets if they fail. Nonbank financial institutions and bank holding companies with assets, including derivatives and other financial products, of $250 billion or more will have to provide living wills to regulators by July 1, 2012. Nonbank financial institutions and bank holding companies with assets between $100 billion and $250 billion will have until July 1, 2013. The remaining institutions covered by the rule will have until the end of 2013.

The "Living-Will Rule," which applies to 124 firms, was a key part of Dodd-Frank. Approximately 90 of the affected institutions are foreign owned. Foreign institutions with small U.S. operations will be allowed to provide "tailored" living wills with less detail than those of U.S. companies.

New census data shows that the U.S. poverty rate rose to 15.1 percent in 2010, its highest level since 1993. In 2009, 14.3 percent of people in America were living in poverty. About 46.2 million people are now considered in poverty, 2.6 million more than last year. The U.S. government defines the poverty line as income of $22,314 a year for a family of four and $11,139 for an individual.

September 16 In an extensive report to U.S. lawmakers, Congressional Research Service estimates that the exposure of banks to Greece, Ireland, Italy, Portugal, and Spain — some of the most heavily indebted eurozone economies — amounts to $641 billion. It adds that "a collapse of a major European bank could produce similar problems in U.S. institutions."

It further estimates American banks' exposure to German and French banks to be in "excess of" $1.2 trillion, equivalent to about 10 percent of total commercial banking assets in the U.S. Similarly, the Bank for International Settlements reports that at midyear, banks in the U.S. had $757 billion in derivatives contracts and $650 billion in credit commitments from European banks.

September 17 "Occupy Wall Street," an ongoing series of demonstrations in New York City based in Zuccotti Park, begins. The participants, including "99 Percenters" objecting to the fact that one percent of Americans control about a third of the country's wealth, are protesting mainly against social and economic inequality, corporate greed, and the influence of corporate money and lobbyists on government. Similar demonstrations are later held in hundreds of cities, on college campuses, at corporate headquarters, and in foreclosed homes.

September 19 President Obama calls for a new minimum tax rate for individuals making more than $1 million a year to ensure that they pay at least the same percentage of their earnings as middle-income taxpayers, according to administration officials. He calls his proposal the "Buffett Rule," in a reference to Warren E. Buffett, the billionaire investor who has complained repeatedly that the richest Americans generally pay a smaller share of their income in federal taxes than do middle-income workers, because investment gains are taxed at a lower rate than wages.

September 28 The European Commission proposes an EU-wide tax on financial transactions to be paid by banks, investment firms, insurers, stockbrokers, pension funds, and other financial institutions. The tax would be levied on all exchanges of shares, bonds, and derivatives between financial institutions, when at least one of them is located within the 27-nation EU. Although 10 EU countries already tax financial transactions to some extent, the Commission's proposal would impose an EU-wide minimum rate in a bid to reduce competitive distortions resulting from tax evasion and discourage risky trading activities.

October 5 — Apple cofounder Steve Jobs, who stepped down from the helm of the company in August, dies of pancreatic cancer at the age of 56. During his tenure, Jobs transformed Apple from a visionary, but largely anachronistic, footnote to the Microsoft dynasty in the 1990s to the most valuable company worldwide, with a market capitalization in August 2011 of $337 billion.

October 6 — Freddie Mac's weekly market survey shows that the average rate for a conventional, 30-year fixed-rate mortgage in the U.S. fell below four percent for the first time on record.

October 7 — A new study by two former Census Bureau officials indicates that, in a grim sign of the enduring nature of the economic slump, U.S. household income declined more in the two years after the recession ended than it did during the recession itself. Between June 2009, when the recession officially ended, and June 2011, inflation-adjusted median household income fell 6.6 percent to $49,909. During the recession — from December 2007 to June 2009 — household income fell 3.2 percent. The full 9.8 percent drop in income from the start of the recession appears to be the largest in several decades, according to other Census Bureau data. The report calls the decline "a significant reduction in the American standard of living."

October 11 — The Financial Stability Oversight Council unveils a list of

	criteria and a three-stage process for selecting nonbanks to be designated "systemically important financial institutions" (SIFIs) and face Federal Reserve oversight, increased scrutiny, and maybe increased capital requirements.
October 13	Raj Rajaratnam, cofounder of the N.Y.-based Galleon Group hedge fund, which at its peak managed nearly $7 billion in assets, receives 11 years in prison, the longest sentence ever for insider trading, capping an aggressive government campaign that has ensnared dozens and may help deter the illegal use of confidential information on Wall Street.
October 18	Bank of America, with $2.22 trillion in assets, is supplanted as the "Biggest Bank in America" by JPMorgan Chase, which has $2.29 trillion in assets. Bank of America also ranks second to JPMorgan Chase in terms of branches and total deposits.
October 19	The Federal Reserve Bank of New York reports that new U.S. student loans originated in 2010 reached more than $100 billion, a new record. The total amount of outstanding student loans now stands at $550 billion (compared to $690 billion in total U.S. consumer credit-card debt). According to the College Board, the average amount of loans a full-time undergrad borrowed last year was $4,963; after adjusting for inflation, students are borrowing twice the amount they did 10 years ago.
October 20	The Arab Spring progresses, as 69-year-old Colonel Muammar el-Qaddafi, the erratic, provocative dictator who ruled Libya for 42 years, meets a violent death at the hands of the Libyan forces that drove him from power. The eight-month-long revolt leaves the country in shambles.

October 27 World financial markets are buoyed as European leaders, in a significant step toward resolving the eurozone financial crisis, win an agreement from banks to take a 50 percent loss on the face value of their Greek debt.

The SEC adopts a rule requiring large hedge funds for the first time to report detailed information on their investments and borrowings. However, after intense lobbying, the funds win several important concessions from the commission's earlier proposal. The changes call for only the largest funds to report the most detailed information, and the data will not be public.

October 30 The U.S. Congressional Budget Office releases a report showing that the richest one percent of Americans have increased their income 275 percent since 1979, while other Americans have increased their income only 18 percent to 40 percent.

October 31 The United Nations reports that the world population has reached 7 billion.

MF Global Holdings Ltd., the Wall Street firm run by former Goldman Sachs chairman and New Jersey governor Jon S. Corzine, files for bankruptcy, making it the first big American casualty of the European debt crisis and the eighth-largest U.S. bankruptcy filing ever, according to the value of prebankruptcy assets (just over $40 billion). The Securities Investor Protection Corporation later files for a protective order under the Securities Investor Protection Act for MF Global Inc., the brokerage arm of MF Global.

MF Global later reveals that it cannot account for $1.2 billion in customer money, some of which may have been seized immediately prior to MF Global's bankruptcy filing by commodity trade counterparties to whom funds in supposedly segregated customer accounts were rehypothecated to secure MF Global's obligations.

November 1 Greece shocks world financial markets and enrages EU leaders when it announces that the latest proposed EU bailout will be submitted to a public referendum instead of implemented immediately. The announced plan for a referendum will be rescinded within days, in response to the international outcry prompted by the plan.

The U.S. Federal Reserve and the FDIC adopt the final rule to implement the requirement in Dodd-Frank regarding living wills. The rule requires each nonbank financial company designated by the Financial Stability Oversight Council and each bank holding company with assets of $50 billion or more to periodically report its plan for rapid and orderly resolution in the event of material financial distress or failure. The rule becomes effective on November 30, 2011.

November 3 A Brookings Institution report based on Census Bureau income data from 2000 to 2009 states that the number of people living in neighborhoods of extreme poverty in the U.S. grew by a third over the past decade, erasing most of the gains from the 1990s, when concentrated poverty declined. Extreme poverty — defined as areas where at least 40 percent of the population lives below the federal poverty line, which in 2010 was $22,314 for a family of four — is still below its 1990 level, when 14 percent of poor people lived in such areas.

November 7 The focus of the eurozone crisis shifts to Italy, as interest rates on Italian bonds rise to euro-era records, close to the level that forced Greece, Ireland, and Portugal to seek financial rescues. Higher rates threaten to sap Italy's long-term ability to support its debt load, which, at nearly 120 percent of its annual economic output at the end of last year, is among the highest for countries that use the euro.

Prime Minister Silvio Berlusconi of Italy pledges to resign after his party fails to maintain its majority in the aftermath of a vote of confidence in Parliament. He will remain at the helm until Italy implements austerity reforms.

The Administrative Office of the U.S. Courts reports that bankruptcy cases filed in U.S. courts for fiscal year 2011 (the 12-month period ending September 30) totaled 1,467,221, down eight percent from FY 2010 bankruptcy filings of 1,596,355. Business bankruptcy filings totaled 49,895, down 14 percent from the 58,322 business filings reported in FY 2010. Nonbusiness bankruptcy filings totaled 1,417,326, down eight percent from the 1,538,033 nonbusiness bankruptcy filings in FY 2010. Chapter 11 filings fell to 11,979, down 16 percent from the 14,191 Chapter 11 filings reported in FY 2010.

November 9 Jefferson County, Alabama, grappling with $3.14 billion in sewer debt, files the largest municipal bankruptcy in U.S. history after settlement talks with creditors break down. The county's Chapter 9 case involves more than $4 billion in debt, dwarfing the $1.7 billion bankruptcy of Orange County, California, in 1994 that had been the largest municipal bankruptcy case on record.

Greece's outgoing prime minister, George Papandreou, announces that the nation's political parties have agreed on an interim administration that will implement the recent EU bailout agreement.

November 10 Respected economist Lucas Papademos is named prime minister of Greece to lead a unity government that has pledged to quickly approve the tough terms of a European aid package and save the country from bankruptcy. The choice of Mr. Papademos, a former vice president of the European Central Bank, came after four days of tense negotiations that put Greece's feuding political parties on full display.

November 13	In the wake of the departure of Silvio Berlusconi, Mario Monti, a former member of the European Commission, conditionally accepts a mandate to form a new government in Italy whose main task will be to keep the country from being dragged under by Europe's debt crisis.
November 15	The U.S. Postal Service releases its annual financial results, reporting an annual loss of $5.1 billion, as declining mail volumes and mounting benefit costs take their toll. The Postal Service states that its losses would have been roughly $10.6 billion if not for the passage of legislation postponing a $5.5 billion payment required to fund retiree health benefits. The Pension Benefit Guaranty Corporation ("PBGC") reports that it ran a $26 billion deficit for the budget year which ended September 30, the largest in the agency's 37-year history. The agency has been battered by the weak economy, which has brought more bankruptcies and failed pension plans. The agency insures pensions for nearly 44 million U.S. workers.
November 21	Leaders of the congressional supercommittee charged with finding at least $1.2 trillion in deficit reductions concede that panel members have failed, setting up what is likely to be a yearlong political fight over the automatic cuts to a broad range of military and domestic programs that would go into effect starting in 2013 as a result of their inability to reach a deal.
November 29	After resisting for a decade, the parent company of American Airlines announces that it will follow a strategy the rest of the industry chose long ago by filing for bankruptcy protection to shed debt, cut labor costs, and find a way back to profitability. AMR Corporation's Chapter 11 filing is the second-largest airline bankruptcy (behind

UAL), the 11th-largest nonfinancial public bankruptcy filing ever, and the 25th-largest public bankruptcy filing in U.S. history.

November 30 The U.S. Federal Reserve, the Bank of England, the European Central Bank, the Bank of Japan, the Bank of Canada, and the Swiss National Bank take steps to buttress financial markets by increasing the availability of dollars outside the U.S., reflecting growing concern about the fallout of the European debt crisis. The central banks announce that they will slash by roughly half the cost of an existing program under which banks in foreign countries can borrow dollars from their own central banks, which in turn get those dollars from the Fed. The loans will be available until February 2013, extending a previous endpoint of August 2012.

December 2 The U.S. Labor Department reports that the U.S. unemployment rate dipped unexpectedly to 8.6 percent in November, the lowest level in 2.5 years.

December 5 S&P warns that it might strip the eurozone's two biggest economies, Germany and France, of their AAA long-term credit ratings because of the European economic crisis. The agency also says the ratings of 13 other eurozone countries are vulnerable.

December 6 Lehman Brothers Holdings Inc., which filed the largest bankruptcy case of all time when it filed for Chapter 11 protection in 2008 at the inception of the Great Recession, obtains confirmation of a liquidating Chapter 11 plan, paving the way for a distribution of $65 billion to creditors — who originally asserted 67,000 claims of about $1.2 trillion — in the final wind-down.

December 9	European leaders agree to sign an intergovernmental treaty that would require them to enforce stricter fiscal and financial discipline in their future budgets. But efforts to get unanimity among the 27 members of the EU, as desired by Germany, fail as Britain and Hungary refuse to go along. All 17 members of the EU that use the euro agree to the new treaty, along with six other countries that wish to join the currency union one day. Two countries, the Czech Republic and Sweden, say they want to talk to their parties and parliaments at home before deciding.
December 15	After nearly nine years, 4,500 American fatalities, an estimated 100,000 Iraqi civilian deaths, and more than $800 billion, the war in Iraq officially ends.
December 16	U.S. securities regulators accuse six former executives at mortgage firms Fannie Mae and Freddie Mac of playing down the risks to investors of the firms' foray into subprime loans. The civil lawsuits filed by the SEC rank among the highest-profile crisis-related cases the government has brought. They are also the first cases against the top executives at Fannie and Freddie before their 2008 government takeover, which has cost taxpayers $151 billion.
December 17	Kim Jong-il, the North Korean leader who turned his starving, isolated country into a nuclear-weapons power even as it sank further into despotism, dies of a heart attack. He is succeeded by his 27-year-old son, Kim Jong-un.
December 21	The European Central Bank announces that it will loan up to €489.2 billion ($640 billion) (more than virtually every forecast) to 523 banks. World markets rally on the news, and interest rates on subsequent sovereign debt offerings plunge.

Fitch Ratings warns that it will likely cut the U.S.'s AAA rating by the end of 2013 unless lawmakers are able to formulate a plan to reduce the budget deficit after the 2012 congressional and presidential elections.

December 23 The U.S. Congress passes a two-month payroll-tax-cut extension eight days before its scheduled expiration after House Republicans drop their objections under growing political pressure. President Barack Obama signs the measure, and negotiators in both parties make plans to start work on a longer term deal.

The U.S. Government Accountability Office issues its report on the 2011 fiscal year. It states that the U.S. officially closed its books on fiscal year 2011 with approximately $15.3 trillion in debt — an all-time record — equating to 100.3 percent of GDP. The deficit, however, was $1.299 trillion, slightly more than the $1.293 billion deficit in 2010 and less than the $1.413 trillion deficit in 2009. By contrast, 2007's deficit was just $160 billion altogether.

December 26 Luis de Guindos, Spain's new economy minister, predicts that the country will slide back into recession early in 2012, with the current quarter and the first quarter of 2012 both contracting 0.2 percent to 0.3 percent. Spain, which has the fourth-largest economy among the 17 countries that use the euro, began to emerge from a nearly two-year recession in 2010.