

Financial Stress and Farm Bankruptcies in U.S. Agriculture

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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

The image is a collage of four overlapping browser screenshots, each displaying news articles related to the farm economy. The top-left screenshot is from Reuters, dated June 7, 2016, with the headline "U.S. farmers fret as property taxes soar amid souring incomes". The top-right screenshot is from agriculture.com, dated 11/2/2016, with the headline "FALLING PRICES, BORROWING BINGE HAUNT MIDWEST 'GO-GO FARMERS'" by P.J. Huffstutter. The middle-left screenshot is from DTN Progressive Farmer, dated 11/11/2016, with the headline "Plug Your Risk Exposure" and sub-headline "Whole-Farm Plan Insures Your Margins" by Marcia Zarley Taylor. The middle-right screenshot is from TwinCities.com, dated May 14, 2016, with the headline "Real World Economics: Farm bust coming, especially for large producers" by Edward Lotterman. The bottom-left screenshot shows a close-up of soybean pods in a field, with a caption "Soybeans are seen in a field waiting to be harvested in Minooka, Ill. Young/File Photo". The bottom-right screenshot shows a man standing next to a green tractor in front of several large white grain silos, with a caption "SAG HARBOR, N.Y. (DTN) -- Veteran farmer Bryant has spent much of his career in the 1980s. So it's no surprise his goal is to prosper when prices rebound."

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

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

Plug Your Risk Exposure
Whole-Farm Plan Insures Your Margins

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

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

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

"Everyone is realizing that the floor is a lot further than the year before, and it's coming down fast enough," says the farmer.

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.

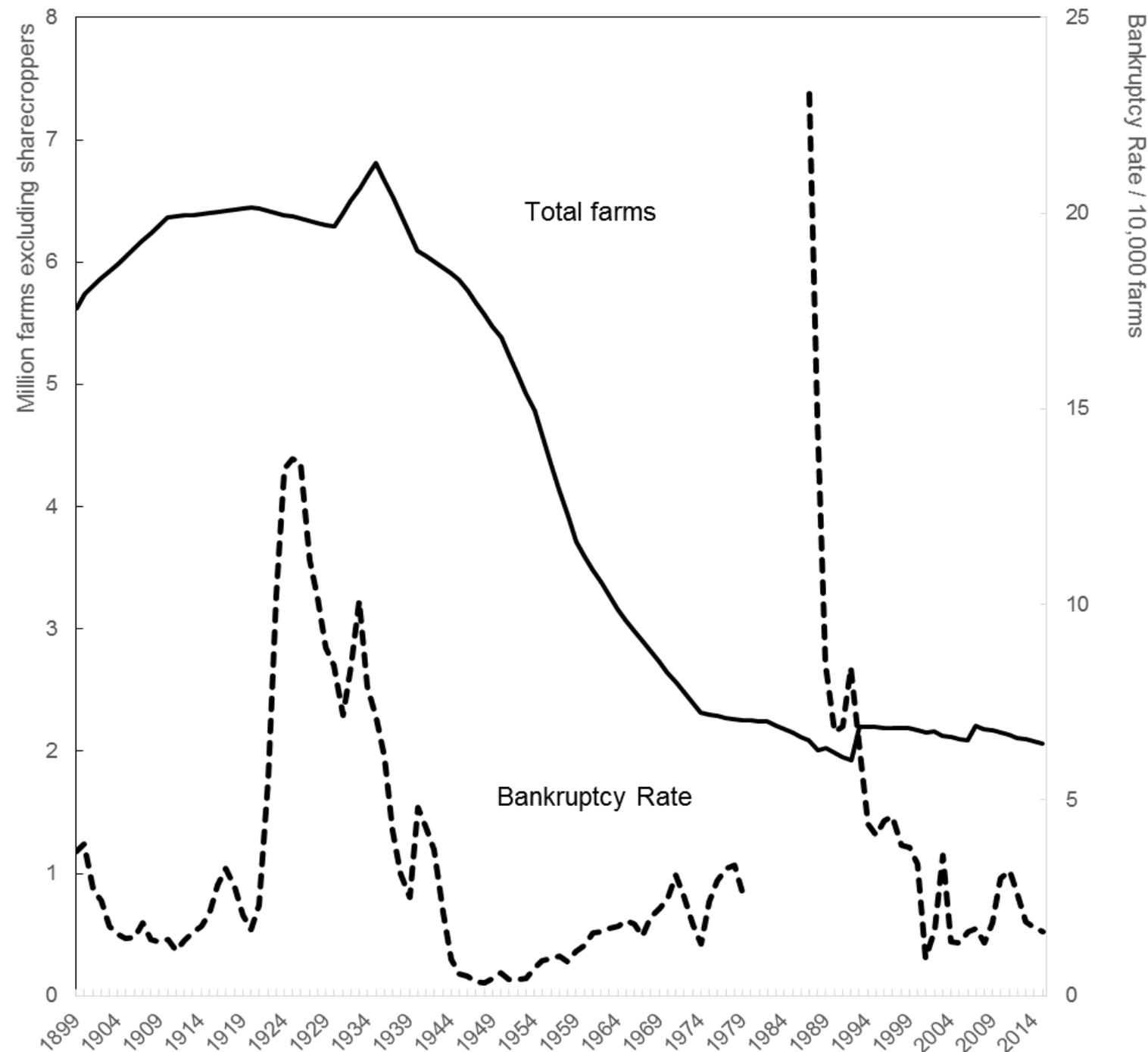
Bankruptcy Option To Reduce Financial Stress

- 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

The image shows three overlapping browser windows. The left window is from DTN Progressive Farmer, featuring an 'Ag Policy Blog' article titled 'Bankruptcy Rules for Farmers Need Revamping' by Chris Clayton. The middle window is from MLive.com, with an article 'Be sure to file the type of bankruptcy that's right for you' by MLive Marketing, which includes a photograph of a green sign that reads 'QUIET PLEASE BANKRUPTCY COURT IN SESSION'. The right window is from Iowa Farmer Today, with an article 'Chapter 12 bankruptcy must be amended' by Joe Peiffer. Below it is a Reuters article 'Fearing wave of bankruptcies, U.S. corn belt wants new debt cap' by Tracy Rucinski and P.J. Huffstutter. The browser tabs and address bars are visible at the top of each window.

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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-sp University and Washburn University School of Law.

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

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

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

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

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

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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.

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Chapter 12 bankruptcy must be amended

February 06, 2016 8:09 am • By **Joe Peiffer** (0) Comment

Anew 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 | Reuters - Chromium

Fearing wave of ba

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

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

By **Tracy Rucinski** and **P.J. Huffstutter** | CHICAGO

Bankruptcy data

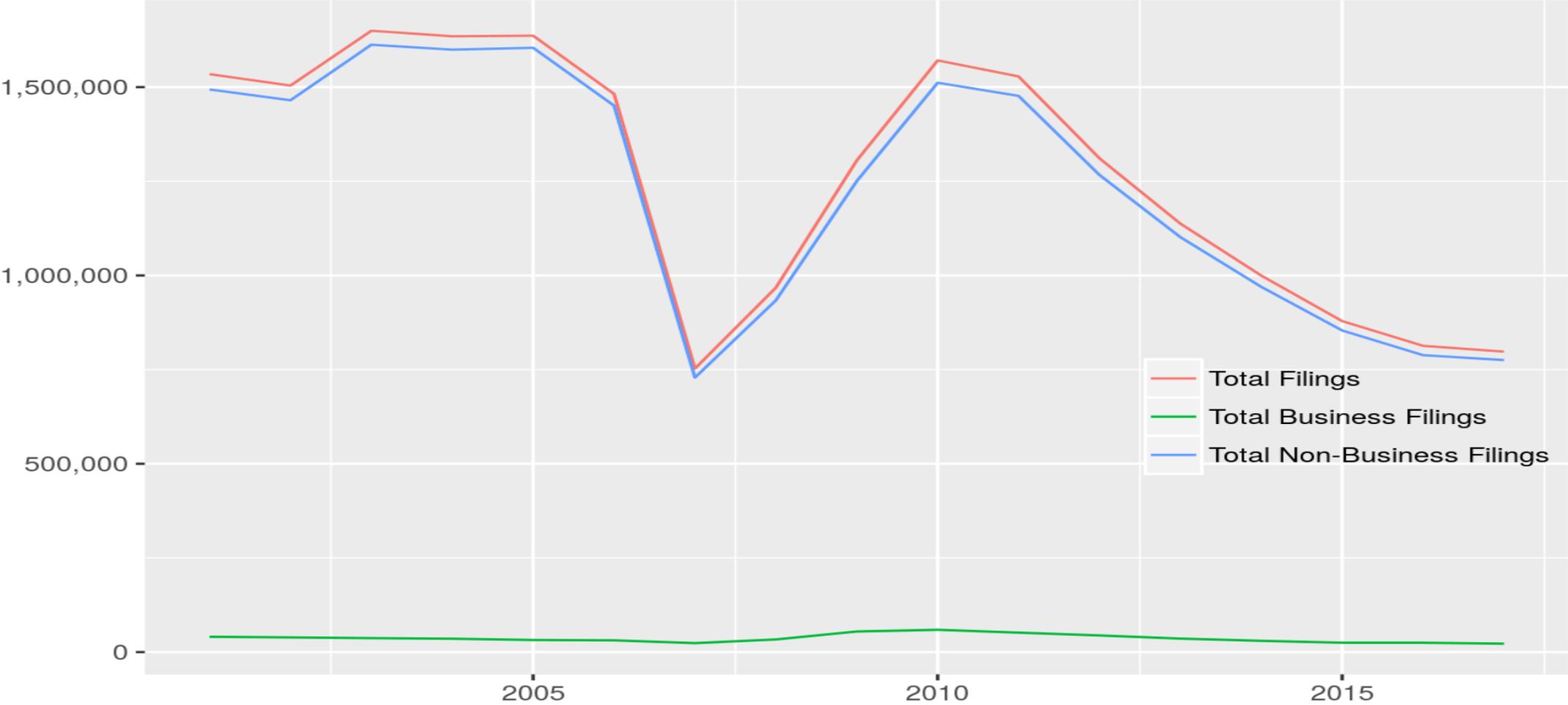
US Bankruptcy Courts – Table F-2 – Quarterly Bankruptcy Filings since 2001

<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.

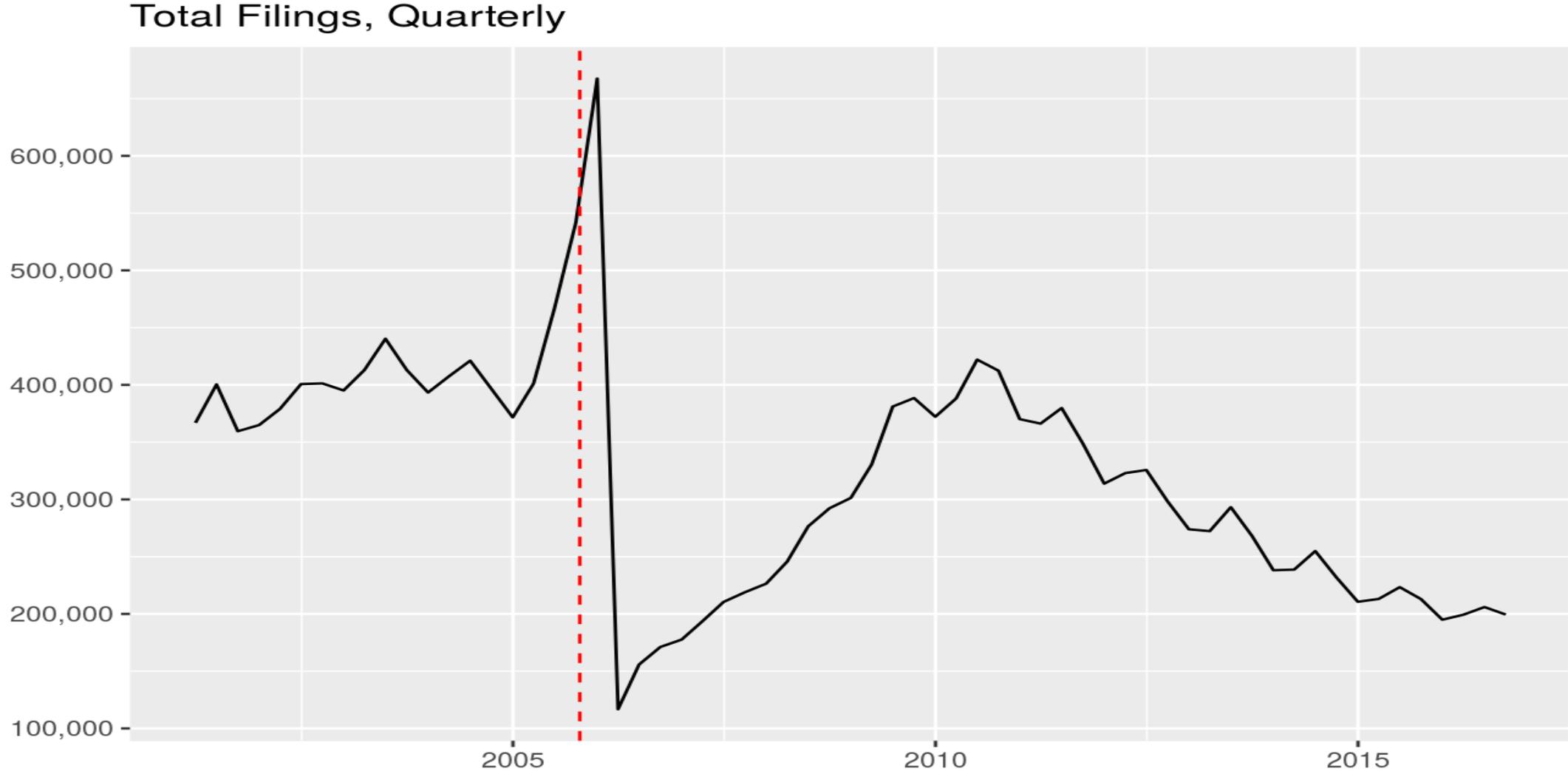
Bankruptcy filings declining since 2010, fewer business filings

All U.S. Bankruptcy Filings, Annually



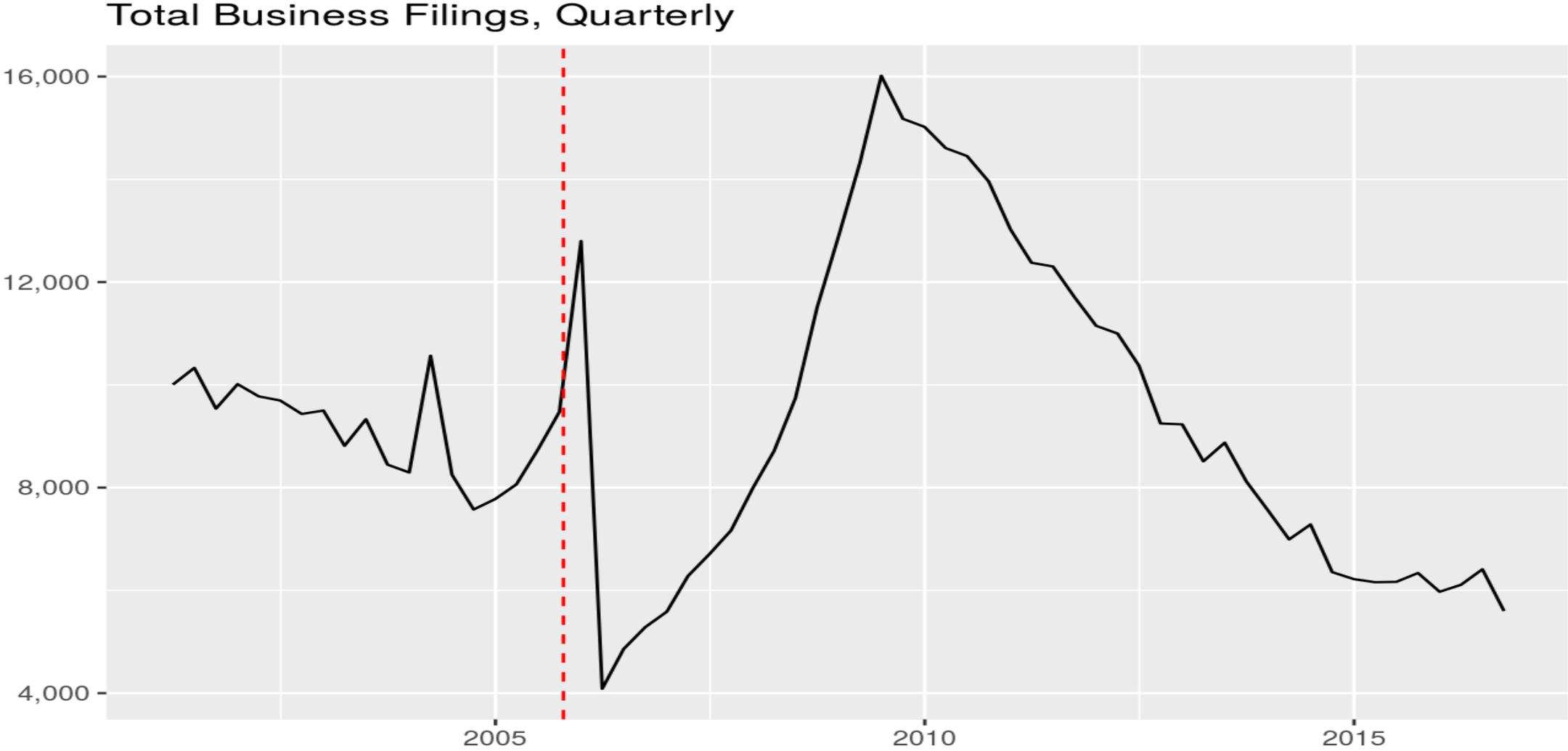
Source: U.S. Courts, Table F-2.

Bankruptcy filings jump after BAPCPA and then sharply drop



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

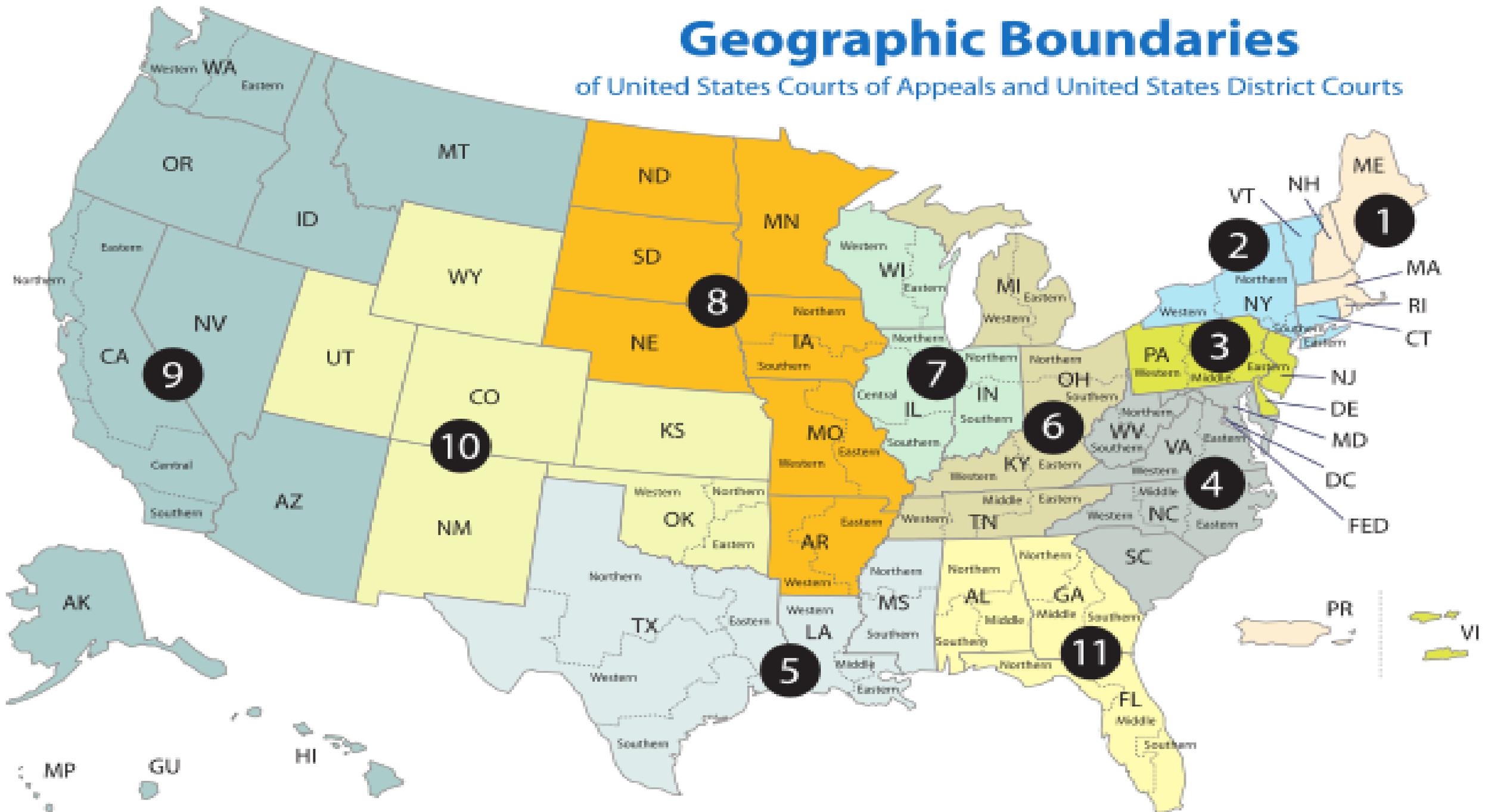
Business filings also jump and drop after BAPCPA – declines since 2010



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

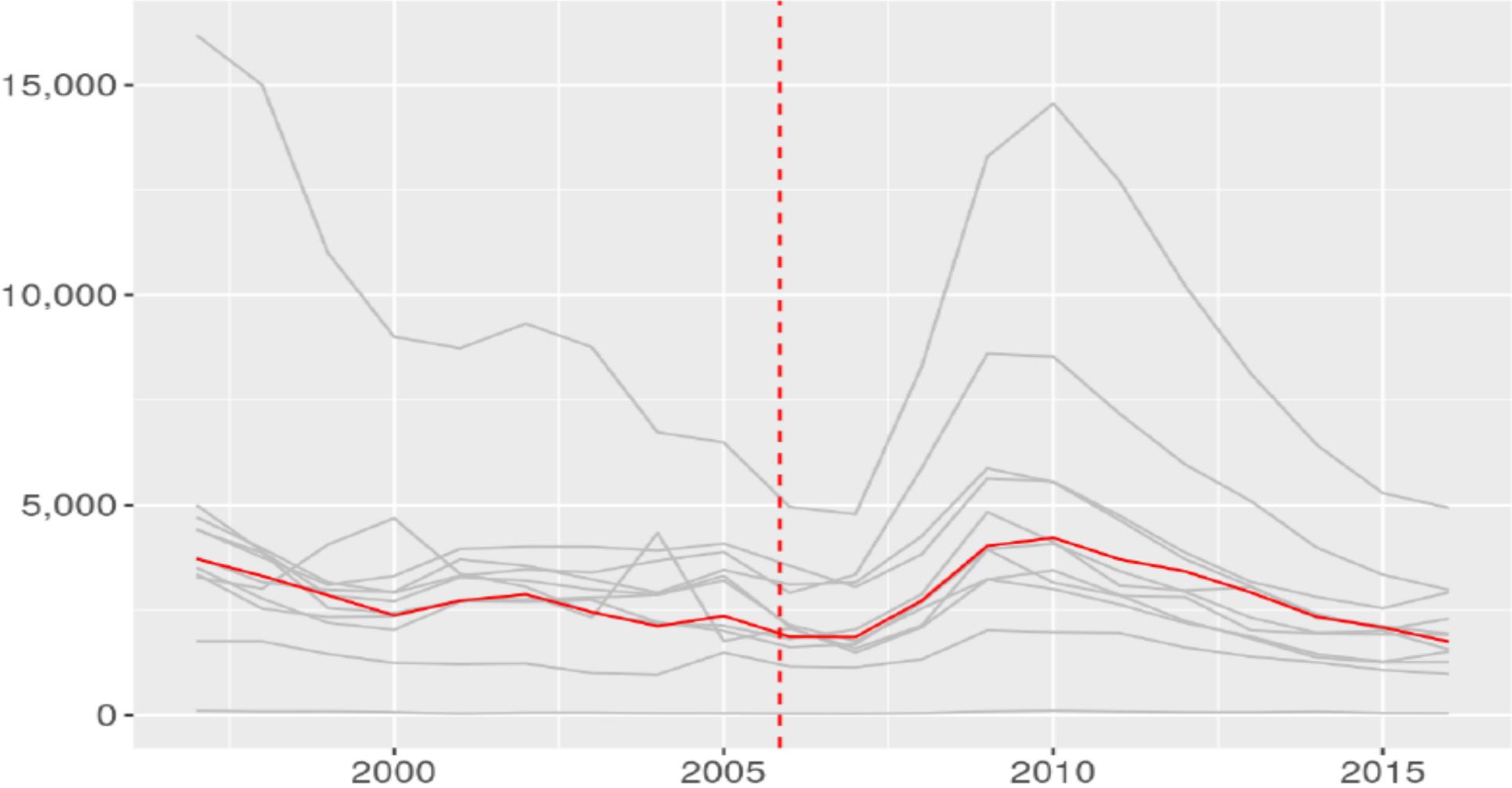
Geographic Boundaries

of United States Courts of Appeals and United States District Courts



Business filings vary across Circuits but similar trends

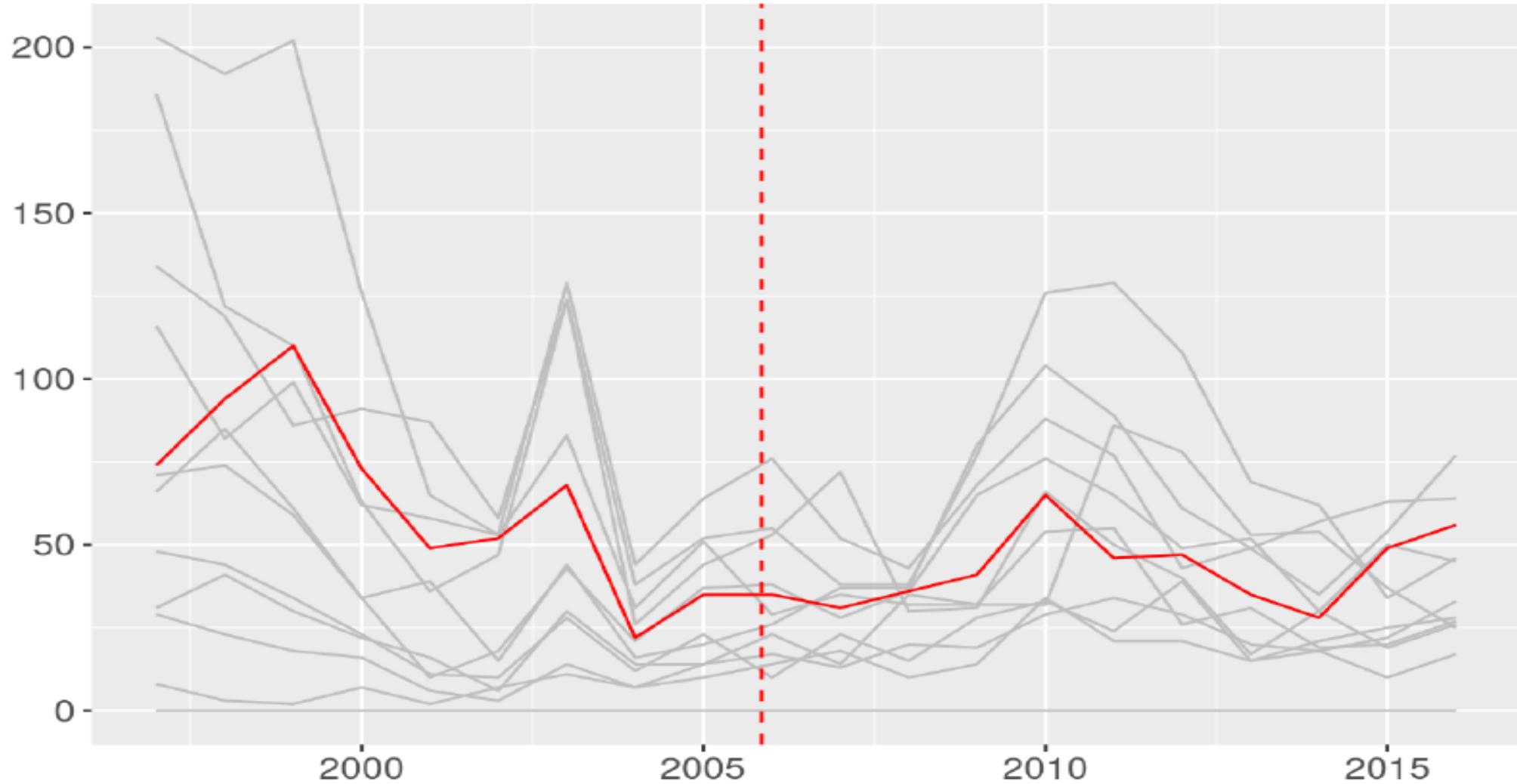
Total Business Filings by Circuit



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

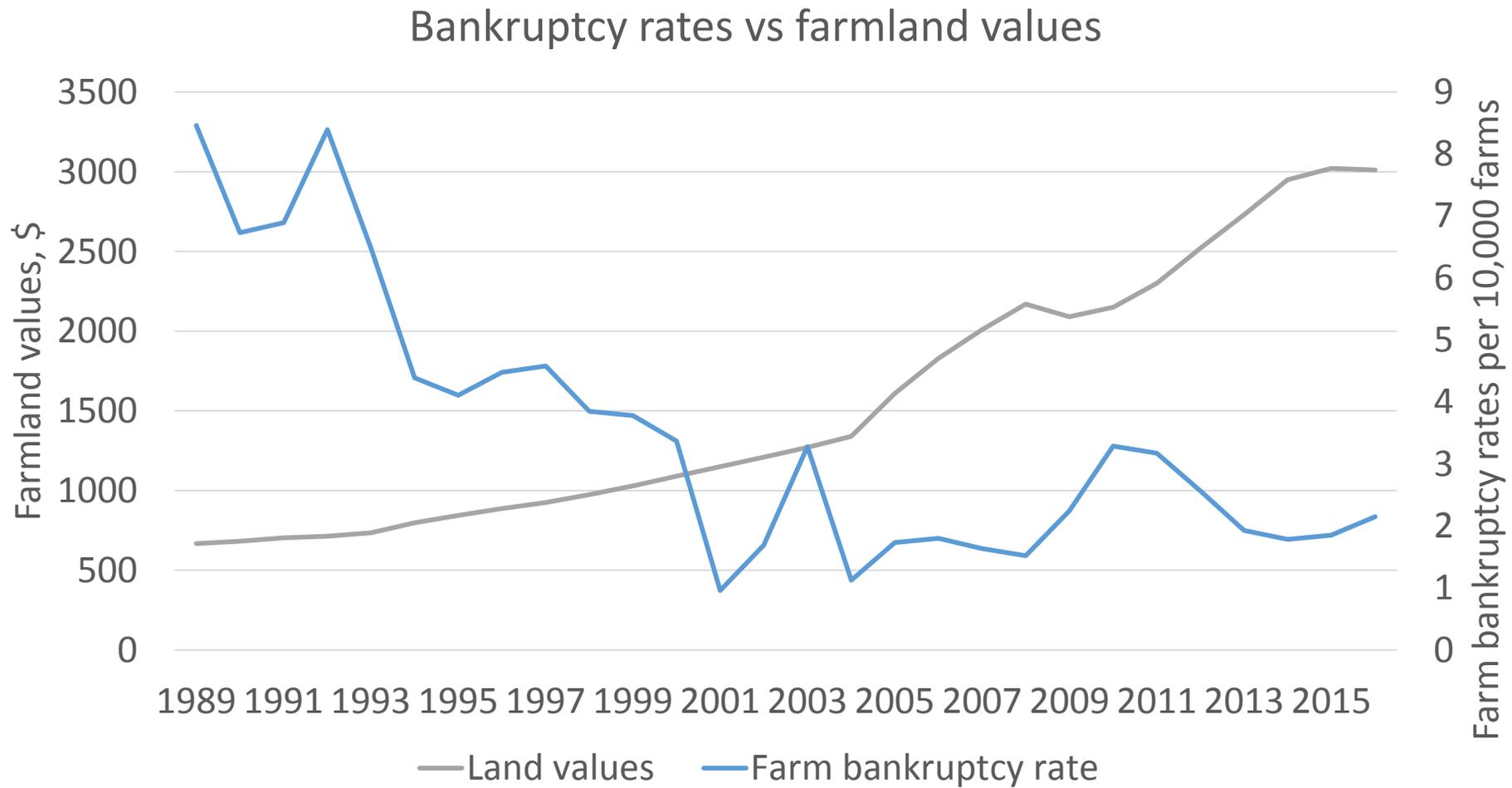
Chapter 12 filings vary across Circuits

Chapter 12 Filings by Circuit

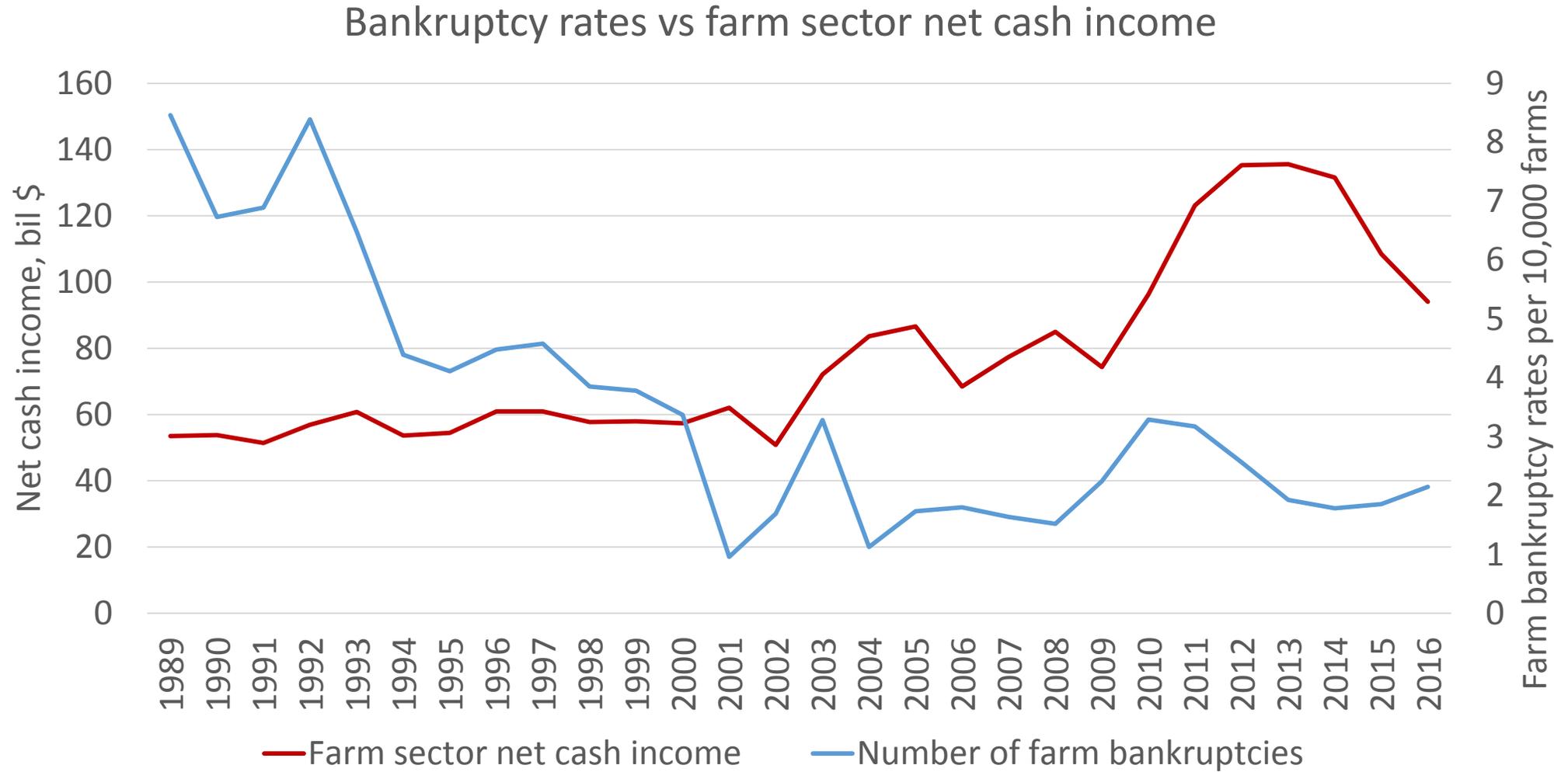


Source: U.S. Courts, Table F-2. Red line is filings for Circuit 7 (Wisconsin, Illinois, and Indiana)

Negative relationship between farmland values and bankruptcy rates

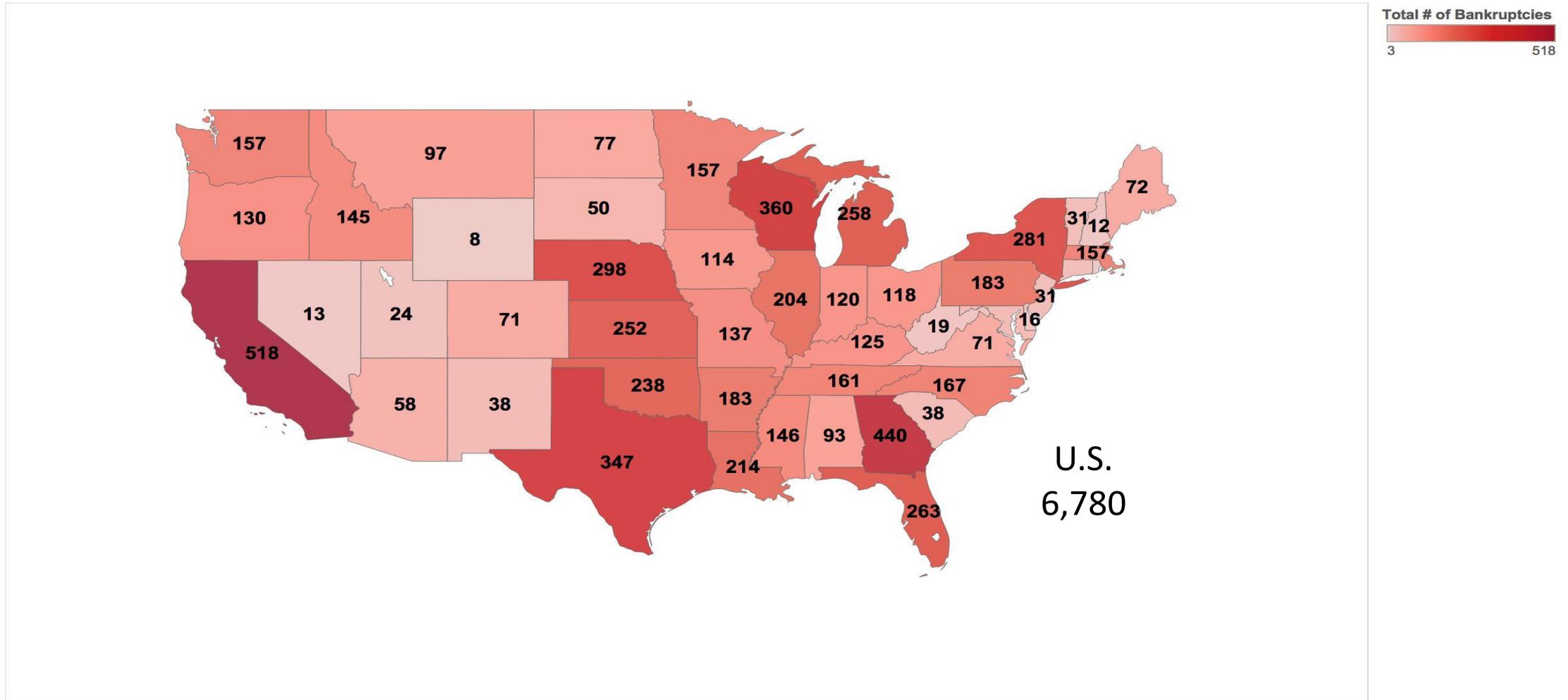


Negative relationship between net cash income and bankruptcy rates



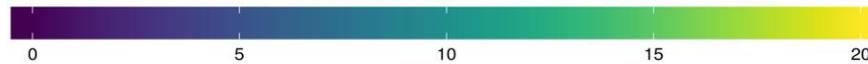
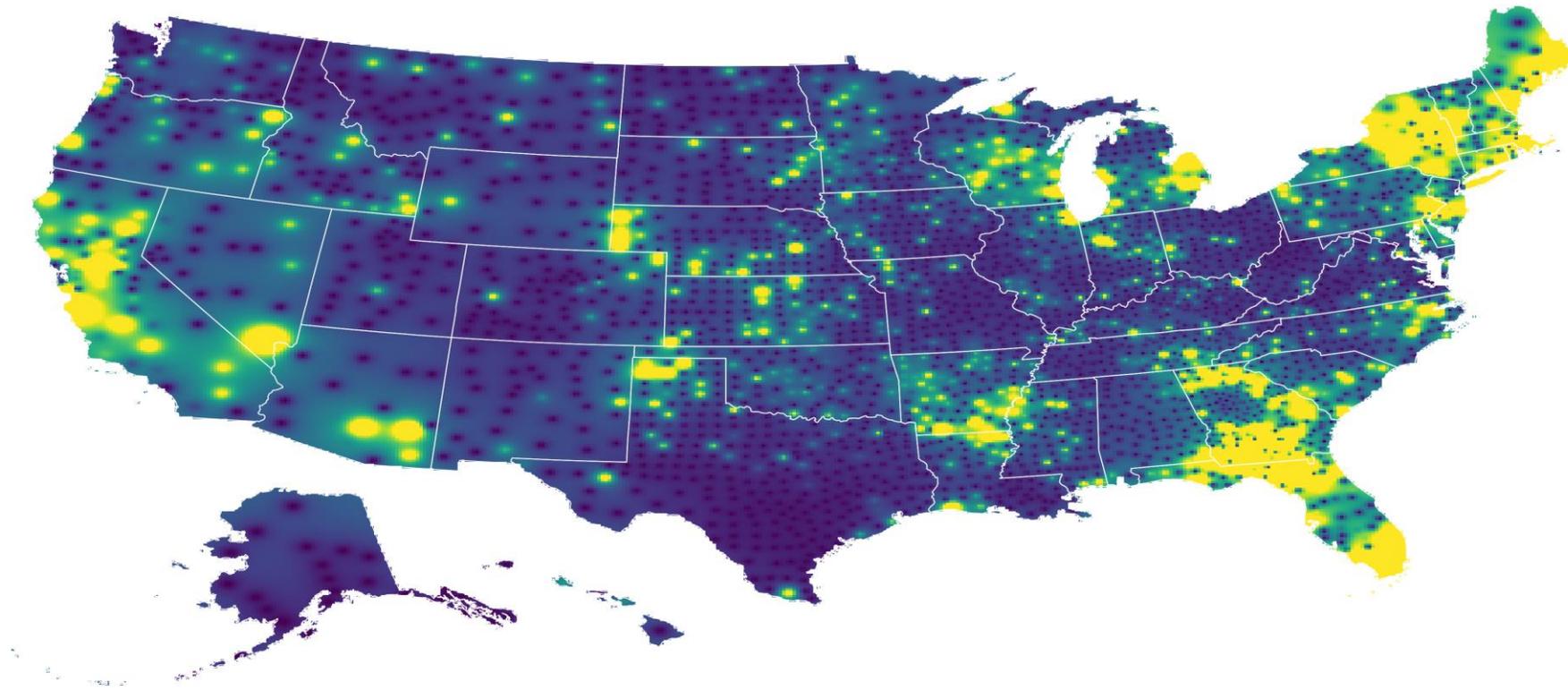
Farm bankruptcy filings since 2001

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



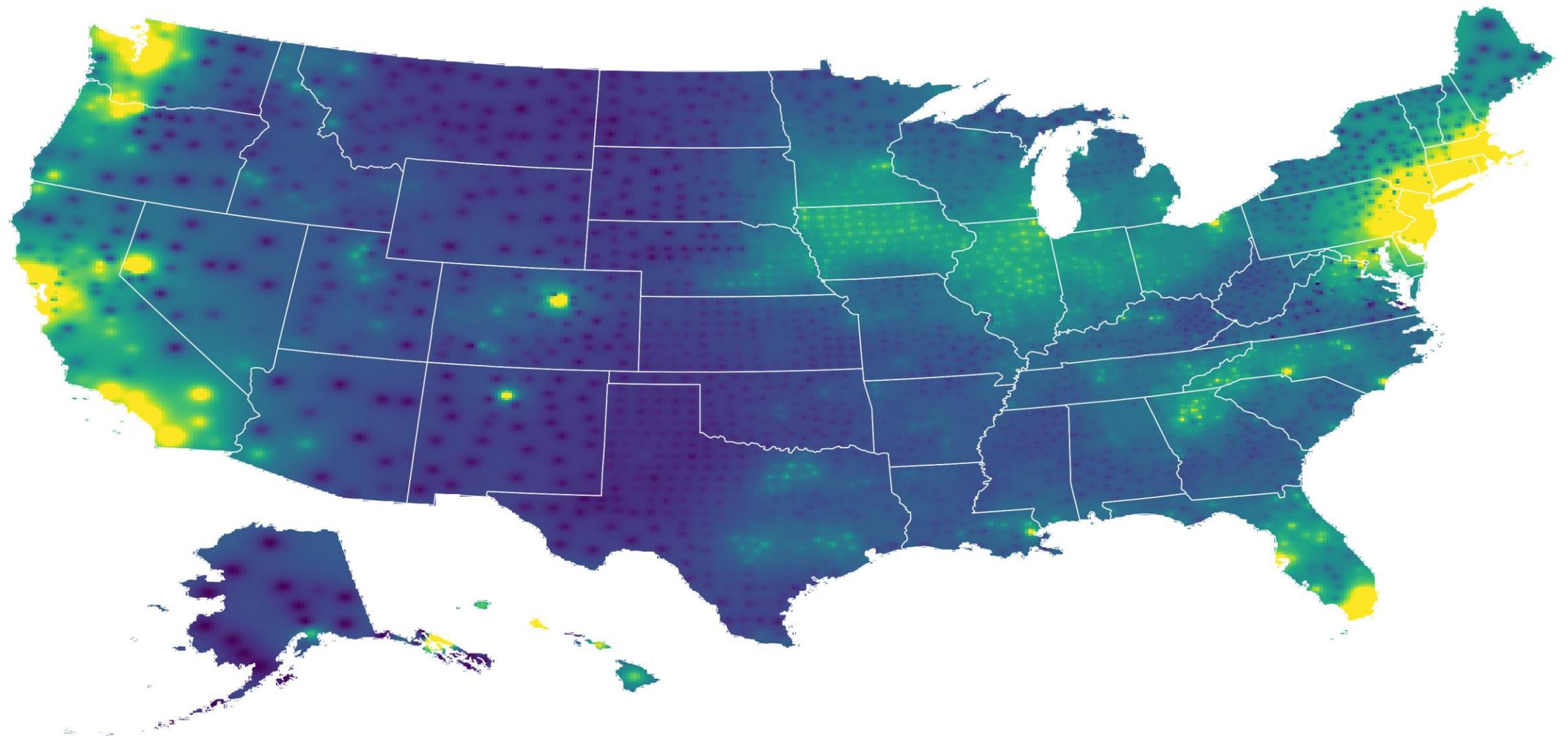
Bankruptcy rate per 10,000 farms at the county level

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



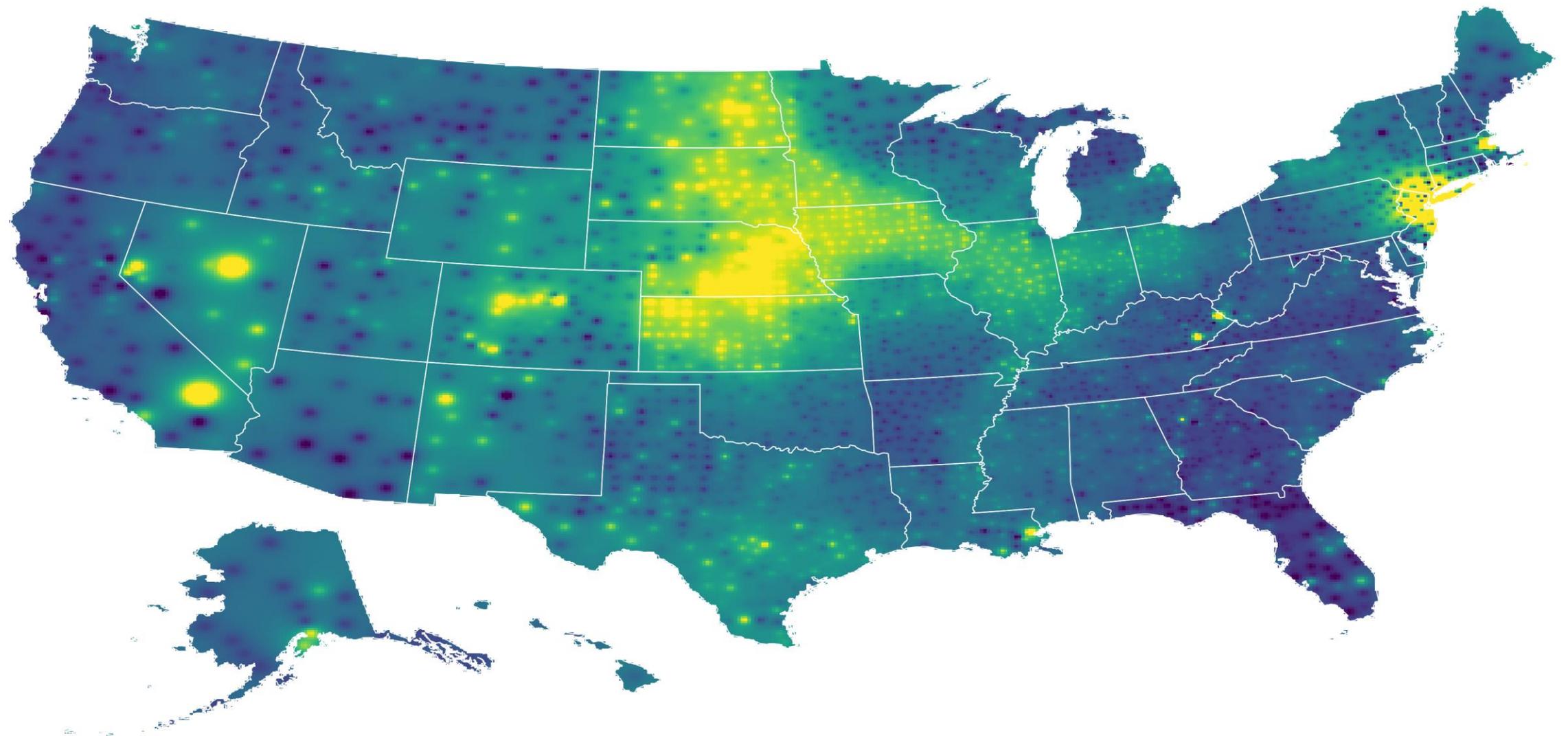
Average Value of an Acre of Agricultural Land

From 2012 Agricultural Census



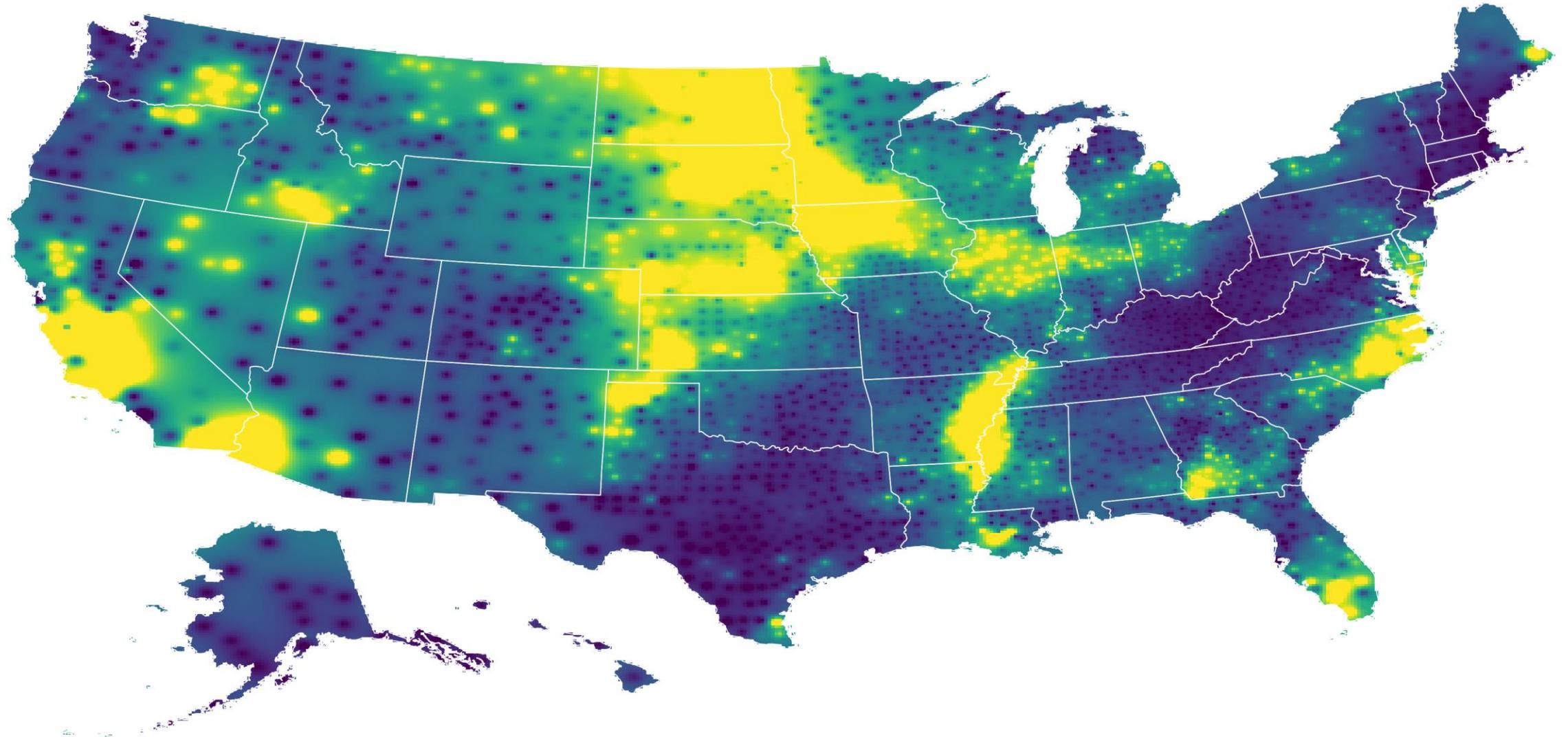
Change in Value of an Acre of Agricultural Land

From 2007 to 2012 (Annualized)



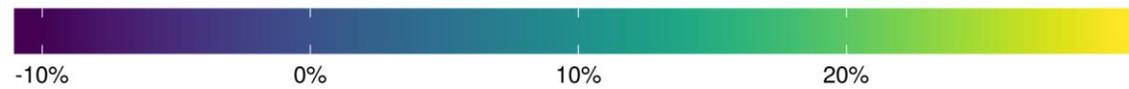
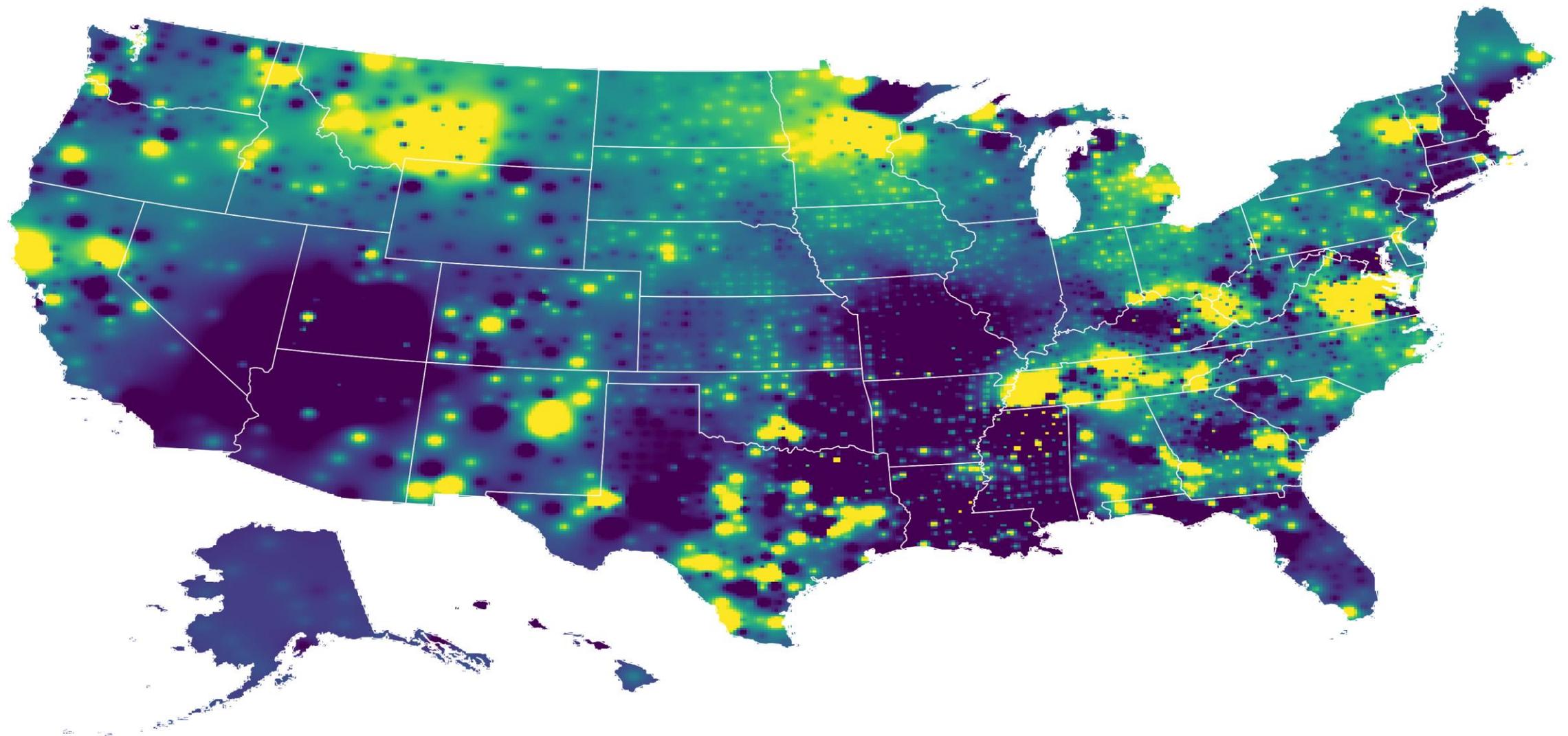
Farm Net Cash Income

From 2012 Agricultural Census



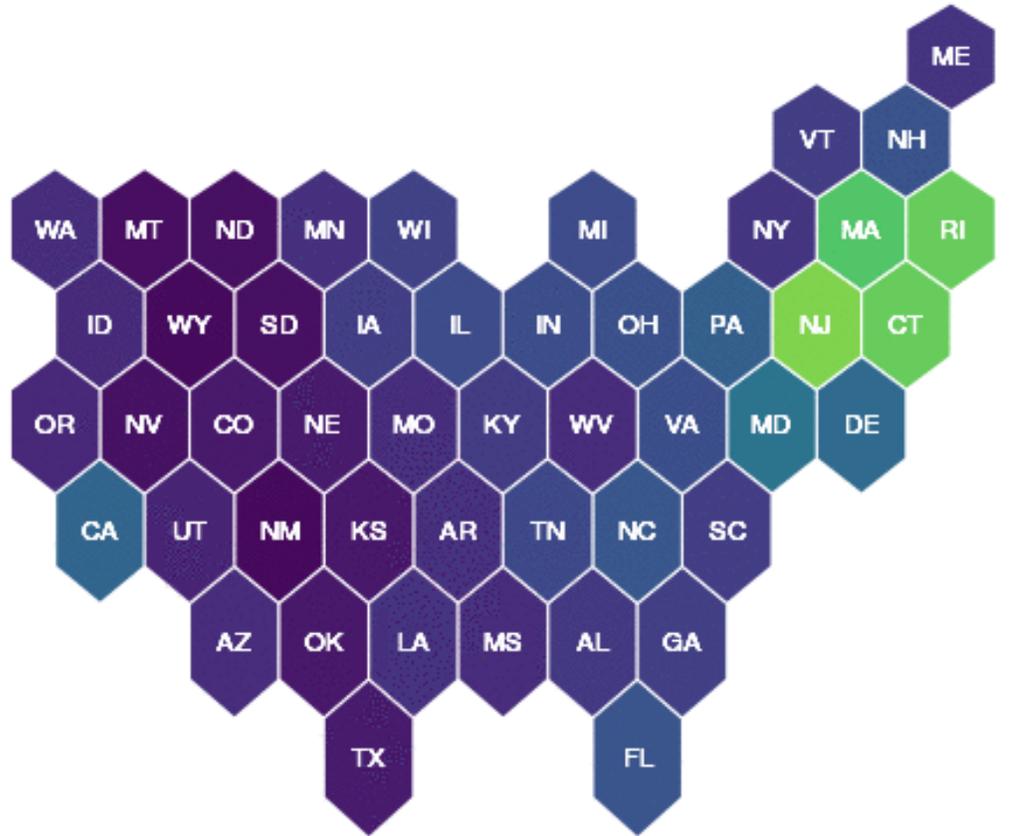
Change in Farm Net Cash Income

From 2007 to 2012 (Annualized)

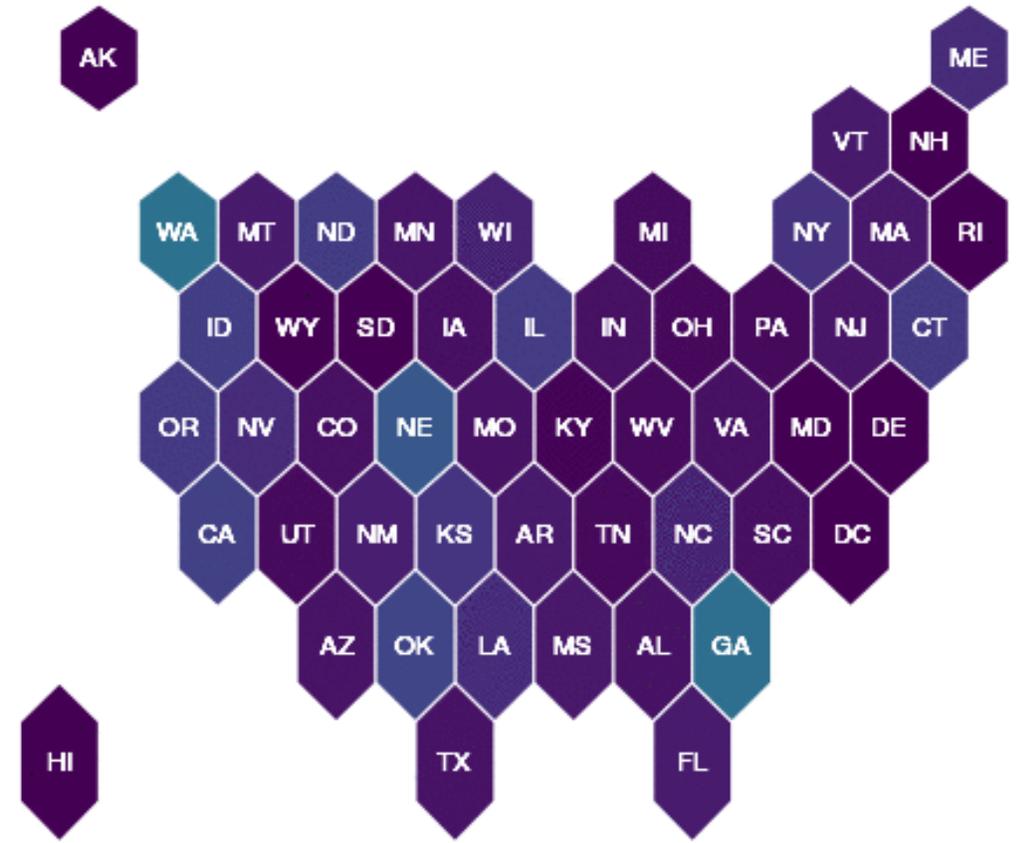


Substantial Temporal Variation

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

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