# Farm Bankruptcies in the United States

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Presentation at the USDA Agricultural Outlook Forum
23 February 2017

# Themes

- General concerns about farm finances: declines in farm income and land values and rents, and tightening cash flows.
- 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
- Have delinquency rates for ag loans increased?
- Outlook on farm bankruptcies

# General Concerns Over Farm Economy

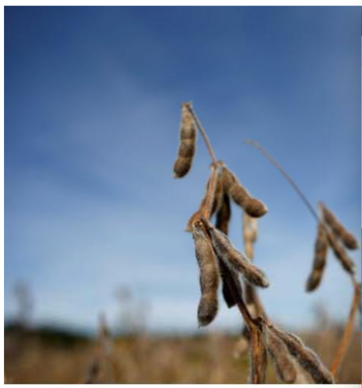
U.S. farmers fret as ×

www.reuters.com/article/us-usa-farmland-taxes-idUSKCN0YT2

REUTERS Business Markets World Politics Tech Commentary Breakin

COMMODITIES | Tue Jun 7, 2016 | 2:00pm EDT

## 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 r
pay their property taxes, at a time when these tax b
bankruptcies is growing.

Over the past three years, farmland property taxes
percent in parts of the United States, according to
One farmer in Ohio said his property tax bill has sk
from less than $20 seven years ago.

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## 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) -- Veter
Bryant has spent much of his caree
the 1980s. So it's no surprise his g
Washington Courthouse operatio
recession is to minimize losses, co
prosper when prices rebound.

"Everyone is realizing that the floo
a lot further than the year before,
coming down fast enough," says th

Successful Farming at AGRICULTURE.COM

## Are Ag Forecasts Getting Less Bleak?

By
Chuck Abbott
2/7/2017

Since the collapse of the agriculture boom in 2013, the start-of-the-year forecasts for the farm economy have been as uniformly dreary as midwinter in the Midwest: big stockpiles and the lowest season-average commodity prices in a decade. It's hard to turn a profit, and USDA chief economist Robert Johansson says the stress is mounting for some producers.

One in 10 crop growers and an equal portion of livestock operators are highly leveraged, meaning they carry debts that exceed 40% of their assets, a rocky position. "It's been picking up lately," Johansson says. "It (had) been fairly flat for the last 10 years or so."

Highly leveraged operators tend to be growers with a high proportion of rented land and recent entrants to farming, who have limited reserves. Only 6.5% of crop farms and 6% of livestock operations were highly leveraged four years ago.

In a *Successful Farming* magazine interview, Johansson says delinquencies on farm loans are rising but bankruptcies remain low. The debt-to-asset ratio, a commonly used gauge of financial stress, was 13.2% in 2016 and "will tick up this year as land values fall," perhaps as high as 14%. That would be the highest since 15% in 2002 but far below 22.2% in 1985 (at the worst of the agricultural recession). "The situation is much different than it was then," notes Johansson.

ire/falling-prices-borrow

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REUTERS

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

11/2/2016

By P.J. Huffstutter

ducers - Chromium

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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.

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## Today’s low interest rates help ag economy

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

2

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.

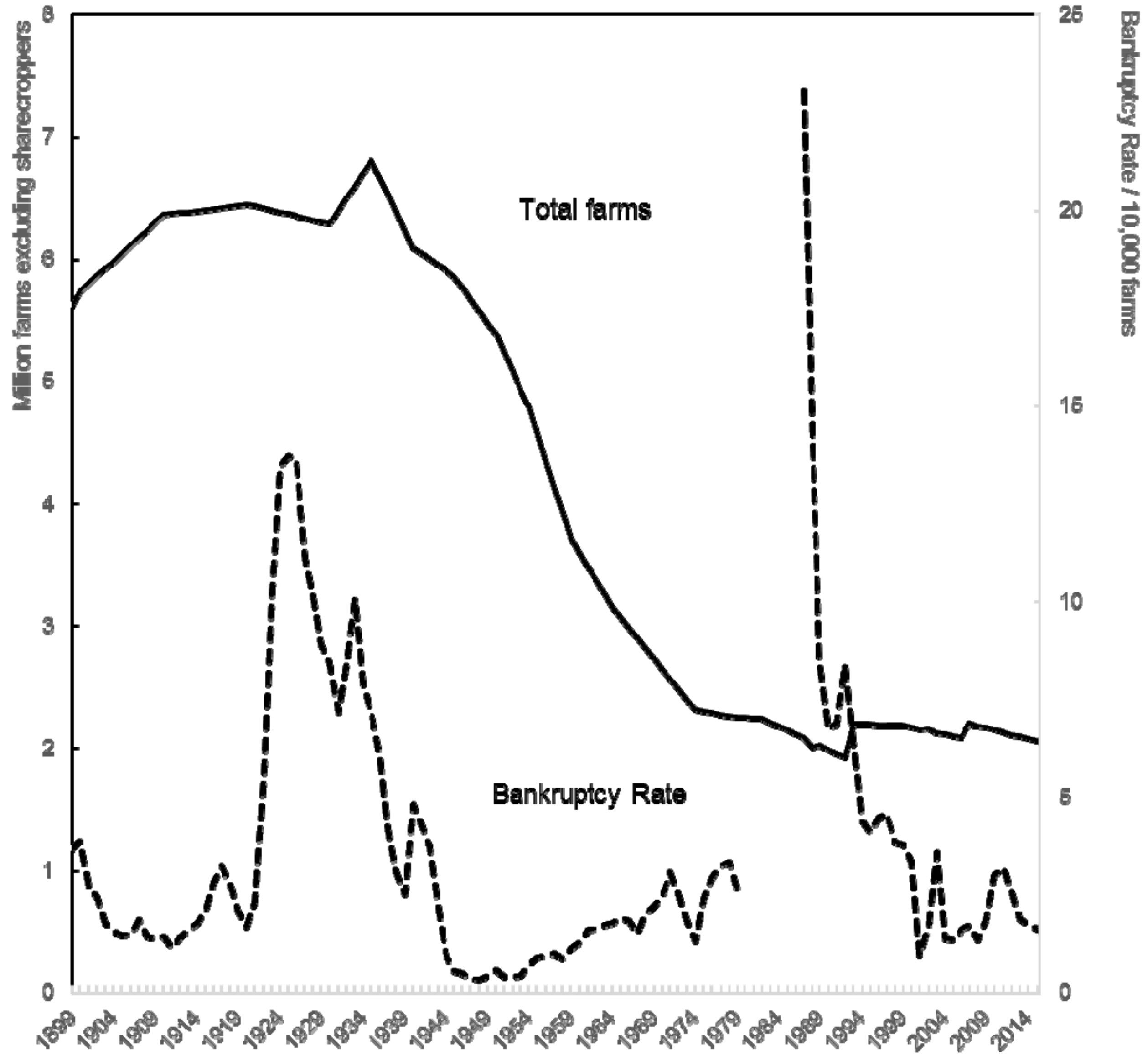
# Bankruptcy Option To Reduce Financial Stress

- 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

Bankruptcy Rules f ×

https://www.dtnpf.com/agriculture/web/ag/perspectives/blo

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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. D
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 rulir

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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.


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

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

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Chapter 12 bankru ×

www.iowafarmertoday.com/news/opinion/chapter-bankruptcy

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## Chapter 12 bankruptcy must be amended

February 06, 2016 8:09 am • By Joe Peiffer | (0) Commen

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 ×

www.reuters.com/article/us-usa-agriculture-bankruptcy-idUSK

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

COMMODITIES | Fri Jan 15, 2016 | 7:15pm EST

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

By Tracy Rucinski and P.J. Huffstutter | CHICAGO

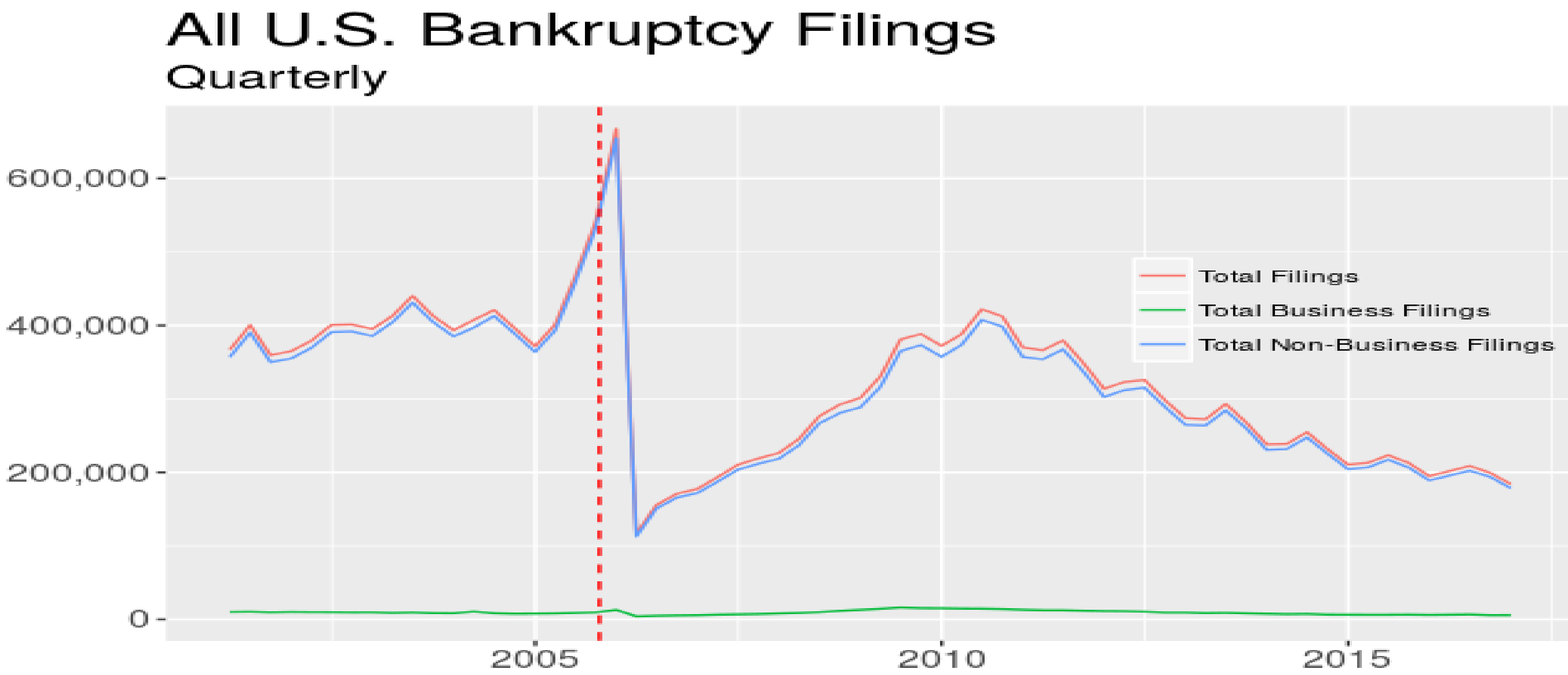
# Bankruptcy data

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

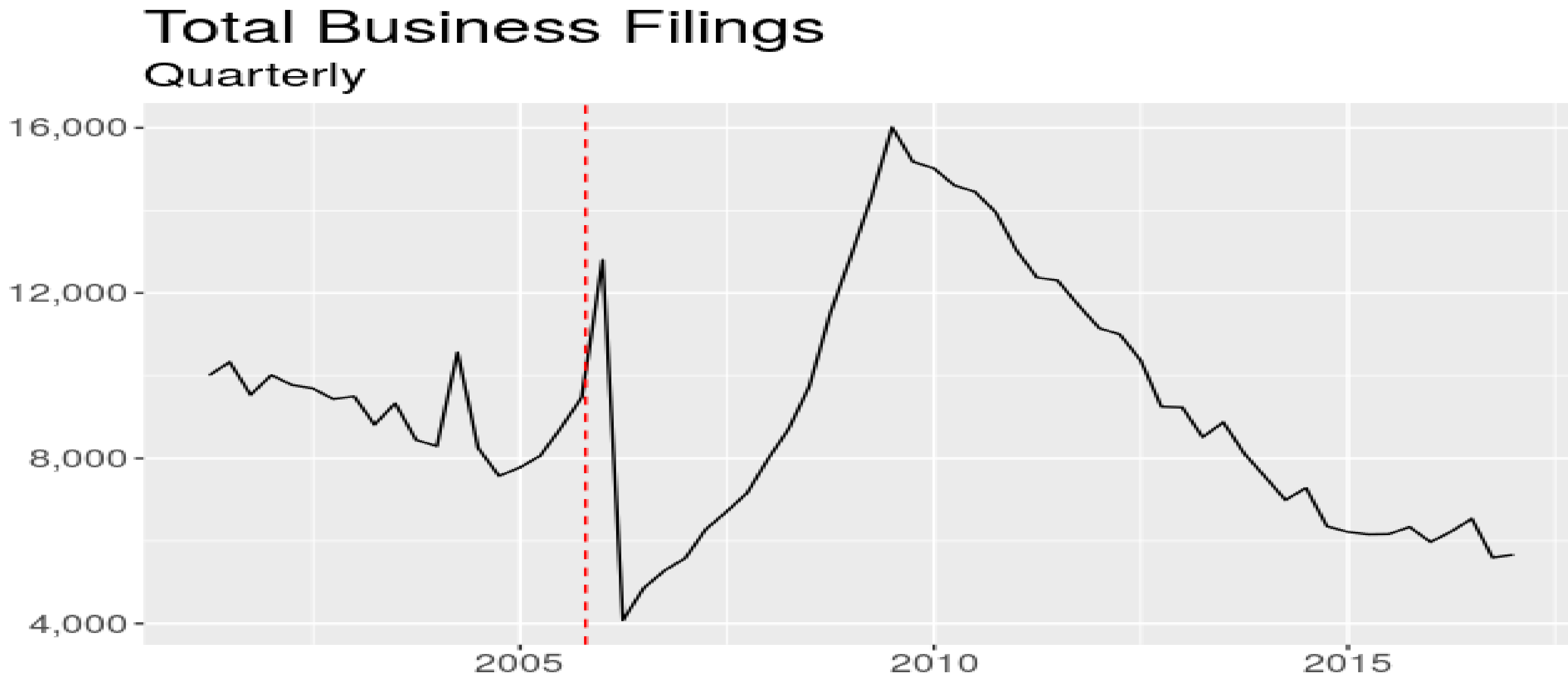
- Bankruptcy filings organized by chapter 7, 11, 12, and 13
- Business filings if corporation or partnership or if debt related to the operation of business predominates (chapter 12 is business filings only)
- US courts – 94 federal judicial districts organized into 12 regional circuits
- Filings by 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



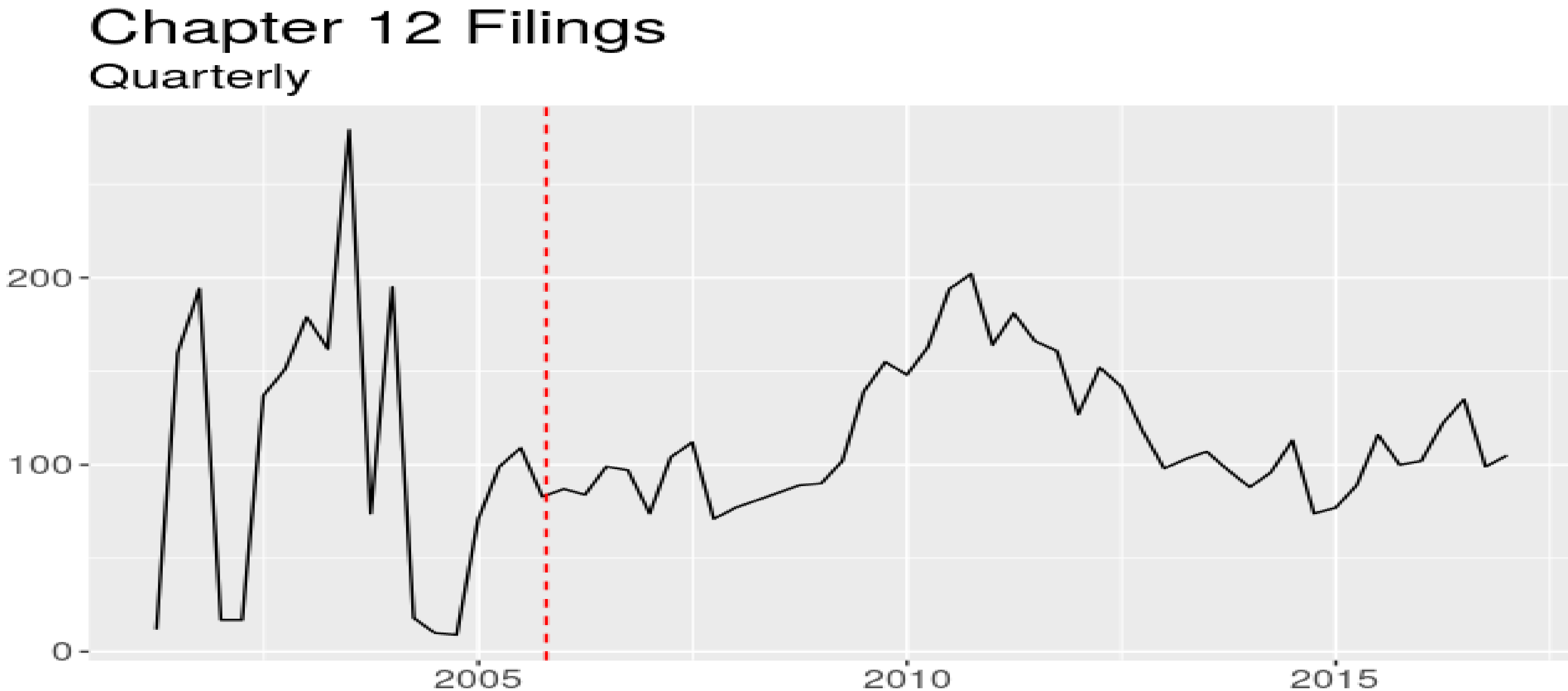

Source: U.S. Courts, Table F-2.

# Bankruptcy filings also jump and drop after BAPCPA – declines since 2010




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

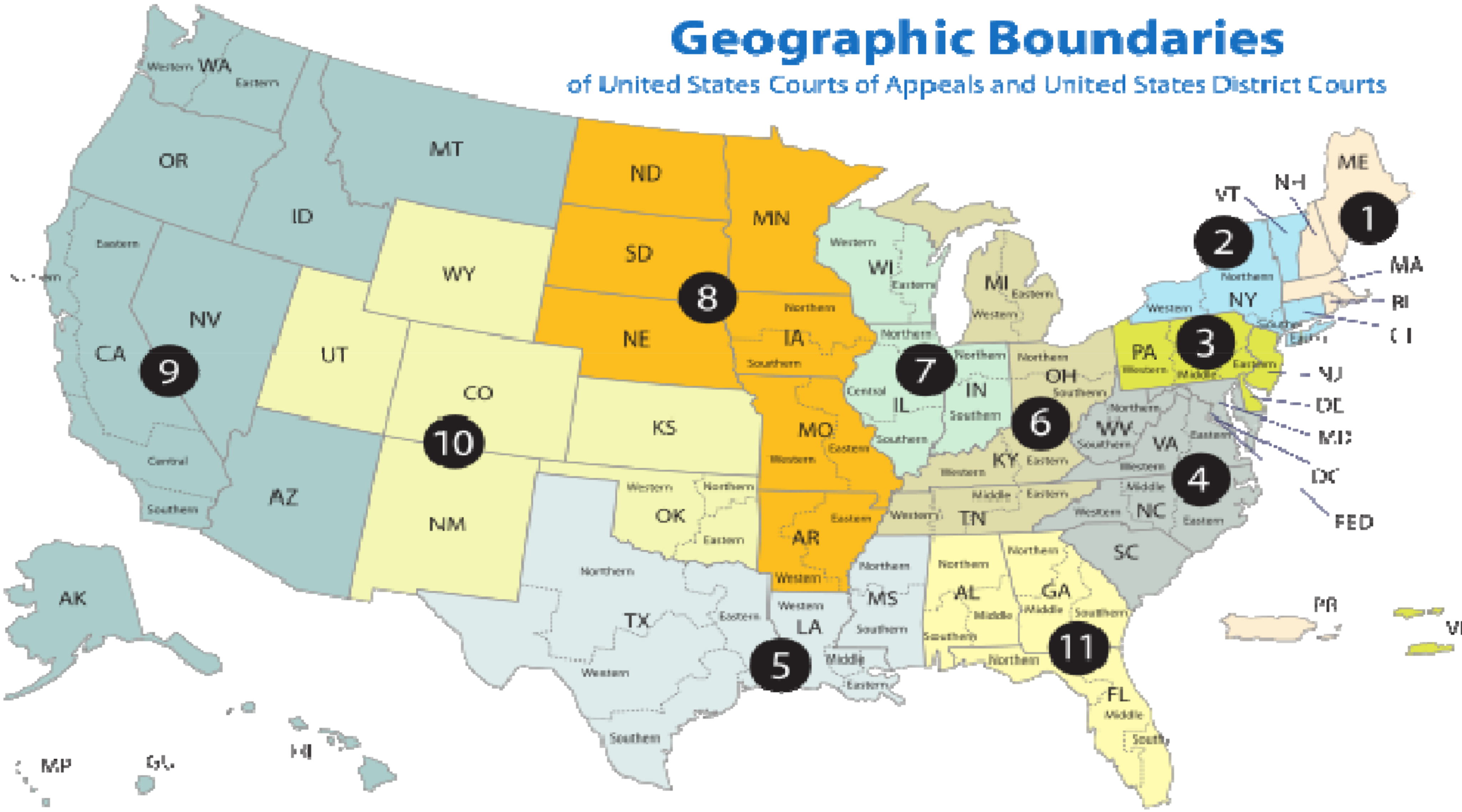
# Chapter 12 farmer bankruptcy filings: declines since 2011 but recent reversal




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

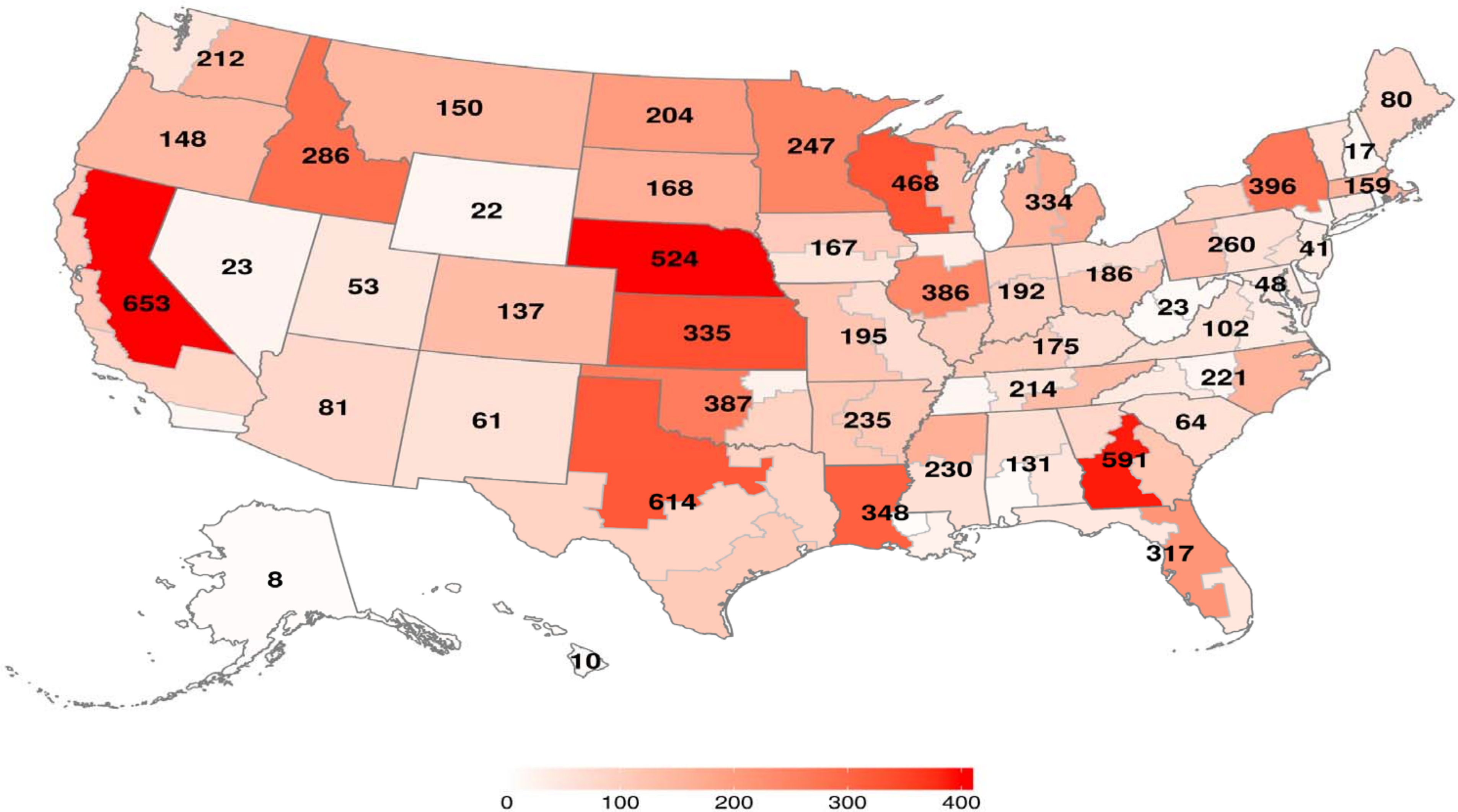
# Geographic Boundaries

of United States Courts of Appeals and United States District Courts

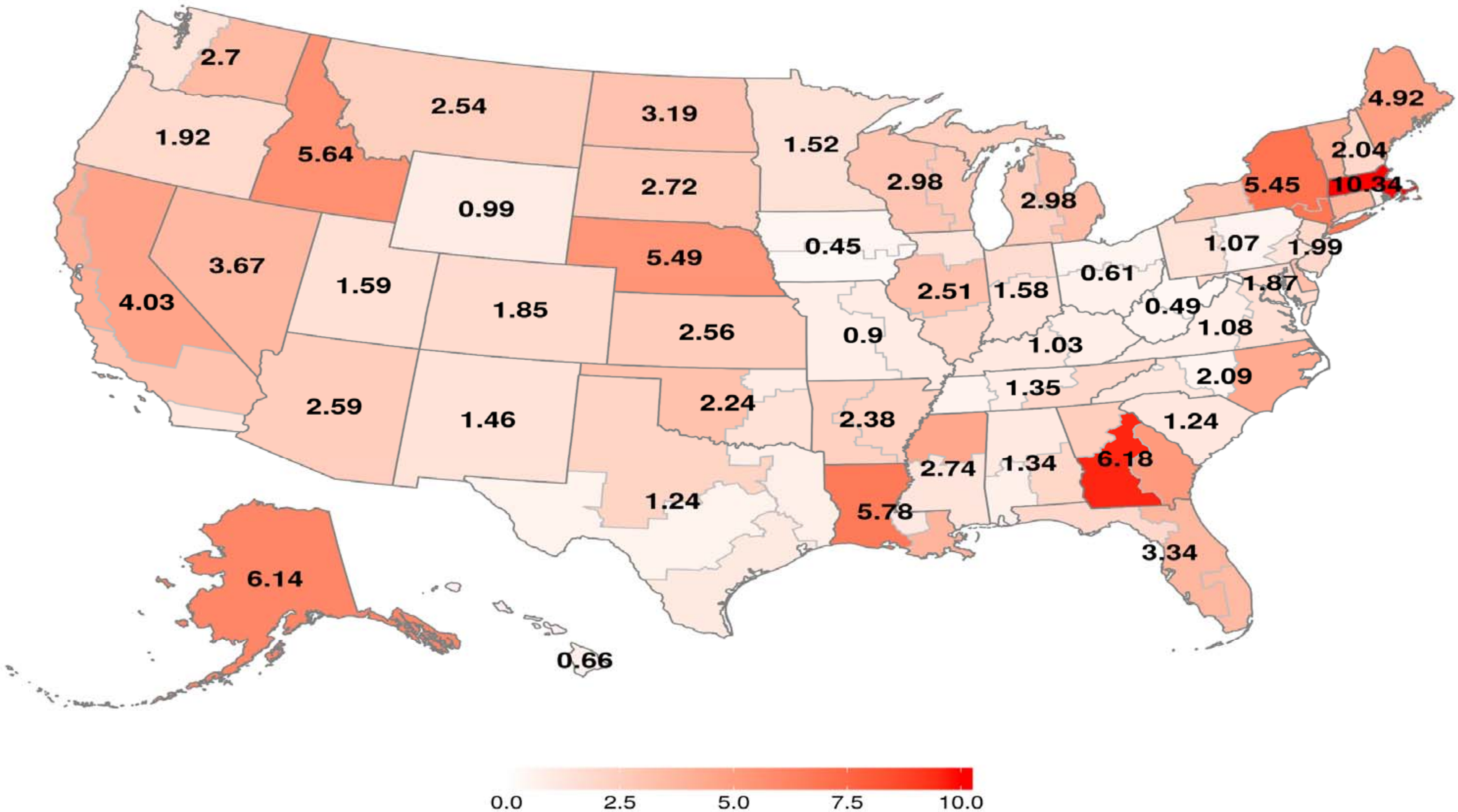


Total Farmer Bankruptcies Filed

From 1997 to 2016: 10,292

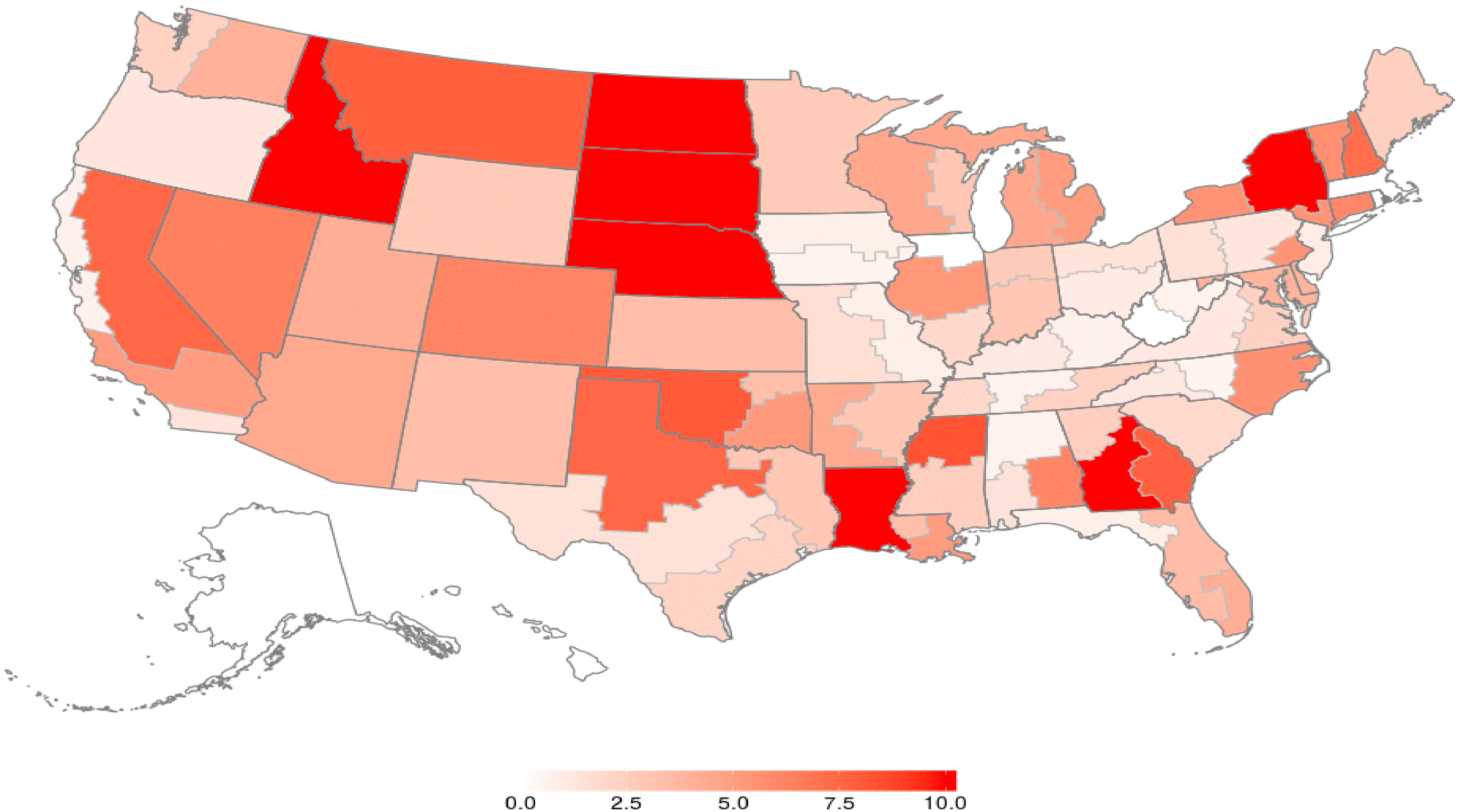


Farmer Bankruptcies filed per 10,000 farms
Annualized across 1997 to 2016: 2.12



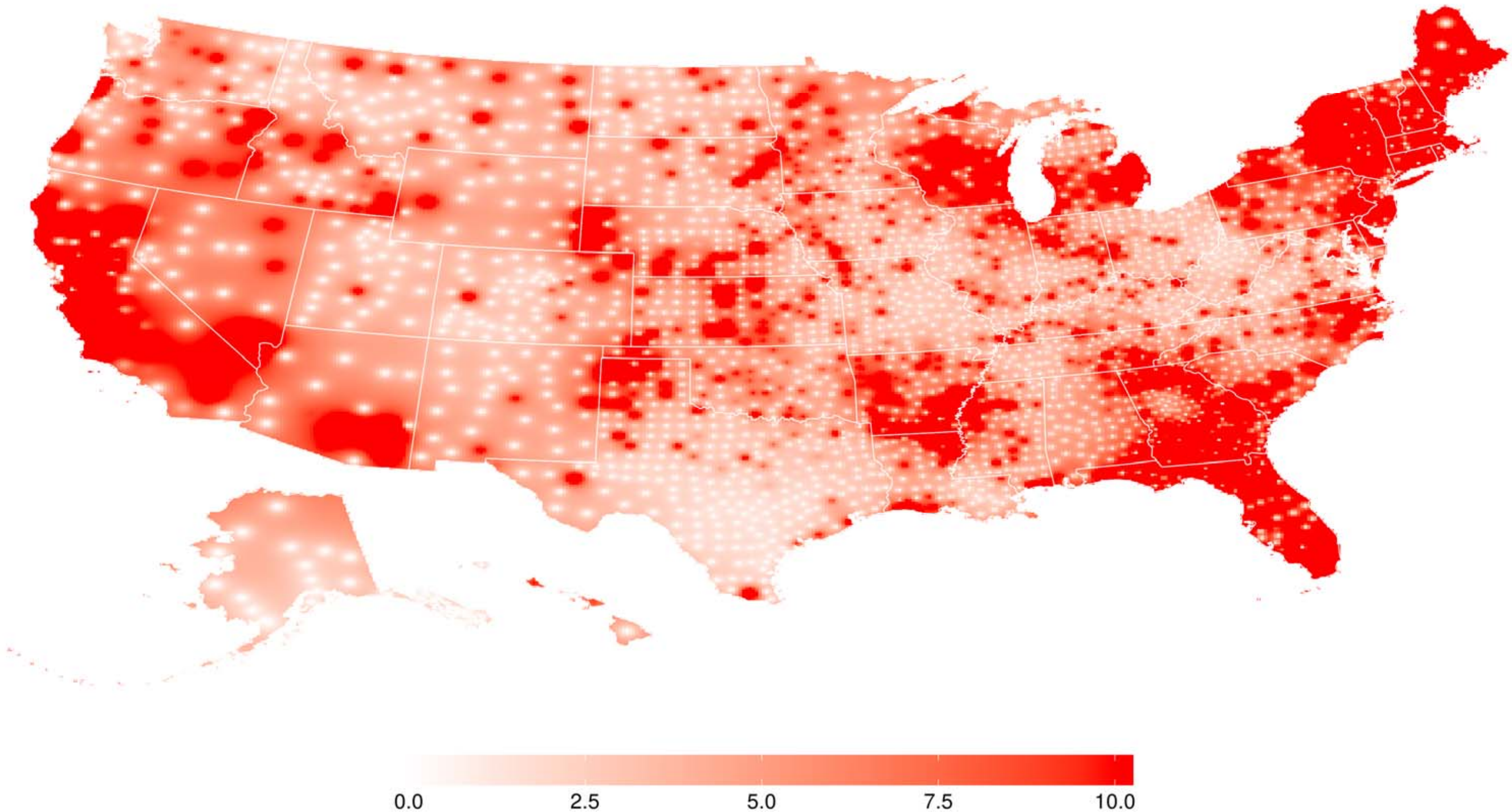
## Bankruptcies filed in 1997

Annualized per 10,000 farms



## Bankruptcies filed per 10,000 farms

annualized for 2013 through 2016



# Delinquencies on Ag Loans

- Are ag loan delinquency rates a leading indicator of financial stress?

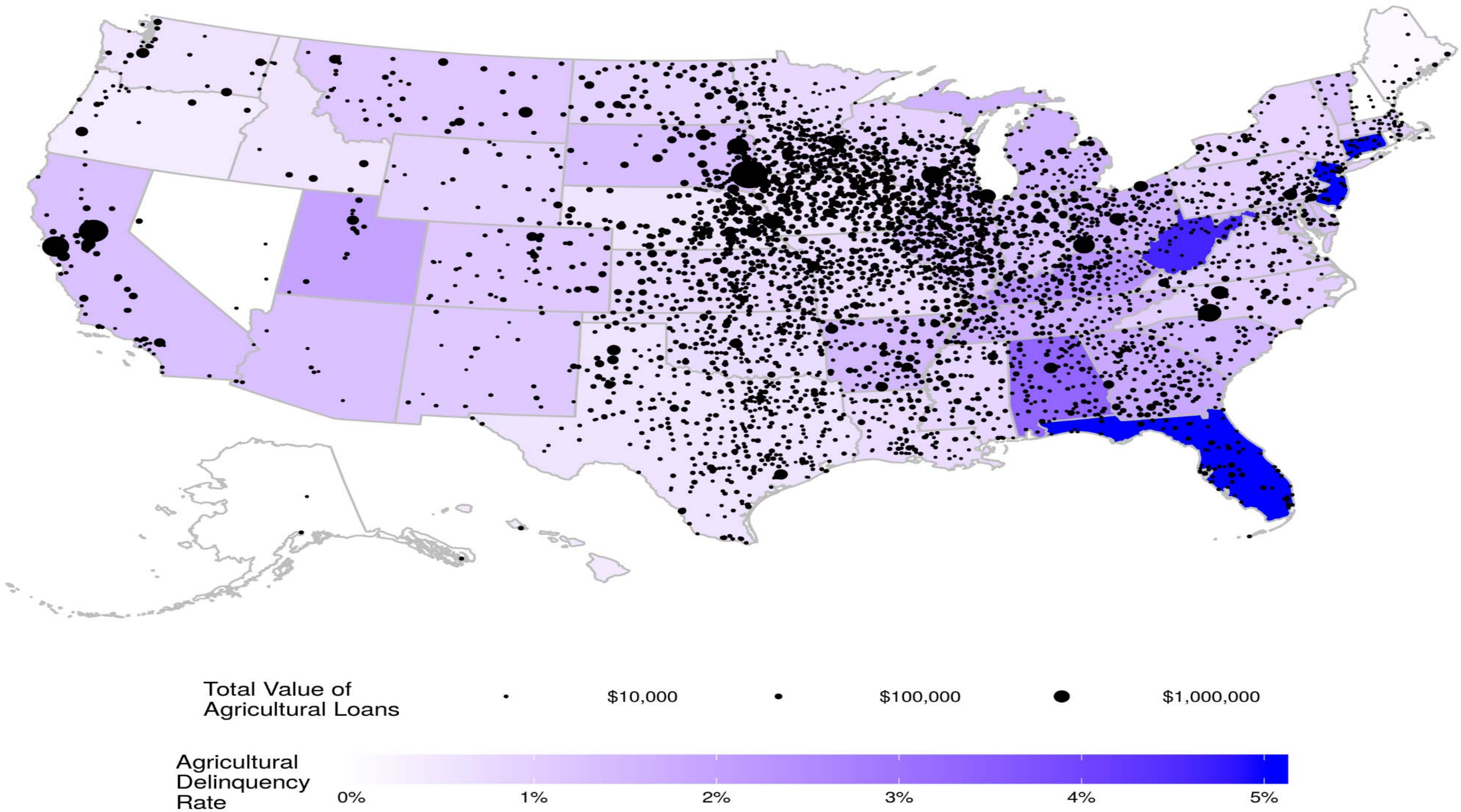
Data from FDIC, Consolidated Reports of Condition and Income

https://www5.fdic.gov/sdi/download_large_list_outside.asp

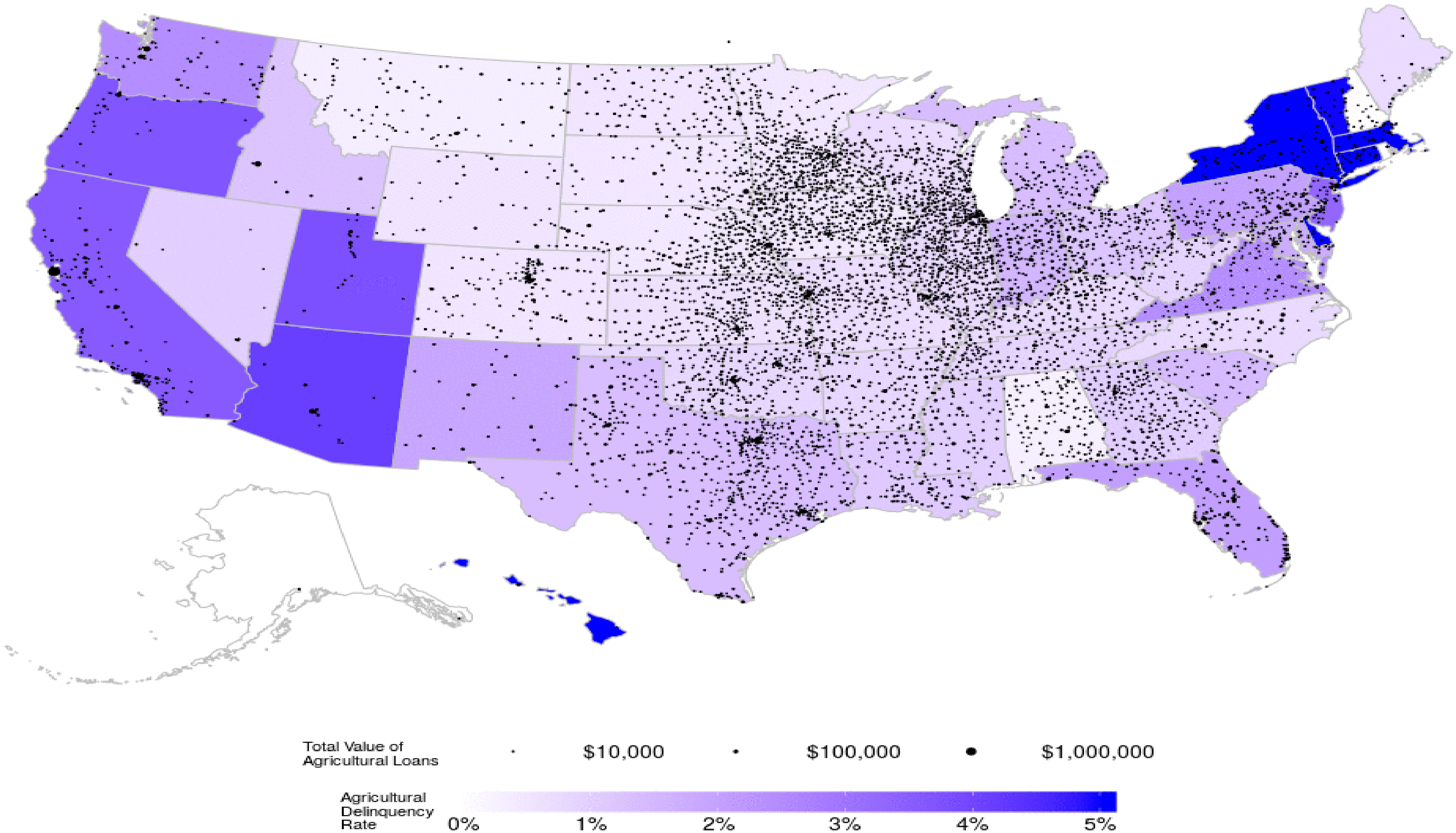
- Each FDIC institution reported total value of ag loans (real estate and non-real estate)
- Total value of delinquent loans reported each quarter

Commercial Agricultural Banking Performance

from Q2 2016

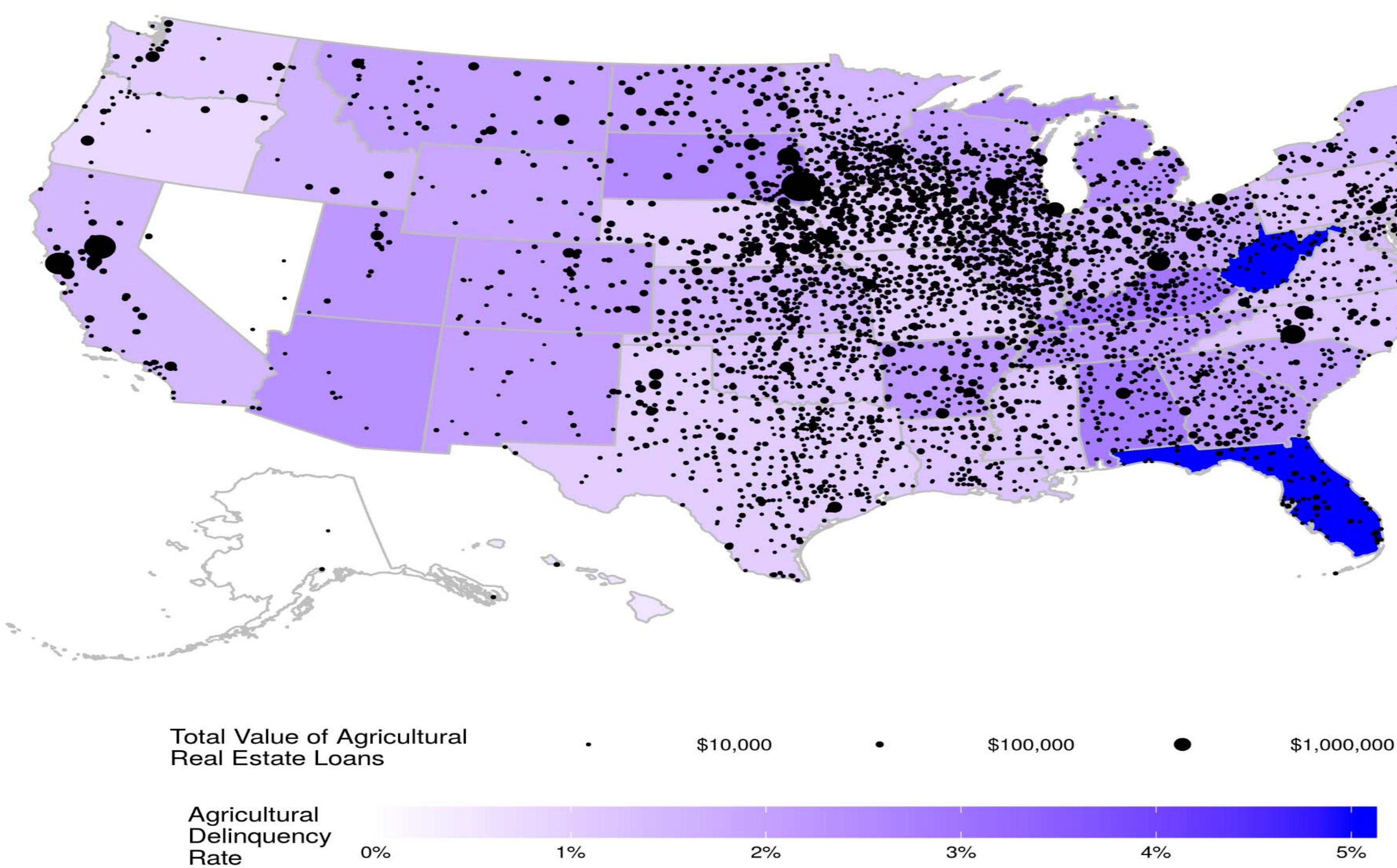


Commercial Agricultural Banking Performance in 1993



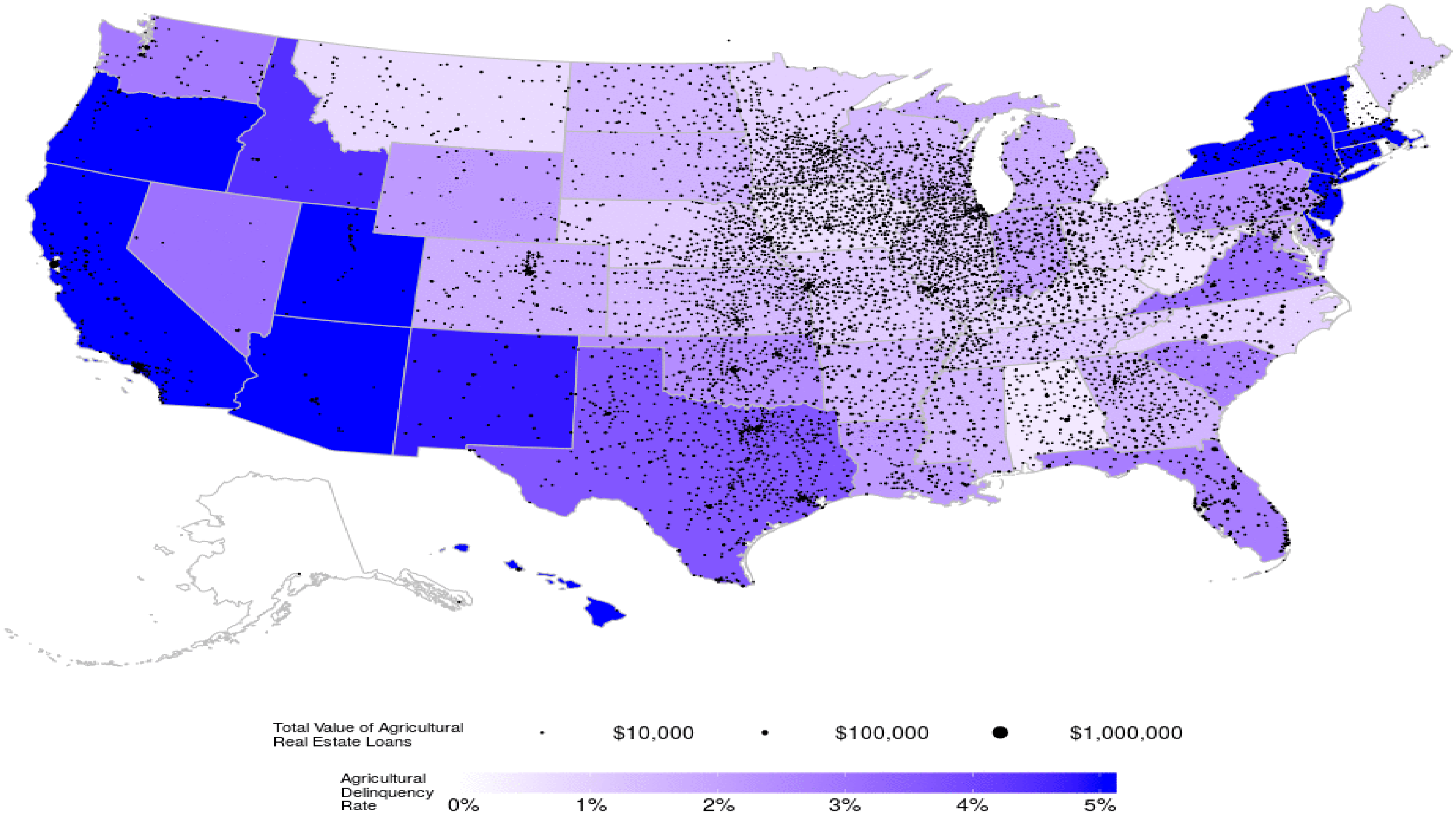
## Commercial Agricultural Banking Performance, Real Estate

from Q2 2016



Commercial Agricultural Banking Performance in 1993

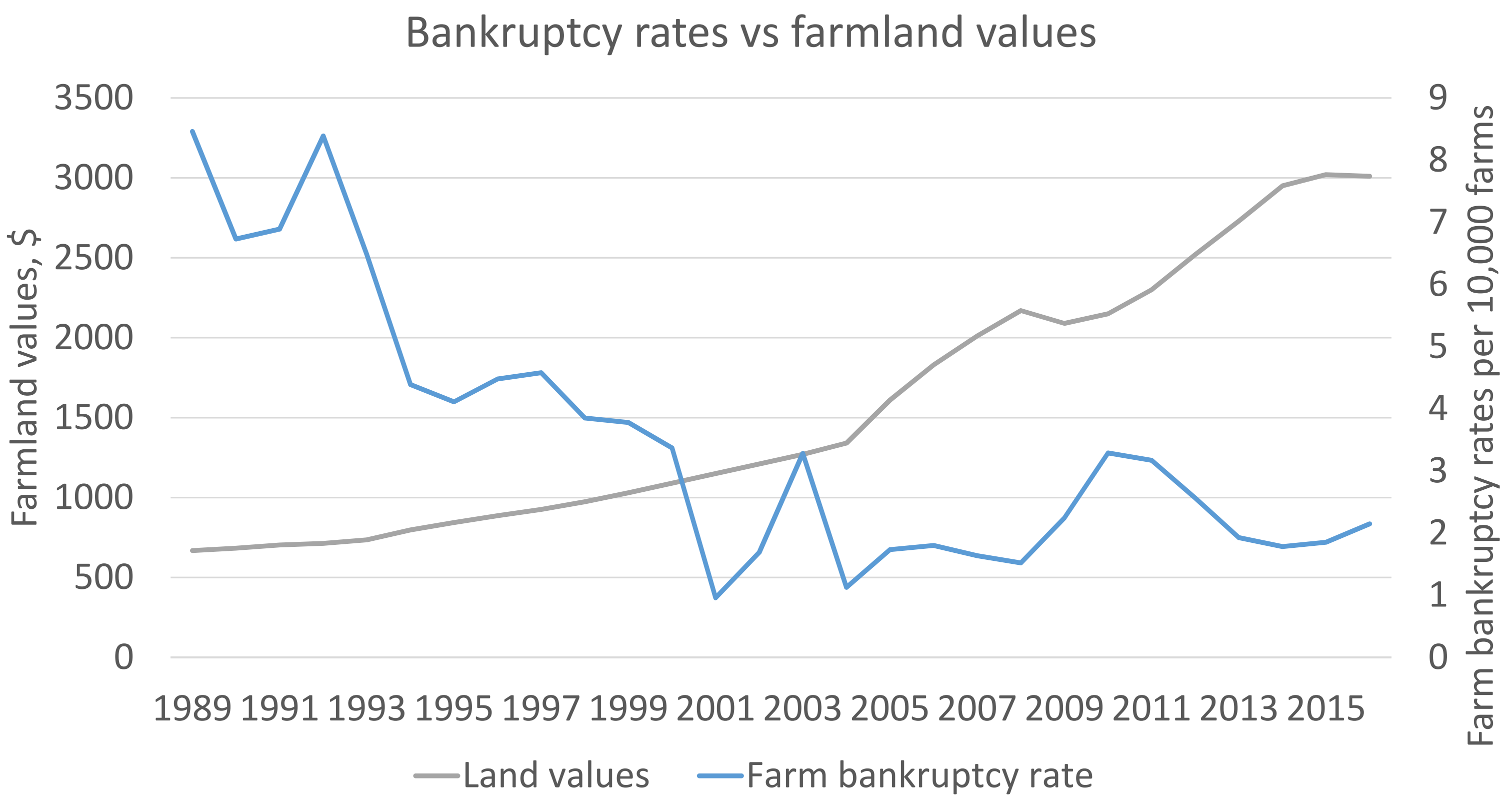
Real Estate



# Land values, farm income, and bankruptcies

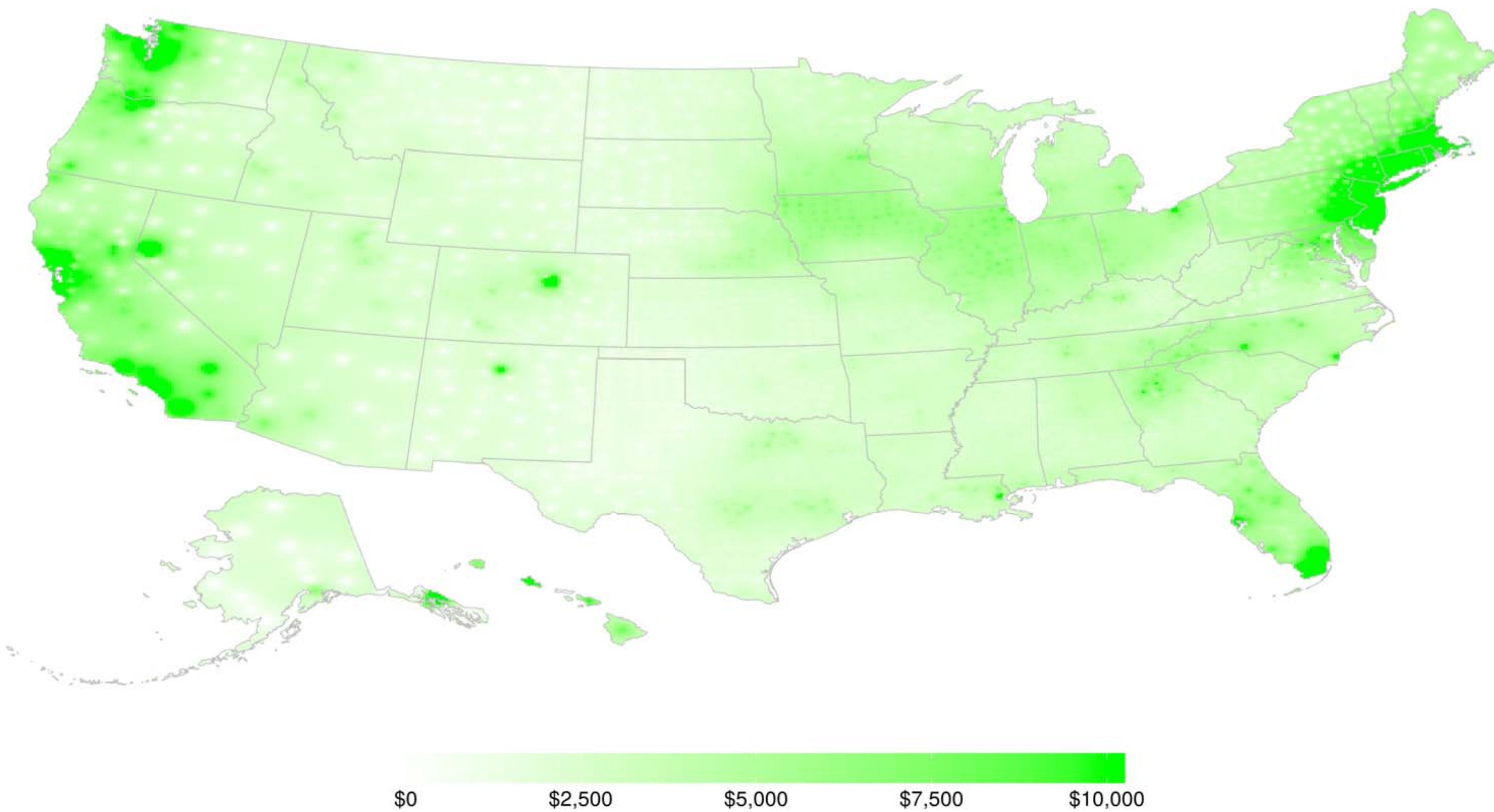
- How does the decline in farm income for a $4^{th}$ straight year affect farm bankruptcy rates?
- Is there a relationship between land values and bankruptcy rates?
- What factors affect farm bankruptcy rates?

# Negative relationship between farmland values and bankruptcy rates



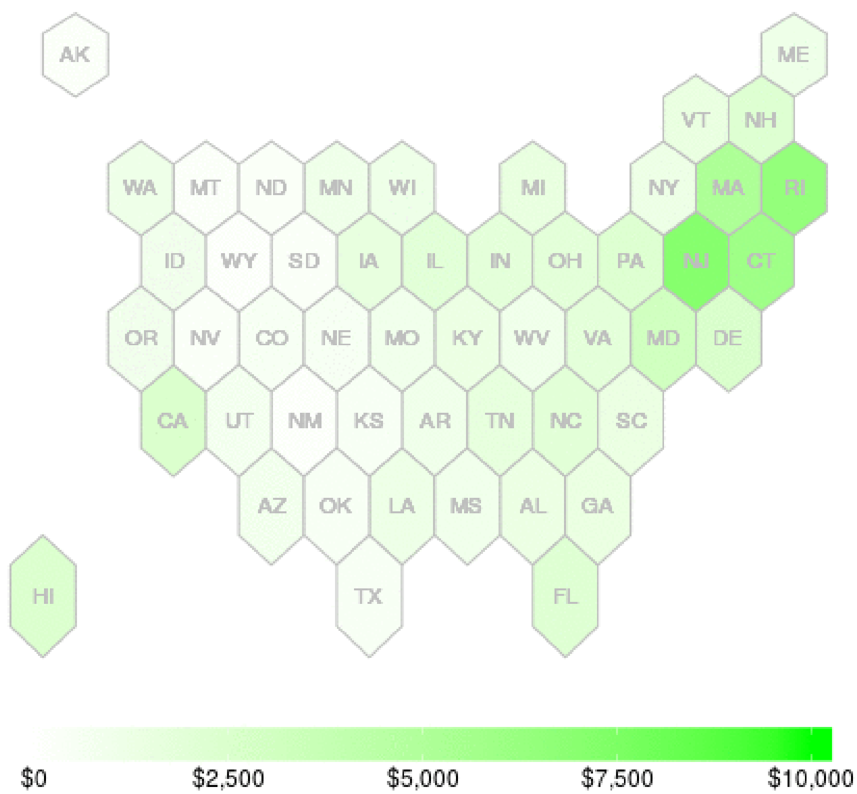
# Average Value of an Acre of Agricultural Land

From 2012 Agricultural Census

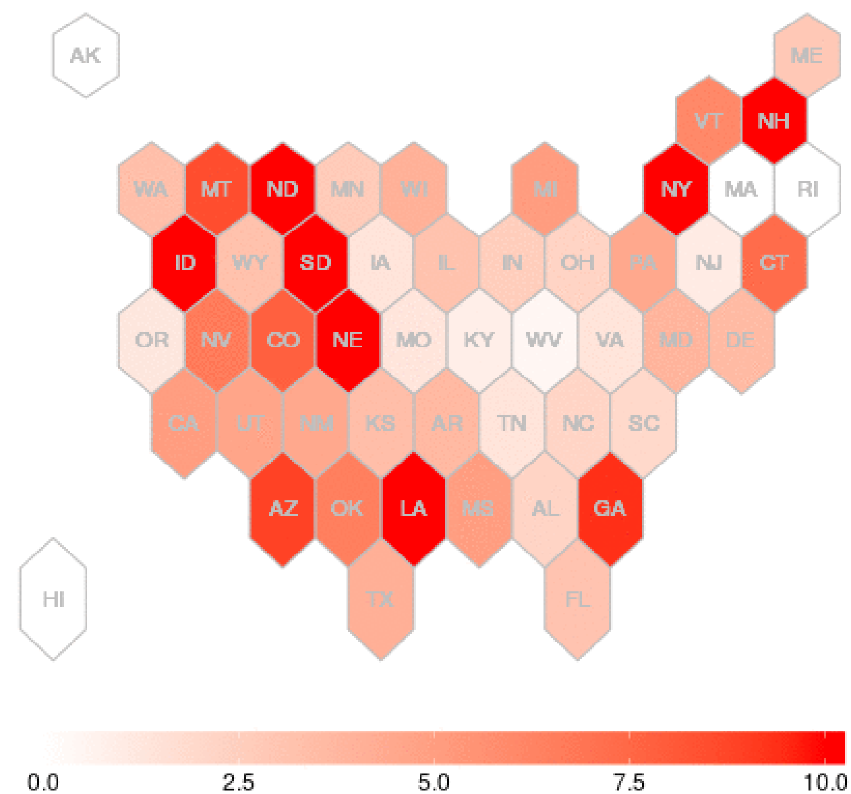


# Substantial Temporal and Regional Variation

### Average Value of an Acre of Agland 1997
(includes buildings)

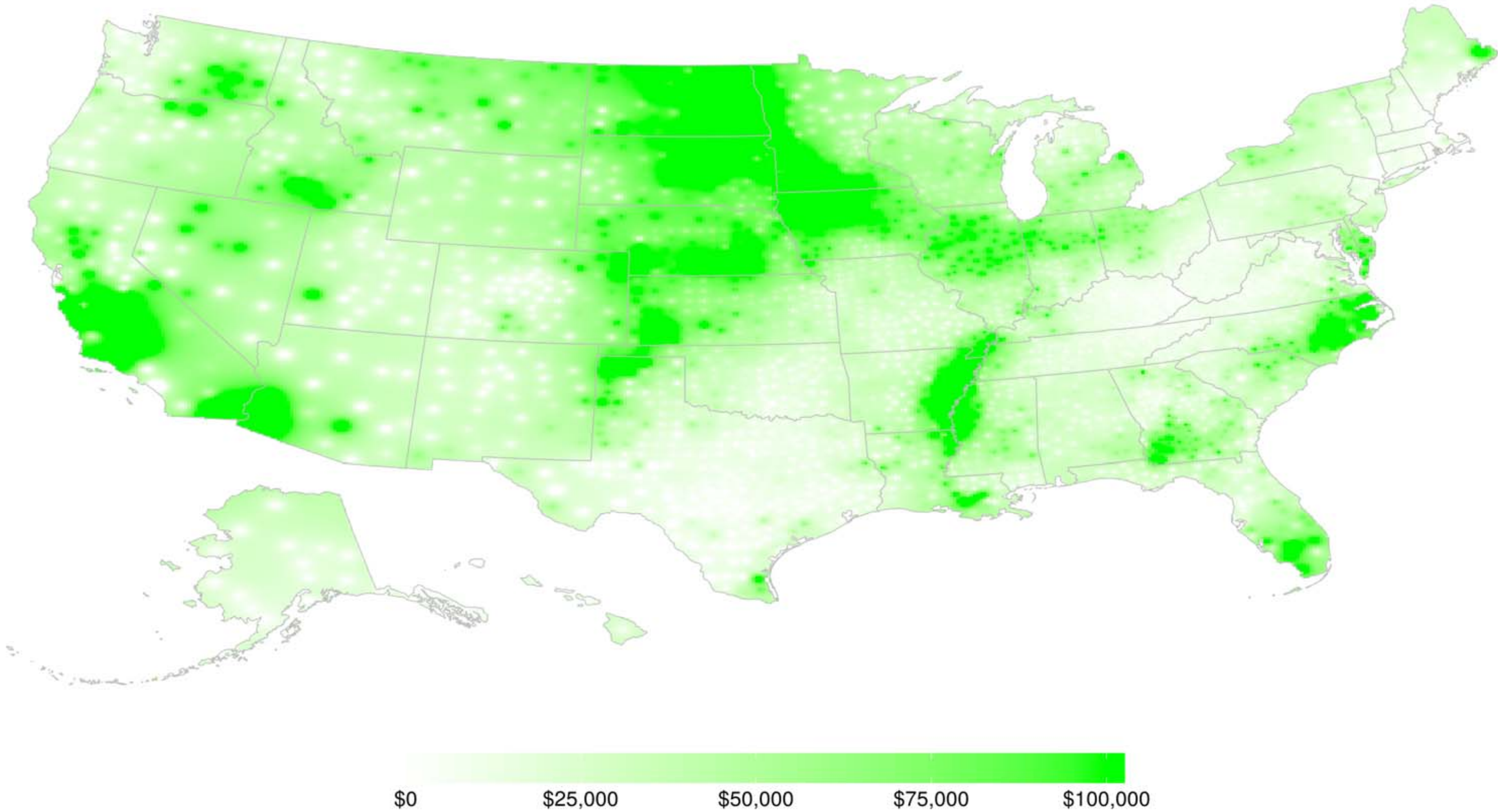



### Bankruptcies filed 1997
Annualized per 10,000 farms

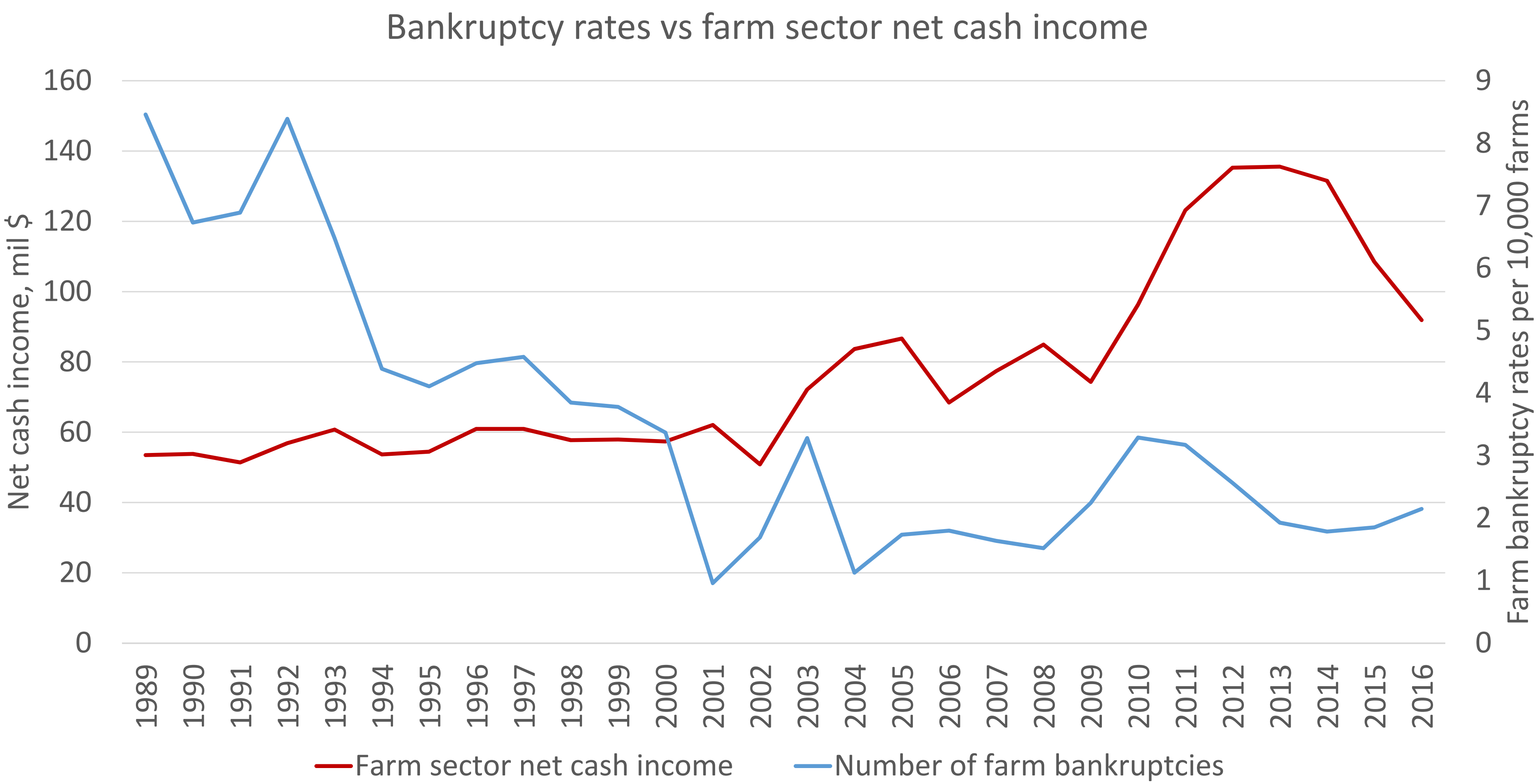


# Farm Net Cash Income

From 2012 Agricultural Census



# Negative relationship between net cash income and bankruptcy rates



# Further econometric analysis

- Factors affecting bankruptcy rates:
- **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 2.15 bankruptcies per 10,000 farms for 2016. This is a higher rate than the rate of 1.93 in 2015, 1.71 in 2014 and 1.87 in 2013, but lower than 2.42 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 bankruptcies in 2016 but still at historic lows.
- Therefore, <u>bankruptcy rates</u> can be thought of as a <u>lagging indicator</u> of farm financial stress.
- In contrast, <u>delinquency rates</u> for ag loans can be thought of as <u>leading indicator</u> of financial stress.

# Outlook for 2017 and beyond

- Due to negative correlations between bankruptcy rates and farm income and land values, we expect to see a further uptick in 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 probably continue to go up in 2017 and beyond if current conditions continue.

# Thank you!

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