Financial Stress and Farm Bankruptcies in U.S. Agriculture

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Presentation at the Federal Reserve Bank of Chicago
Agricultural Conference
Chicago, IL
29 November 2016
Themes

• General concerns about farm finances: declines in farm income and land values and rents, and tightening cash flows.
• Question: Has the increased demand for debt and the decline in farm income led to increases in farmer bankruptcies (chapter 12 filings)?
  • Analysis through time and regional variations
  • Effects of ag factors (farm income, land values) on farm bankruptcies
• Outlook on farm bankruptcies
General Concerns Over Farm Economy

U.S. farmers fret as property taxes soar amid souring incomes

By P.J. Hulstetter | CHICAGO

Climping prices for U.S. corn and soybeans have farmers worried about their property taxes, at a time when these tax bills are already soaring, raising concerns about a wave of bankruptcies.

Over the past three years, farmland property taxes have increased by 10 percent in parts of the United States, according to a recent report. A recent survey of farmers in Ohio found that property tax bills have increased by more than 20 percent in the past two years, from less than $20 seven years ago.

The U.S. Department of Agriculture predicts farmers will produce a record corn crop in 2016. I predict that 2016 will go down in farm history for another reason. This is the year in which a “farm financial crisis” will become national news rather than something discussed among insiders.
It’s Not All Doom And Gloom

While there are some parallels to the 1980’s Farm Crisis:

- Declining commodity prices and net incomes
- Land values falling after a sharp rise
- Debt loads rising

However, the interest rates of 1980’s were much higher than current conditions.

Farmers also have Chapter 12 as an available option to alleviate financial stress, enacted in 1986 in response to the 1980’s Farm Crisis.
Bankruptcy Option To Reduce Financial Stress

• Main drivers of financial stress are the agricultural sector economy and macroeconomic conditions, yet these are outside of a farmer’s control.

• As debt loads increase and farm incomes decline, farms may attempt to restructure their debt financing with their creditors. Filing for bankruptcy is an option.

• Individuals/businesses can file for bankruptcies under these chapters:
  • Chapter 7 – liquidation, or straight bankruptcy, debts are paid only out of existing assets
  • Chapter 11 – large businesses reorganize debt and propose debt restructuring plan
  • Chapter 12 – farmers and fishermen reorganize debt and continue operations
  • Chapter 13 – wage earners reschedule debt to future income over 3-5 years
Farmer bankruptcy can proxy financial stress.

Farmers have special protections in filing for bankruptcy:

- 1898 Bankruptcy Act
- Bankruptcy Reform Act of 1978
- Family Farmer Bankruptcy Act of 1986
- Bankruptcy Abuse Prevention and Consumer Protection Act (BAPCPA) of 2005
Chapter 12 Bankruptcy

• Enacted in 1986 and designed for the adjustment of debts of family farmers with “stable” annual household income.
• Chapter 12 allows for reorganization of debt payments and protected farm from liquidation, subject to a successful discharge of bankruptcy plan.
• Farmer needs to propose and carry out a plan to repay all or part of their debt over a three to five year period.
Bankruptcy Abuse Prevention and Consumer Protection Act (BAPCPA) of 2005

• Made Chapter 12 a permanent option for bankruptcy and extended some protection to “family fishermen.”

• Increased debt limits: $4,031,575 for farmers and $1,868,200 for fishermen.

• Lowered total debt requirement for farmers to at least 50% of debt related to farming, fishermen at least 80%.

• Gross income from farming in previous tax year(s) needs to be at least 50% of total income.
Chapter 12 Bankruptcy Concerns

Be sure to file the type of bankruptcy that’s right for you

Just because you’re in financial straits and thinking about bankruptcy doesn’t mean you have to give up everything that’s important to you. But it’s important to know your options and what bankruptcy means for your possessions, your car or your house.

Consider the story of a husband and wife and their family of 16 who worked with an attorney to file for Chapter 7 bankruptcy protection, which involves the sale of assets to pay off certain kinds of debt.

Although houses often are exempt from liquidation, in this case the house was on a farm where the family had lived for years and built up significant equity, and the bankruptcy trustee wanted to cash out that equity by selling the property.

Under a Chapter 7 bankruptcy, this large family was on the brink of losing their longtime home until they got a second opinion from another attorney. Converting the Chapter 7 filing to a Chapter 13 filing stopped the house from getting sold.

A lot of times people go to attorneys that only do Chapter 7 filings so they’re not getting both sides of the story. They don’t know what their
Bankruptcy data

US Bankruptcy Courts – Table F-2 – Quarterly Bankruptcy Filings since 2001

• Bankruptcy filings organized by chapter 7, 11, 12, and 13
• Business filings if corporation or partnership or if debt related to the operation of business predominates (chapter 12 is business filings only)
• US courts – 94 federal judicial districts organized into 12 regional circuits
• Filings by county where debtor resides or operates
• Quarterly data at the district level since 2001 and at the county level since 2013.
Bankruptcy filings declining since 2010, fewer business filings

Source: U.S. Courts, Table F-2.
Bankruptcy filings jump after BAPCPA and then sharply drop

Source: U.S. Courts, Table F-2.
Business filings also jump and drop after BAPCPA – declines since 2010

Source: U.S. Courts, Table F-2.
Chapter 12 farmer bankruptcy filings: declines since 2011 but recent reversal

Source: U.S. Courts, Table F-2.
Business filings vary across Circuits but similar trends

Total Business Filings by Circuit

Source: U.S. Courts, Table F-2. Red line is filings for Circuit 7 (Wisconsin, Illinois, and Indiana)
Chapter 12 filings vary across Circuits

Chapter 12 Filings by Circuit

Source: U.S. Courts, Table F-2. Red line is filings for Circuit 7 (Wisconsin, Illinois, and Indiana)
Negative relationship between farmland values and bankruptcy rates
Negative relationship between net cash income and bankruptcy rates

Bankruptcy rates vs farm sector net cash income

- **Net cash income, bil $**
  - 1989 to 2016

- **Bankruptcy rates per 10,000 farms**
  - 1989 to 2016

- **Legend**
  - Red: Farm sector net cash income
  - Blue: Number of farm bankruptcies

Graph shows a negative relationship between net cash income and bankruptcy rates, with higher bankruptcy rates corresponding to lower net cash income.
Farm bankruptcy filings since 2001

Number of farmer bankruptcy (chapter 12) filings by state, 2001-2016

Source: U.S. Courts, Table F-2
Bankruptcy rate per 10,000 farms by state

Farm bankruptcy rate per 10,000 farmers, 2001-2016

US bankruptcy rate of 2.14 per 10,000 farms

Source: U.S. Courts, Table F-2
Bankruptcy rate per 10,000 farms at the county level

Bankruptcies filed per 10,000 farms
annualized for 2013 to Q3 2016
Substantial Temporal Variation

Average Value of an Acre of Agland (includes buildings) 2001

Bankruptcies filed per 10,000 farms. Annualized for 2001
Further econometric analysis

• Results from econometric analysis (not presented here) shows that macroeconomic factors (unemployment, interest rates, and non-ag bankruptcy rates) are main drivers for farm bankruptcy rates.

• Some evidence of regional farm level factors affecting bankruptcy rates. Debt-to-asset ratio is positively associated with bankruptcy rates and net farm income is negatively associated.
• Farm bankruptcy rate is at 2.14 bankruptcies per 10,000 farms through the 3rd quarter of 2016. This is an already higher rate than the rate of 1.93 in 2013, 1.78 in 2014 and 1.85 in 2015, but lower than 2.56 in 2012.

• Analysis shows negative correlations between farm income and bankruptcy rates, and also between land values and bankruptcy rates.

• Declining farm incomes and land values resulted in an uptick in farm bankruptcy rates in 2016 but still at historic lows.

• Therefore, bankruptcy rates can be thought of as a lagging indicator of farm financial stress.
Outlook

Outlook for 2017 and beyond:

• Due to negative correlations between bankruptcy rates and farm income and land values, we expect to see increasing bankruptcy rates.

• Sharp increases in bankruptcy filings are not expected due to strong equity positions and relatively low debt-to-asset ratios in the farm sector.

• Bankruptcy rates will be higher in 2016 than during the previous 3 years and will probably continue to go up in 2017 and beyond if current conditions continue.
Thank you!

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