

Financial Stress and Farm Bankruptcies in U.S. Agriculture

Ani Katchova, The Ohio State University

Robert Dinterman, The Ohio State University

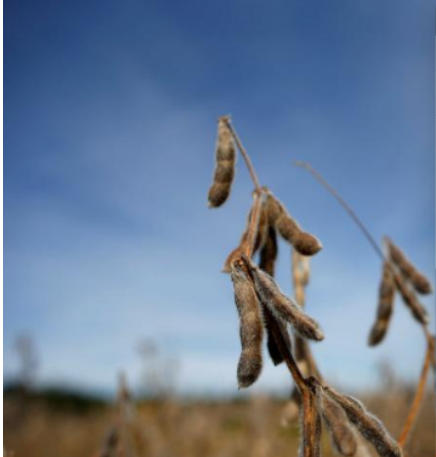
Presentation at the Federal Reserve Bank of Chicago
Agricultural Conference
Chicago, IL
29 November 2016

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



Soybeans are seen in a field waiting to be harvested in Minooka, Ill. Young/File Photo

By P.J. Huffstutter | CHICAGO

Collapsing prices for U.S. corn and soybeans have driven farmers to pay their property taxes, at a time when these tax bills are growing.

Over the past three years, farmland property taxes have risen 10 percent in parts of the United States, according to the U.S. Department of Agriculture. One farmer in Ohio said his property tax bill has skyrocketed from less than \$20 seven years ago.

Whole-Farm Plan Insures Your Margins - DTN Progressive Farmer - Chromium

dtnthe PROGRESSIVE FARMER

HOME MARKETS NEWS TOPICS WEATHER PERSPECTIVES


News Topics Crops Livestock Equipment & Tech World & Agriculture

NEWS TOPICS > BUSINESS & INPUTS > WHOLE-FARM PLAN INSURES YOUR MARGINS

Plug Your Risk Exposure

Whole-Farm Plan Insures Your Margins

Marcia Zarley Taylor, DTN Executive Editor
11/11/2016 | 10:16 AM CST



SAG HARBOR, N.Y. (DTN) -- Veteran farmer Bryant has spent much of his career in the 1980s. So it's no surprise his goal for the Washington Courthouse operation is to minimize losses, and prosper when prices rebound.

"Everyone is realizing that the farm economy is coming down faster than the year before," says the farmer.

Falling Prices, Borrowing Binge Haunt Midwest 'Go-Go Farmers'

Home > Markets > Markets Newswire

REUTERS

FALLING PRICES, BORROWING BINGE HAUNT MIDWEST 'GO-GO FARMERS'

11/2/2016

By P.J. Huffstutter

Farm bust coming, especially for large producers - Chromium

www.twincities.com/2016/05/14/real-world-economics-farm-bust

TwinCities.com PIONEER PRESS

Real World Economics: Farm bust coming, especially for large producers

By EDWARD LOTTERMAN | elotterman@pioneerpress.com
May 14, 2016 at 12:00 pm

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.



Today's low interest rates help ag economy

By Jonathan Knutson, Forum News Service on Oct 24, 2016 at 2:10 p.m.



GARRISON, N.D. -- Unlike some of his peers, Darryl Simmons survived the 1980s farm crisis. Poor prices and crushing debt drove many producers, even some highly efficient ones, out of business in that difficult decade.

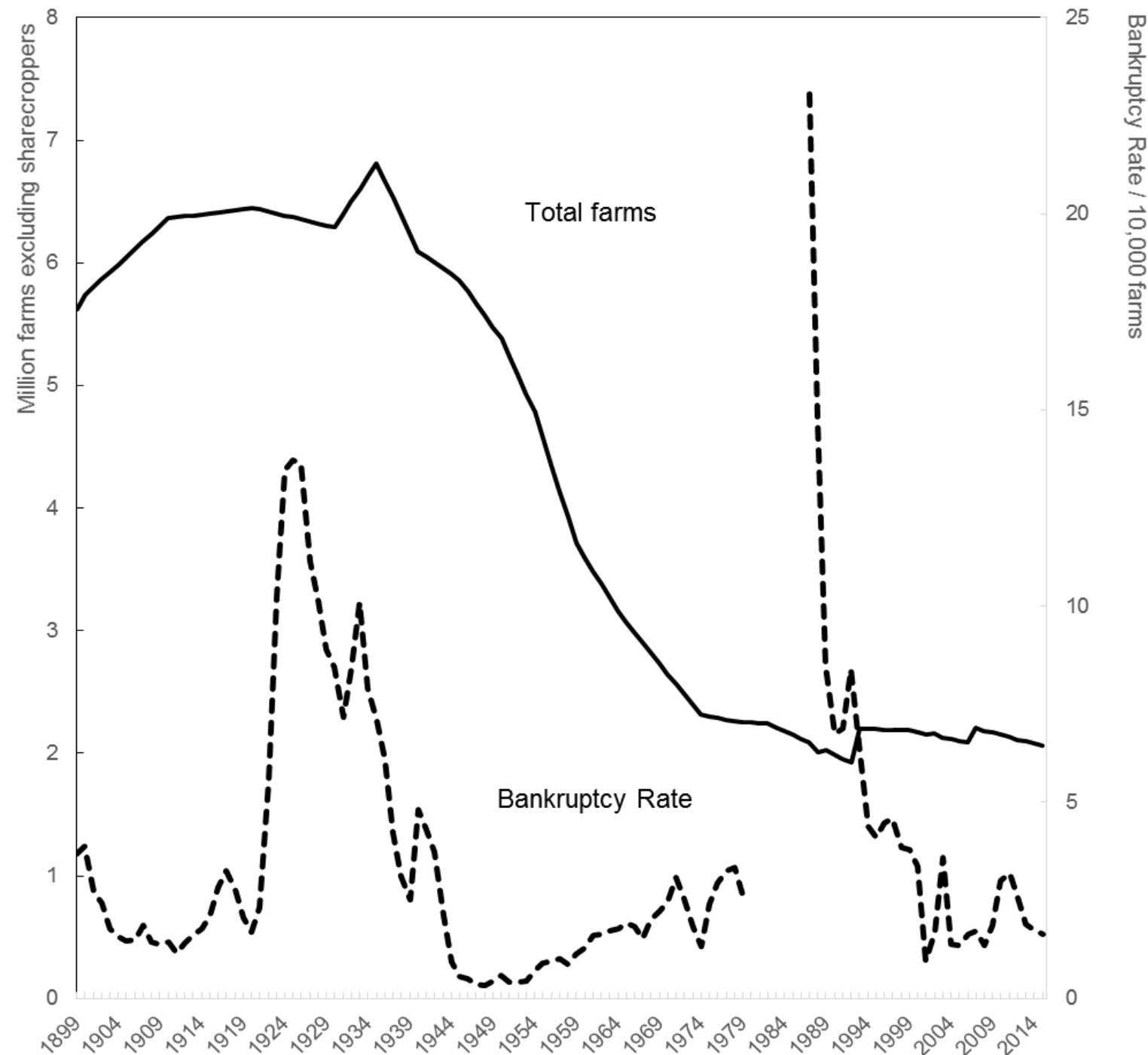
Bankruptcy Option To Reduce Financial Stress

- 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

DTN SITES & PRODUCTS

DTN THE PROGRESSIVE FARMER

HOME MARKETS NEWS TOPICS

Perspectives Blogs Columns

AG POLICY BLOG > BANKRUPTCY RULES FOR FARMERS

Ag Policy Blog

Bankruptcy Rules for Farmers Need Revamping

By Chris Clayton, DTN Ag Policy Editor
9/22/2016 | 2:47 PM CDT

On Tuesday I got dose of tax-law education at an event in Manhattan, Kansas, co-sponsored by University of Kansas and Washburn University School of Law.

While there is often discussion about how the downturn in the farm economy compels policies created in the 1980s to help distressed farmers haven't kept up with the times.

Joe Peiffer, a bankruptcy attorney from Cedar Rapids, Iowa, highlighted growing concern about Chapter 12 bankruptcy, a filing status updated in 1986 specifically to help family farmers.

One of the problems with it is that farmers in states with higher land values likely don't qualify any longer. The problem is the debt limit allowed for Chapter 12 caps at \$4,031,150. Too many clients coming into his office looking to restructure debt have exceeded that limit, Peiffer said. "I'm running that 60% to 80% of the clients who come in are over the limit," Peiffer said. "But they are not too big to fail."

Chapter 12 allows farmers to restructure debt without the formation of a creditors committee "can be notoriously difficult to deal with" in a Chapter 11 bankruptcy. Chapter 12 farmers are afforded a change to put together a payment plan that generally requires approval for secured creditors.

While Peiffer said more producers are looking for debt relief, their finding Chapter 12 problem, not just because of the debt limit, but also because of Supreme Court rulings.

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

By MLive Marketing
on November 15, 2016 at 9:50 AM, updated November 15, 2016 at 9:51 AM


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 a 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



There are different kinds of bankruptcy filings, and one of them may be better for your situation than another.

Iowa Farmer Today

74° Overcast Weekly Forecast

Farm News Weather Features Markets News Calendar Advertise Subscribe

Chapter 12 bankruptcy must be amended

February 06, 2016 8:09 am • By Joe Peiffer

A new farm-credit famine is gripping America's heartland. The credit crisis contracted by the ag economy in the 1980s resulted in the loss of thousands of family farms, and while the current ag economy has different symptoms than those observed in the '80s, the concern to keep families in rural America planted on farms is equally great.

Fearing wave of bankruptcies, U.S. corn belt wants new debt cap

By Tracy Rucinski and P.J. Huffstutter | CHICAGO

Bankruptcy data

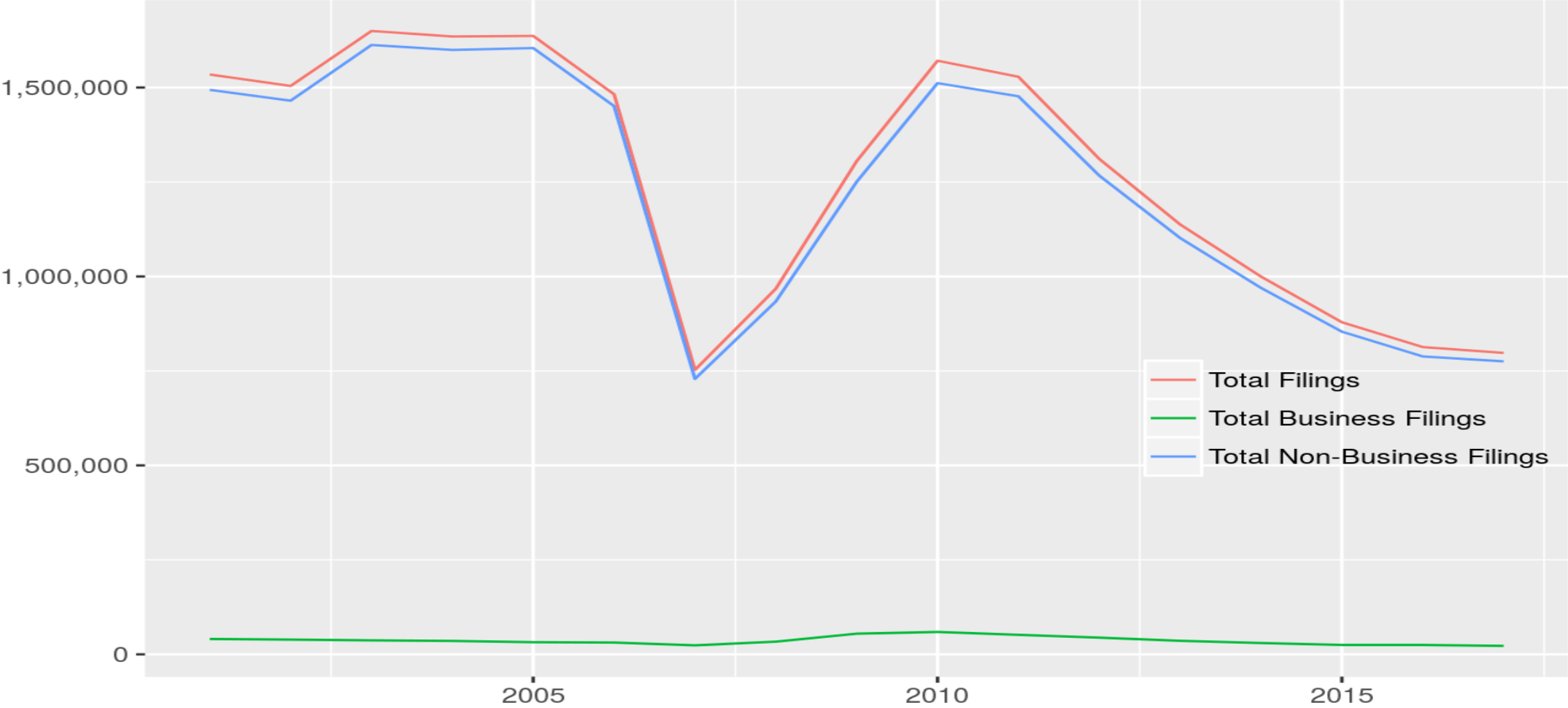
US Bankruptcy Courts – Table F-2 – Quarterly Bankruptcy Filings since 2001

<http://www.uscourts.gov/statistics/table/f-2-three-months/bankruptcy-filings/2016/09/30>

- 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.

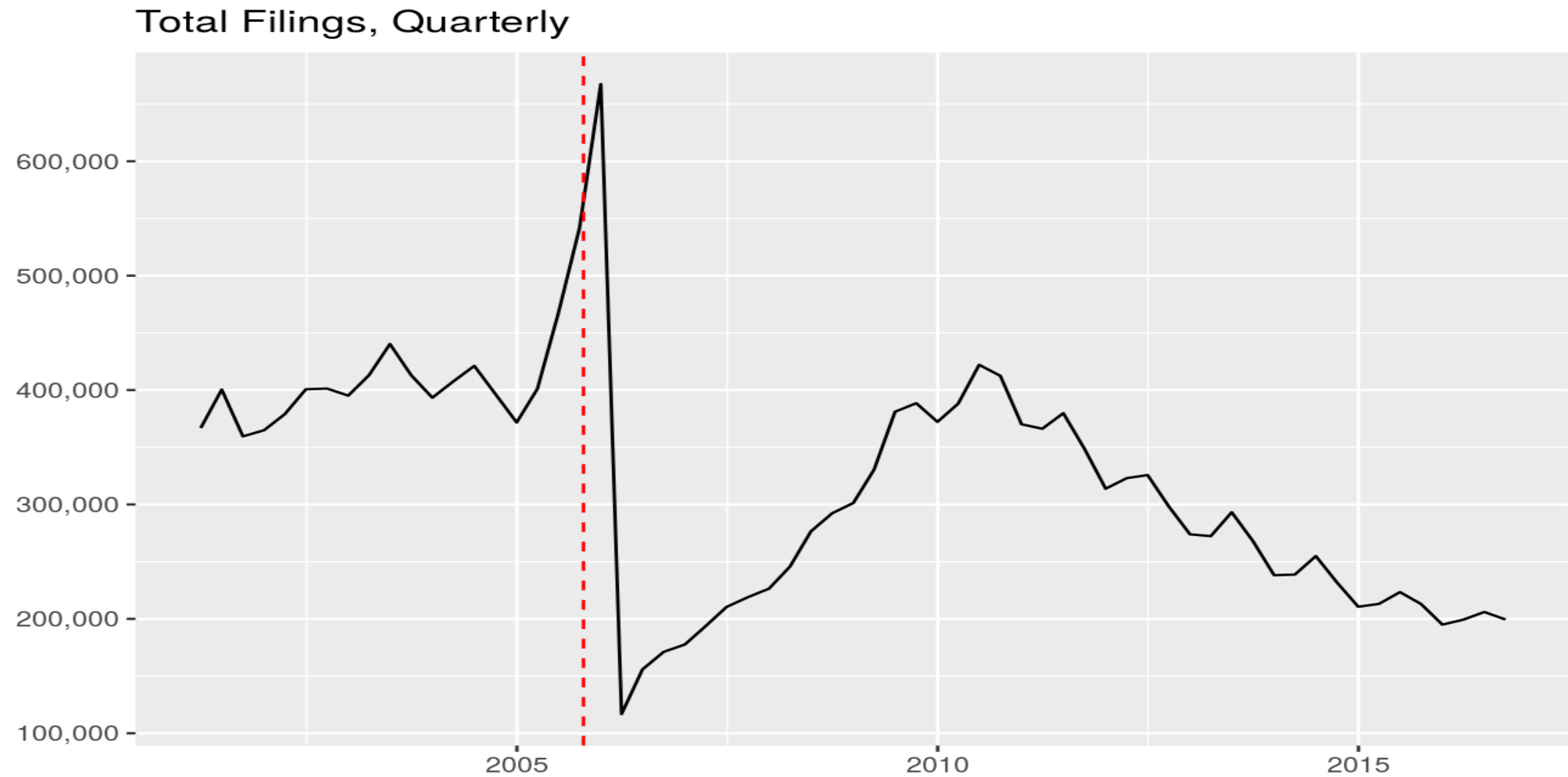
Bankruptcy filings declining since 2010, fewer business filings

All U.S. Bankruptcy Filings, Annually



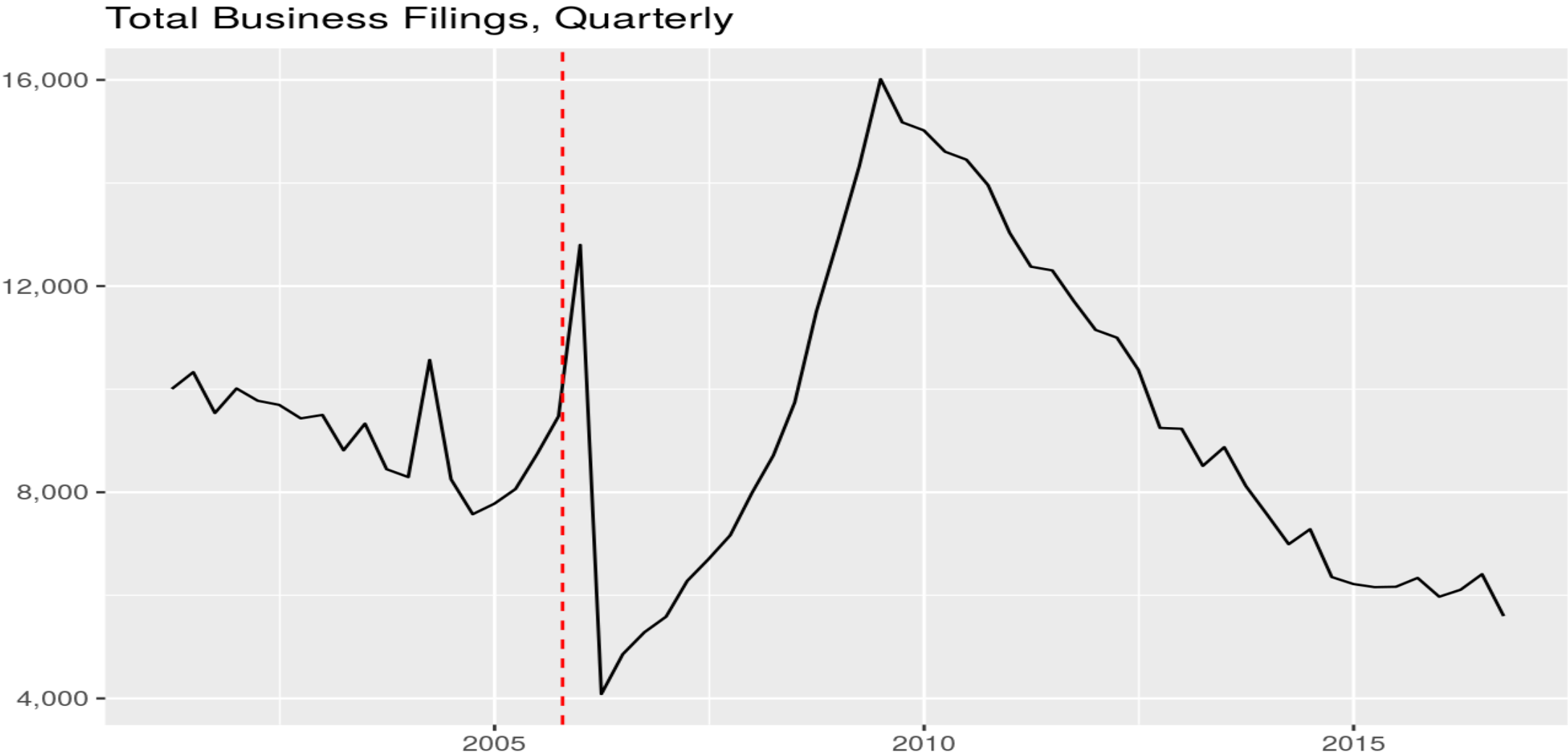
Source: U.S. Courts, Table F-2.

Bankruptcy filings jump after BAPCPA and then sharply drop



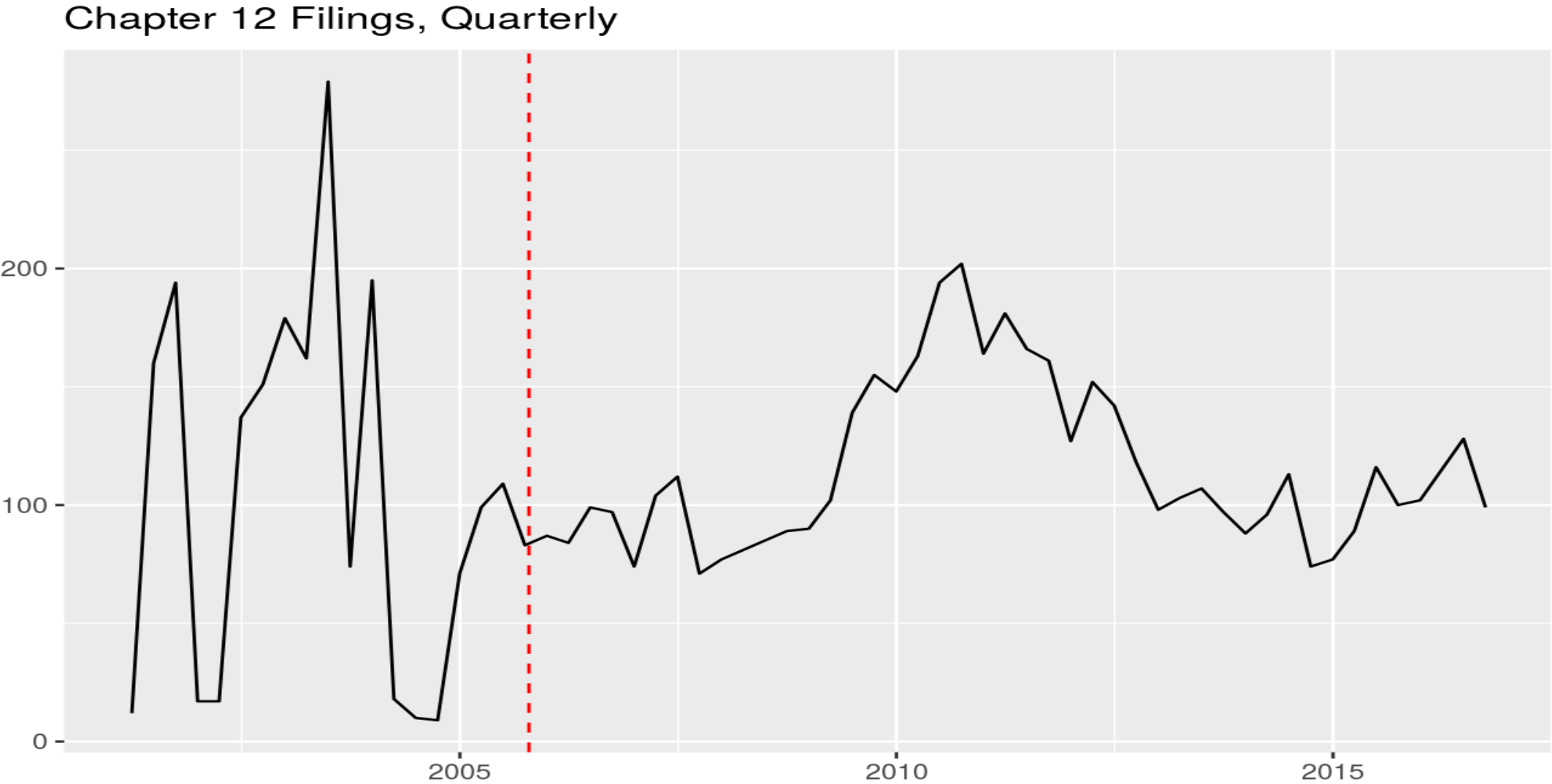
Source: U.S. Courts, Table F-2.

Business filings also jump and drop after BAPCPA – declines since 2010



Source: U.S. Courts, Table F-2.

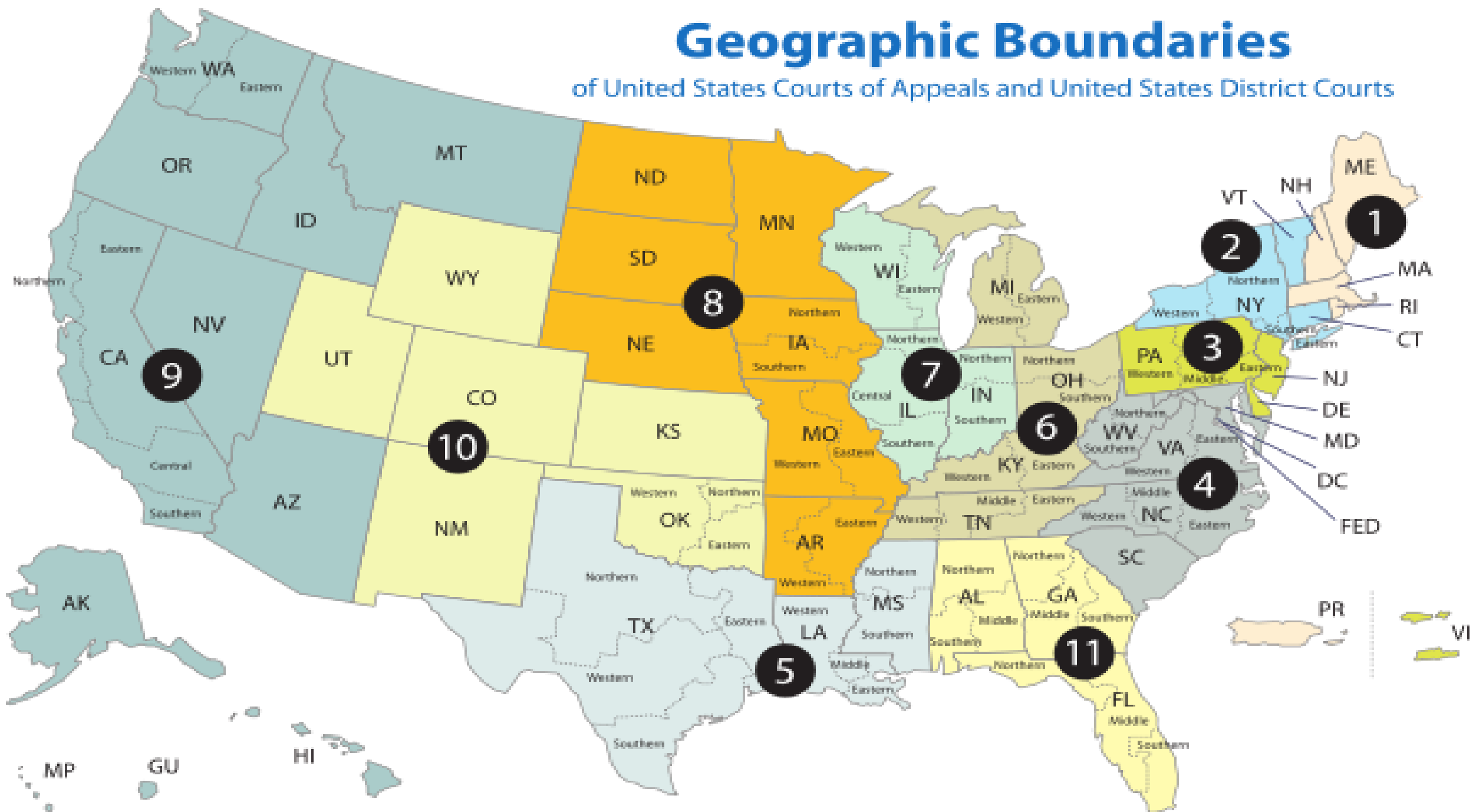
Chapter 12 farmer bankruptcy filings: declines since 2011 but recent reversal



Source: U.S. Courts, Table F-2.

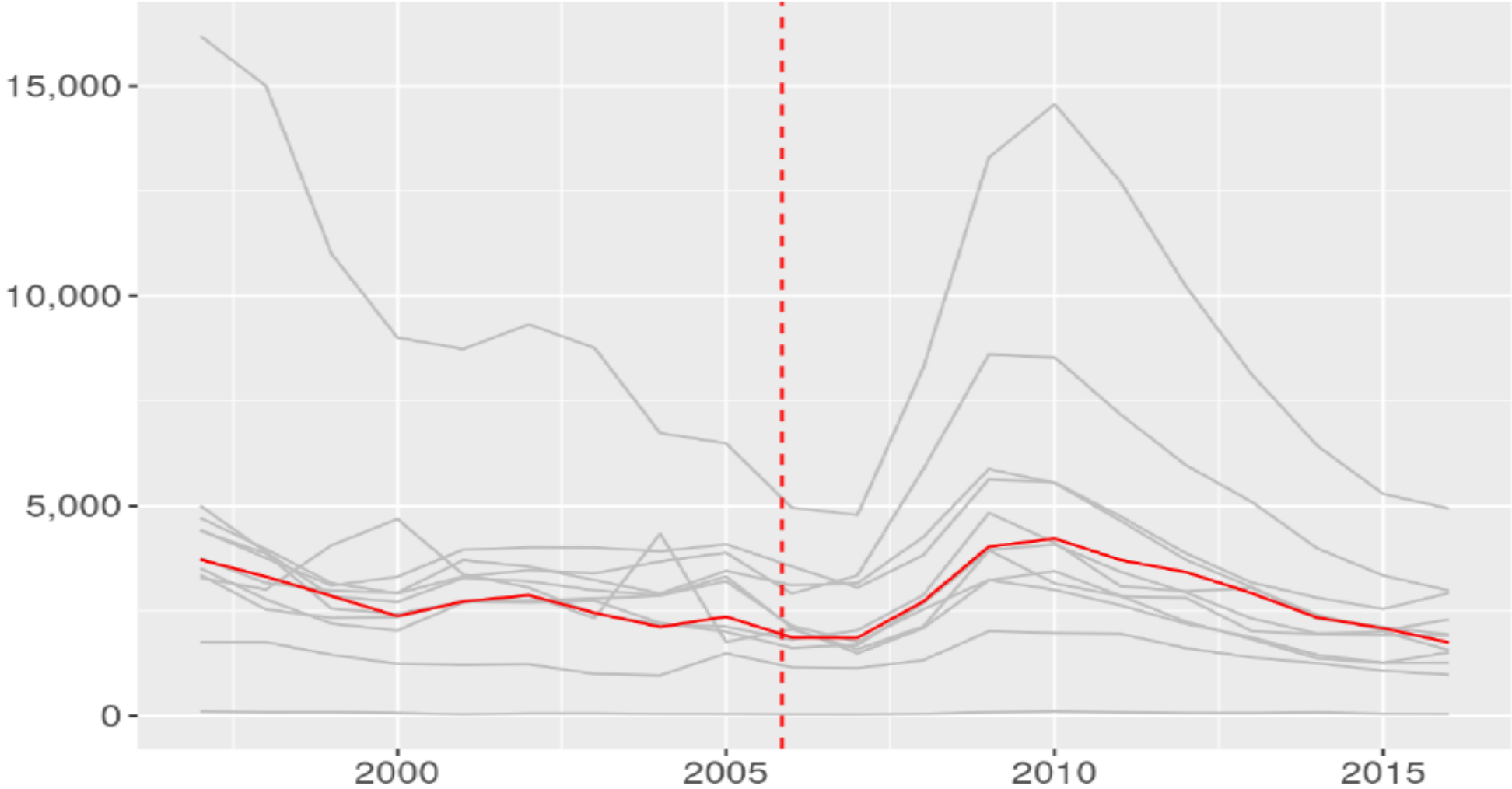
Geographic Boundaries

of United States Courts of Appeals and United States District Courts



Business filings vary across Circuits but similar trends

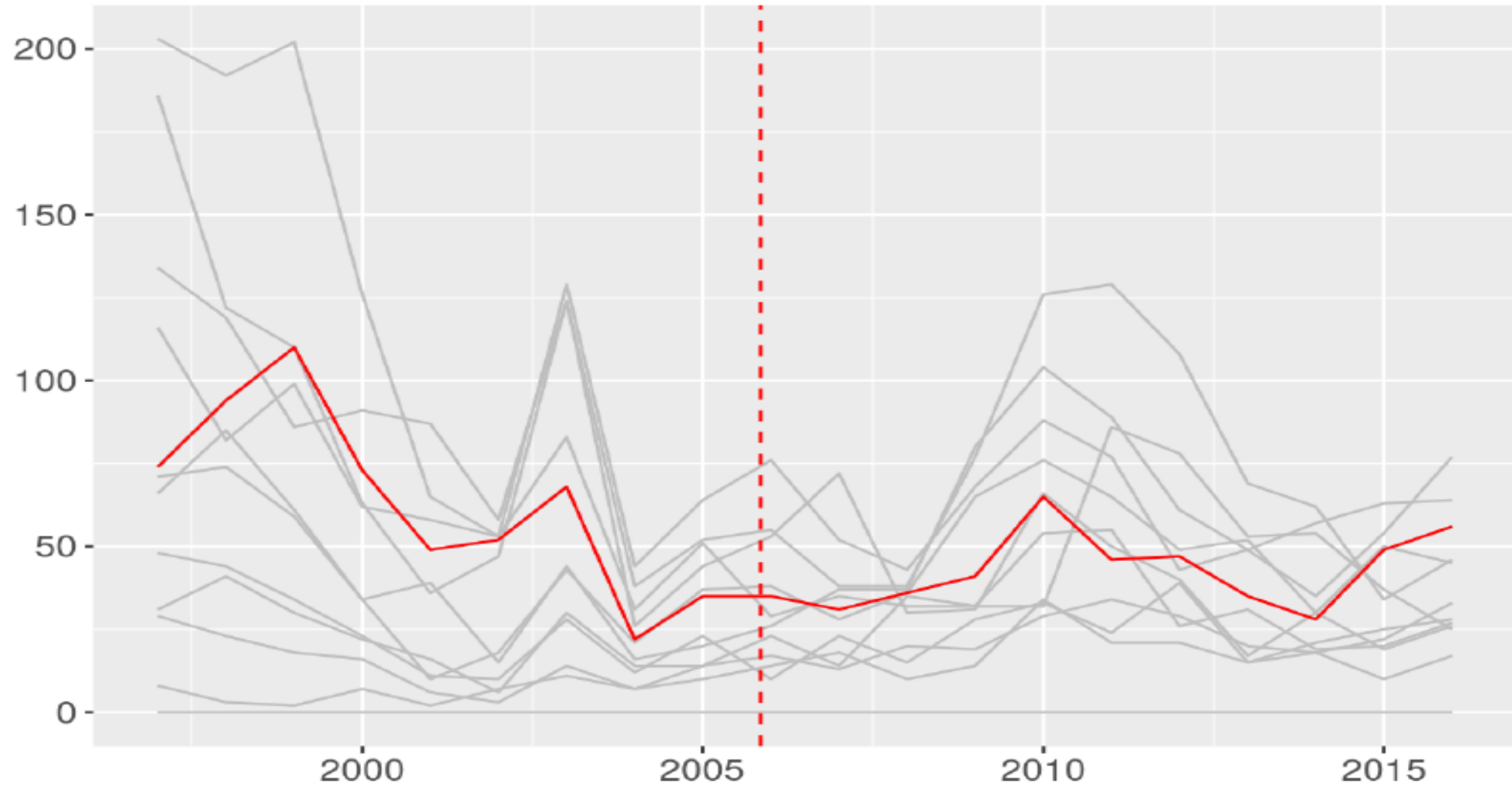
Total Business Filings by Circuit



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

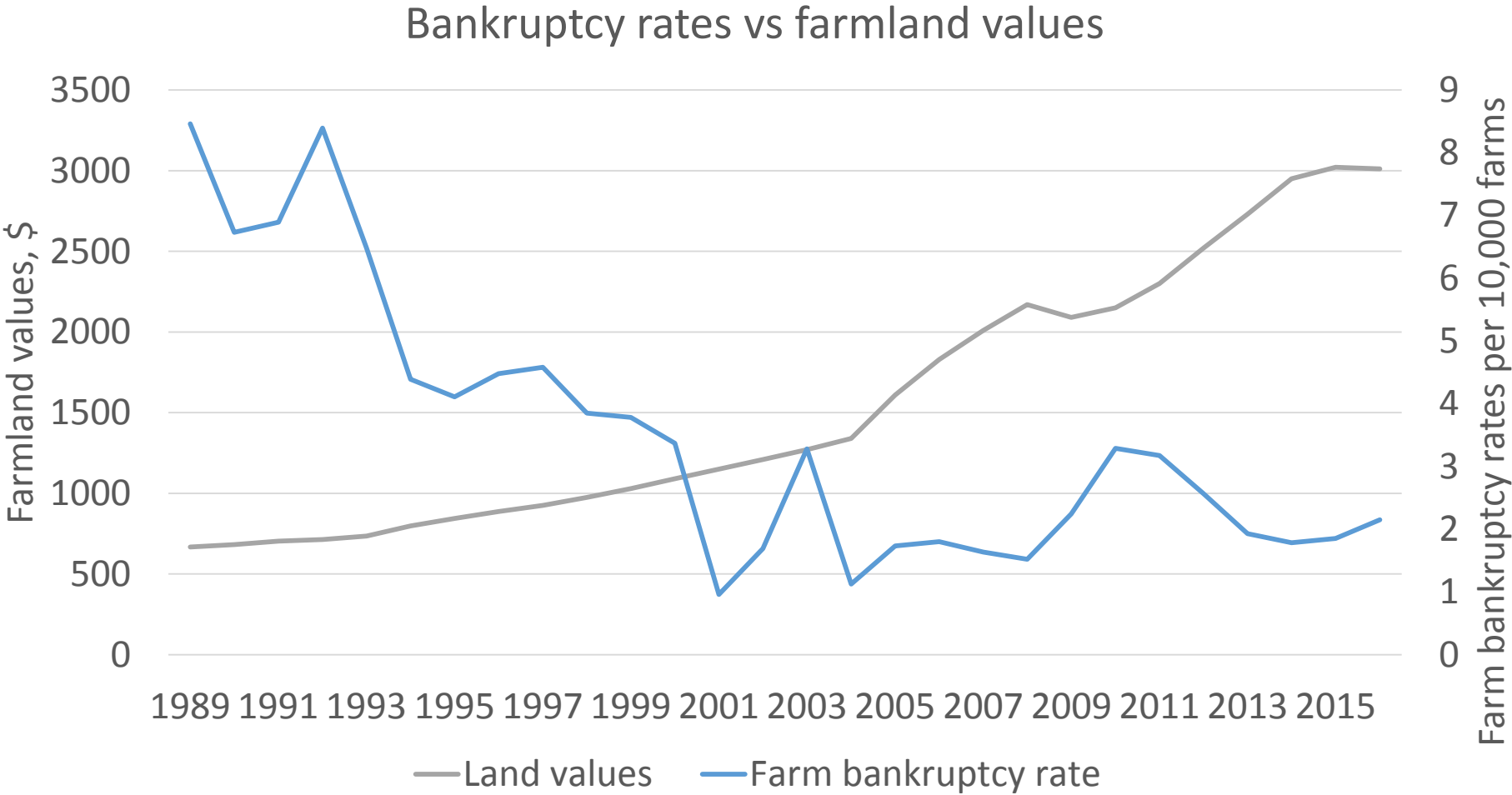
Chapter 12 filings vary across Circuits

Chapter 12 Filings by Circuit

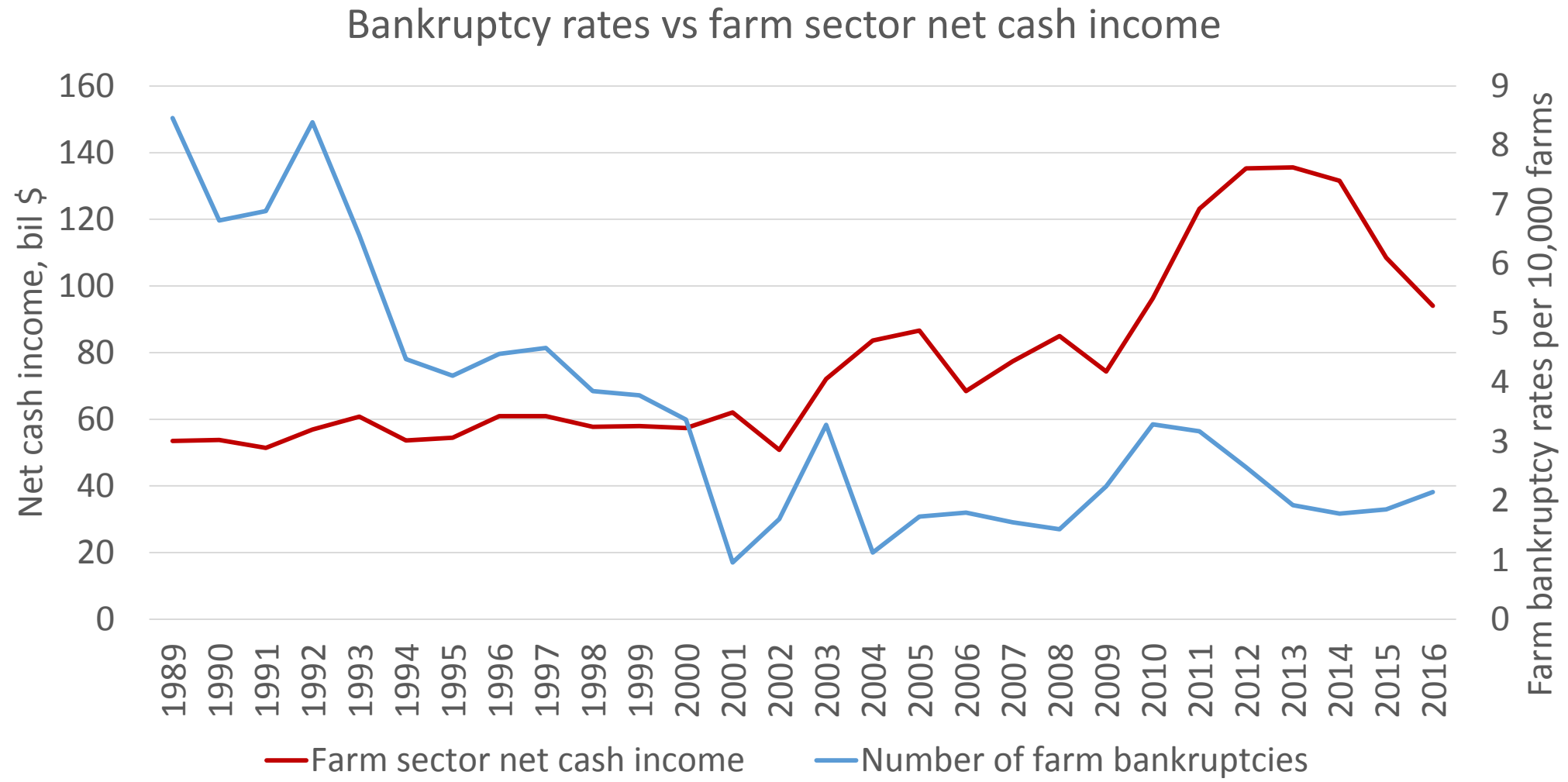


Source: U.S. Courts, Table F-2. Red line is filings for Circuit 7 (Wisconsin, Illinois, and Indiana)

Negative relationship between farmland values and bankruptcy rates

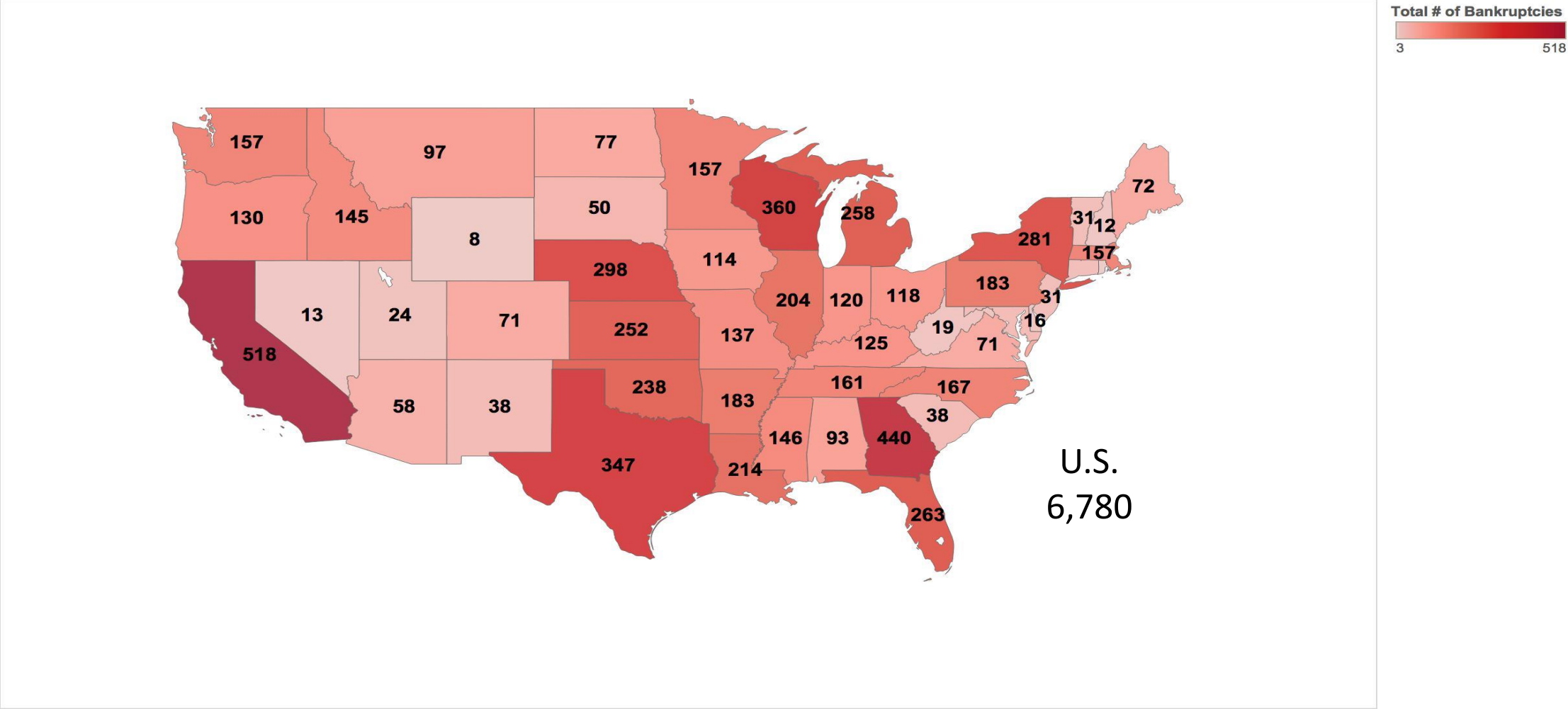


Negative relationship between net cash income and bankruptcy rates



Farm bankruptcy filings since 2001

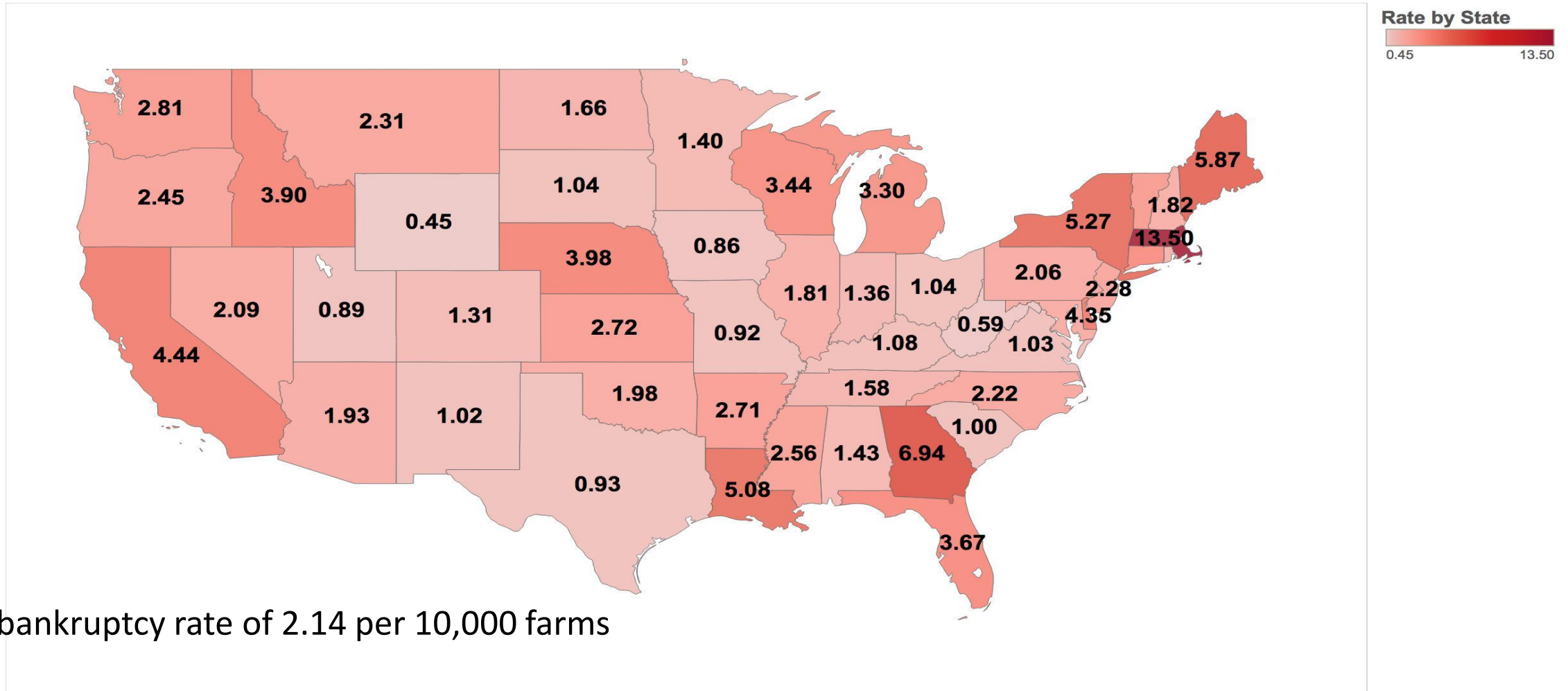
Number of farmer bankruptcy (chapter 12) filings by state, 2001-2016



Source: U.S. Courts, Table F-2

Bankruptcy rate per 10,000 farms by state

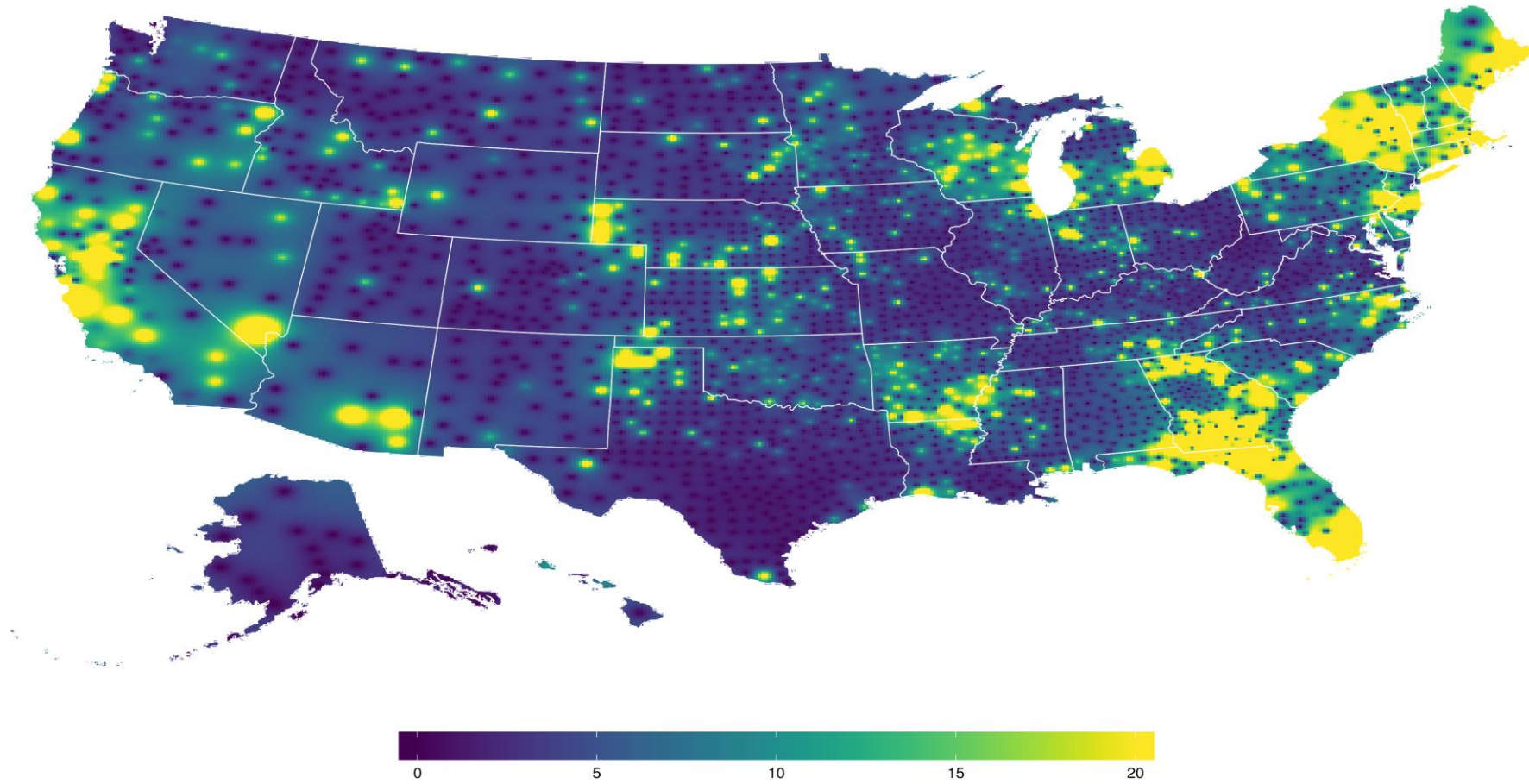
Farm bankruptcy rate per 10,000 farmers, 2001-2016



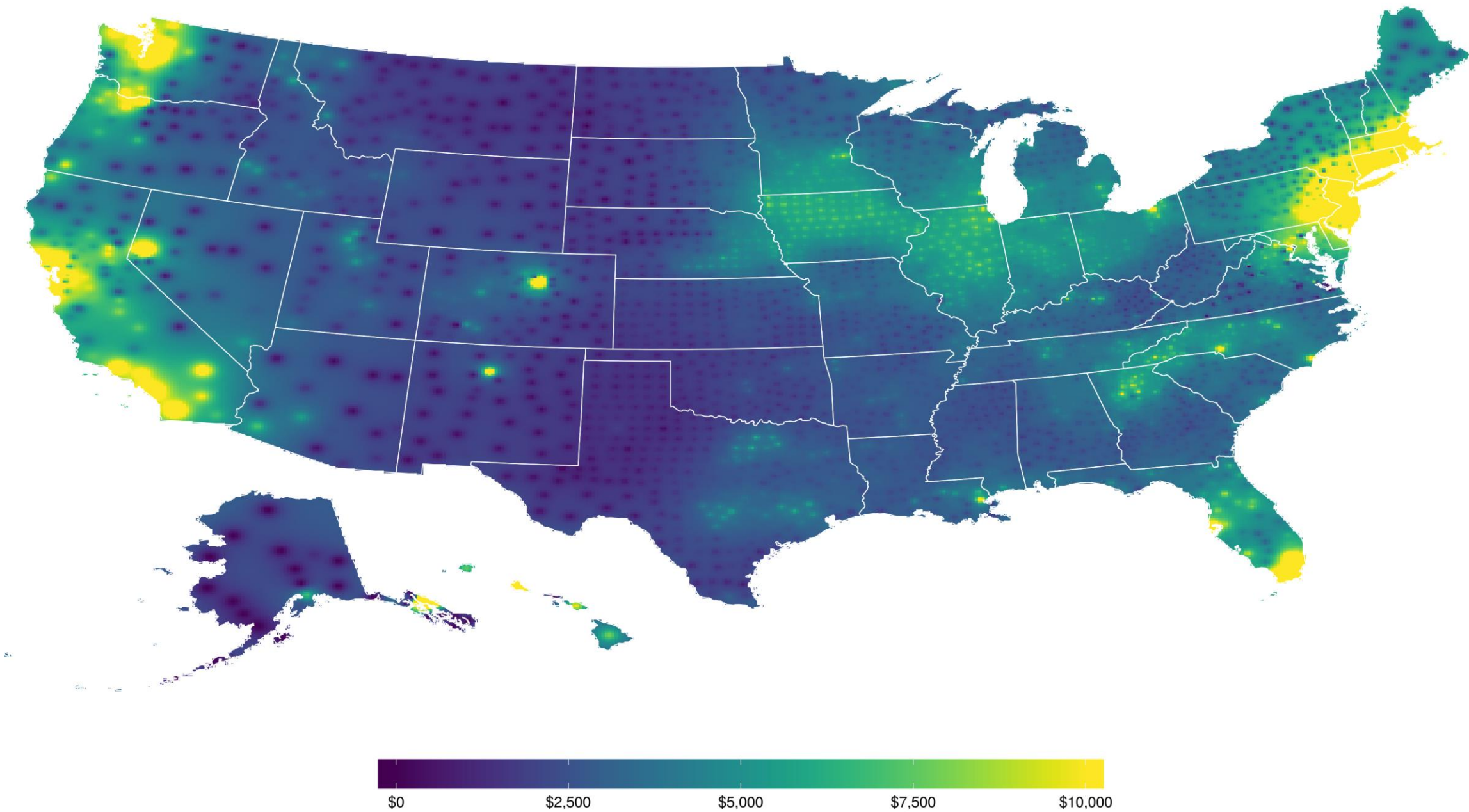
Source: U.S. Courts, Table F-2

Bankruptcy rate per 10,000 farms at the county level

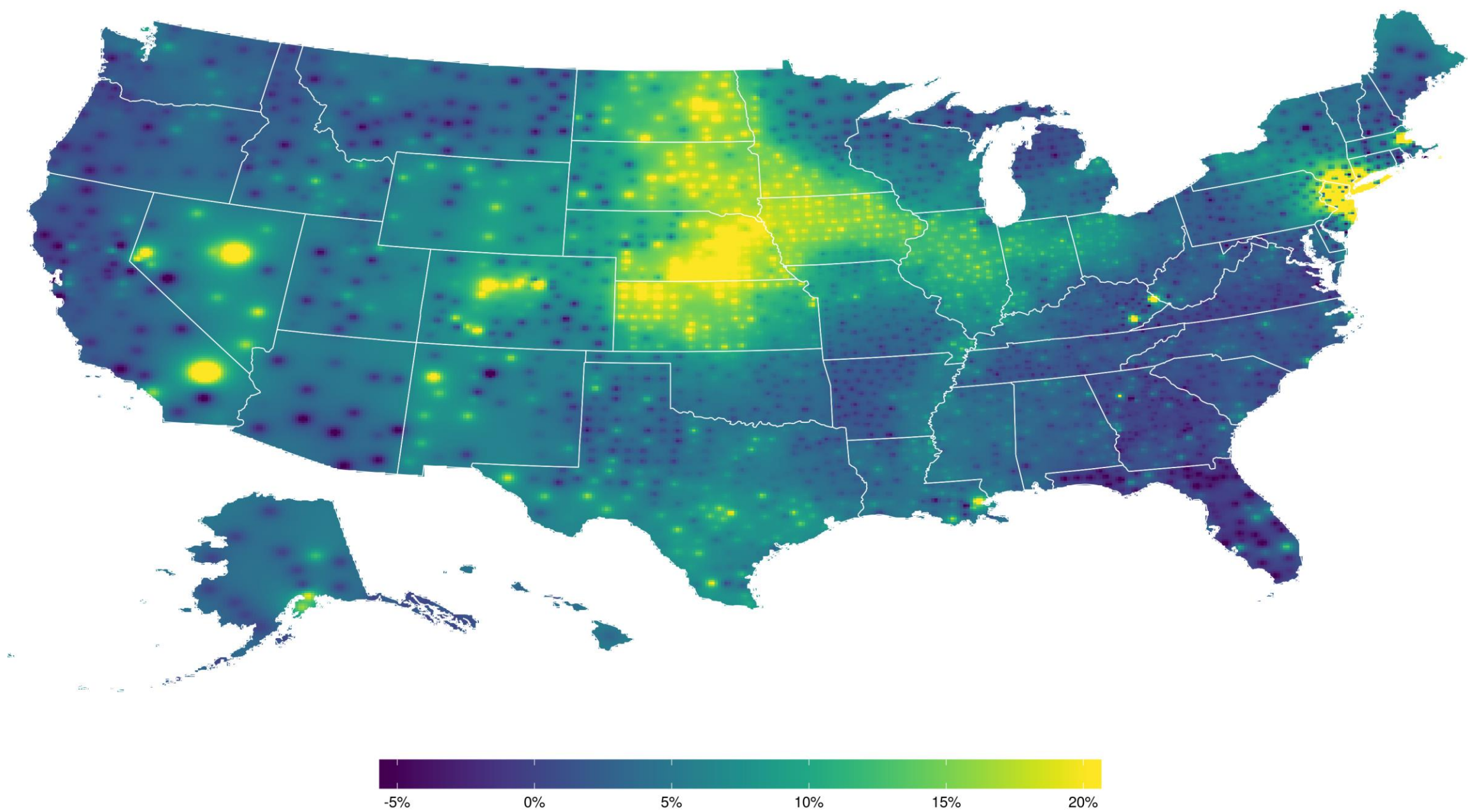
Bankruptcies filed per 10,000 farms
annualized for 2013 to Q3 2016



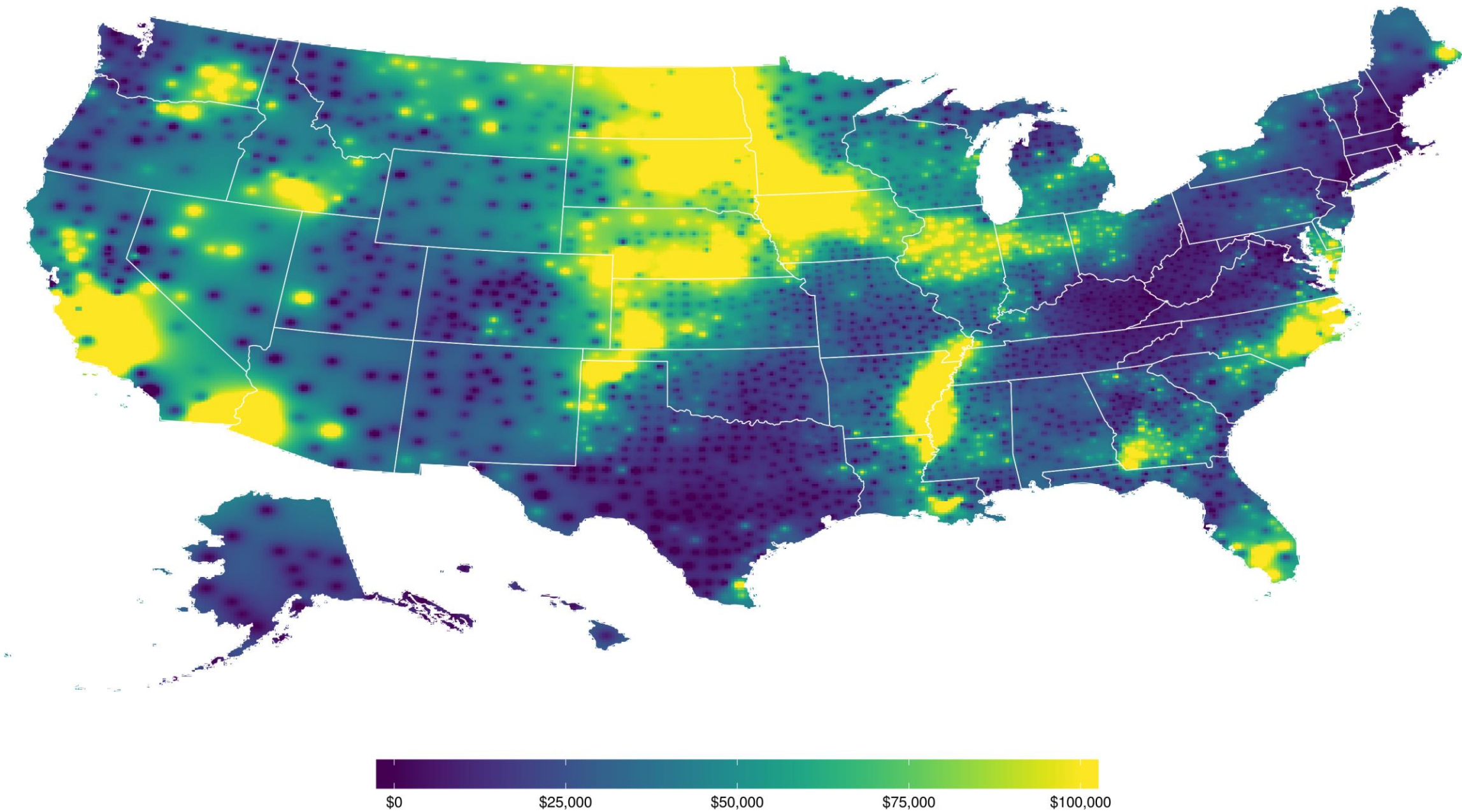
Average Value of an Acre of Agricultural Land
From 2012 Agricultural Census



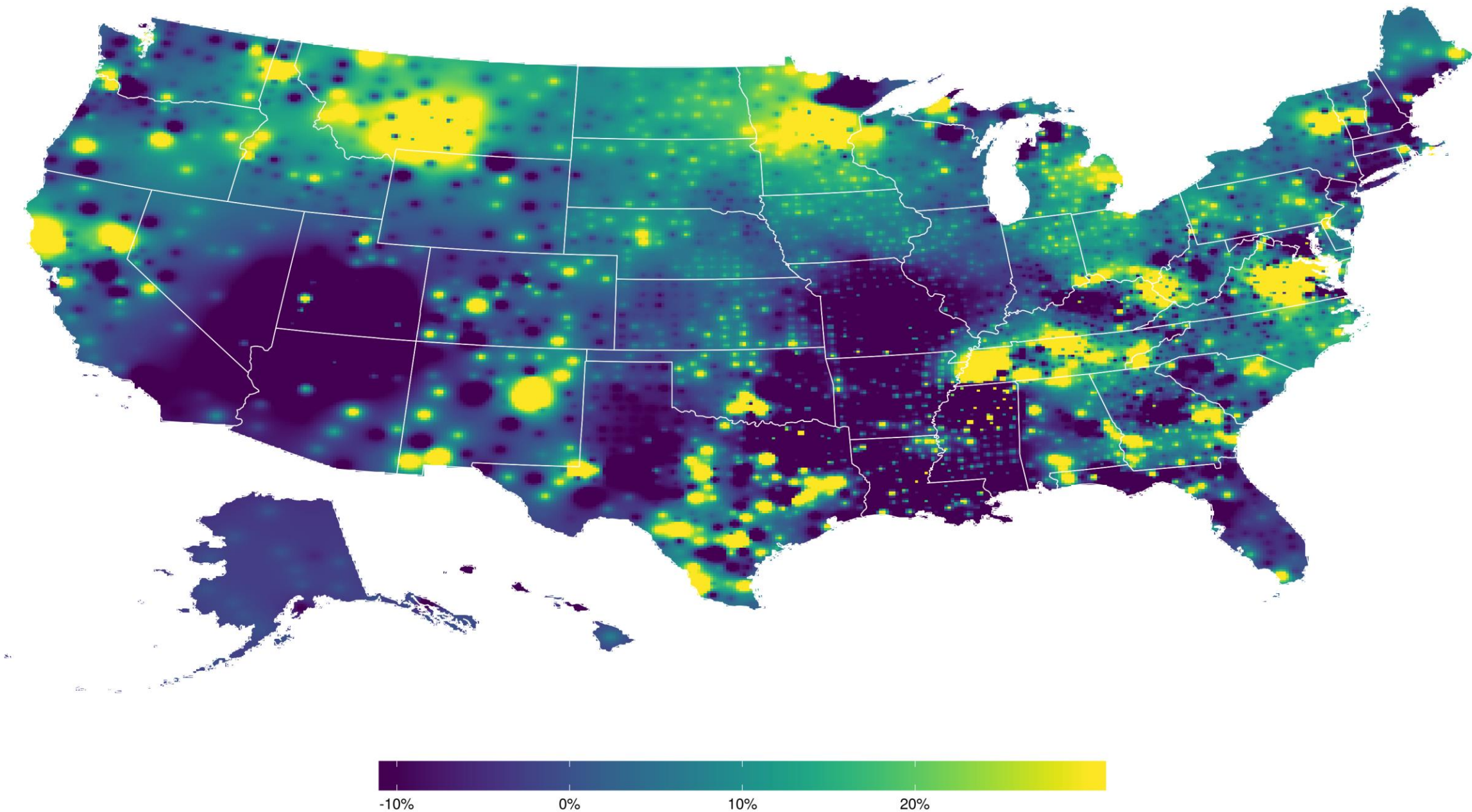
Change in Value of an Acre of Agricultural Land
From 2007 to 2012 (Annualized)



Farm Net Cash Income
From 2012 Agricultural Census

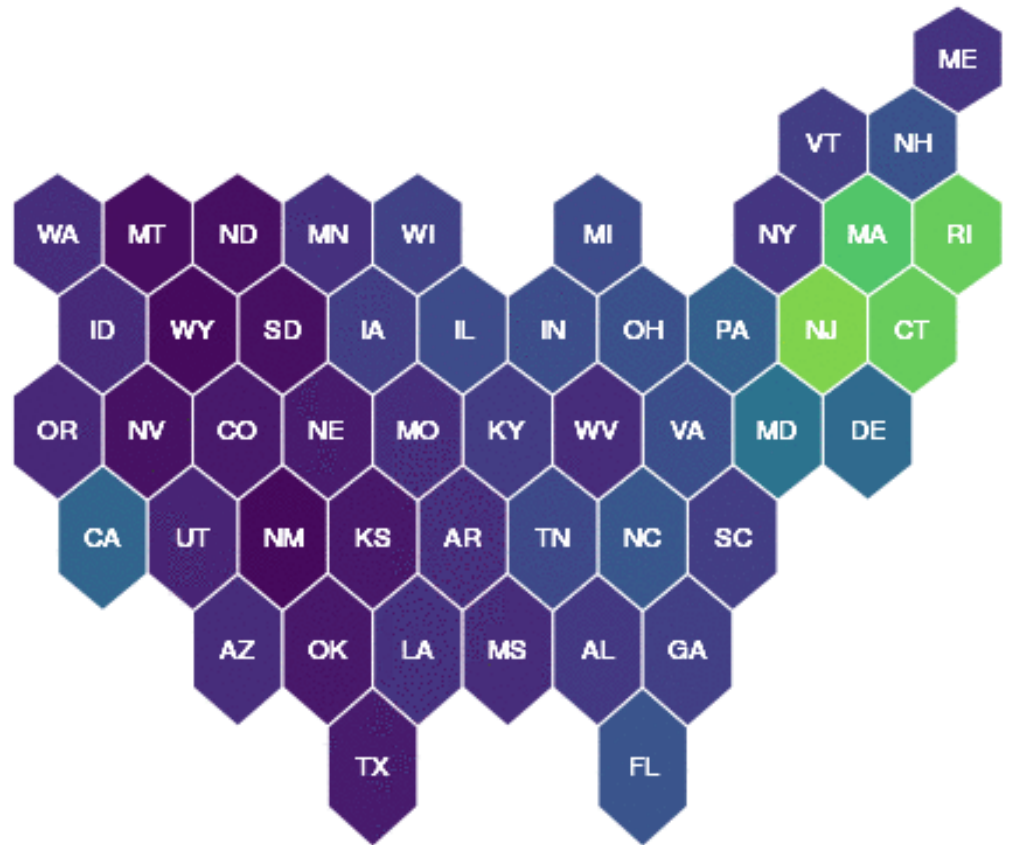


Change in Farm Net Cash Income
From 2007 to 2012 (Annualized)

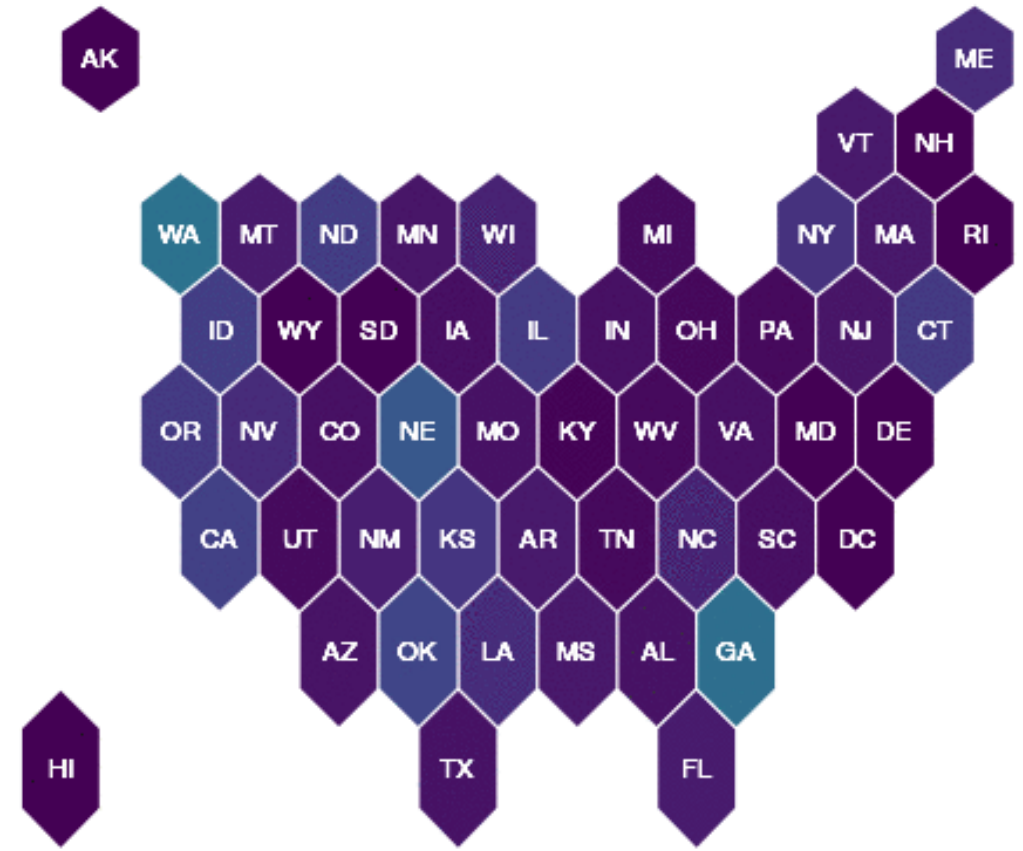


Substantial Temporal Variation

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.

Summary

- 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!

Ani Katchova

Associate Professor and Farm Income Enhancement Chair
Department of Agricultural, Environmental, and Development Economics
The Ohio State University
katchova.1@osu.edu