

FARM BANKRUPTCIES



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FARM BANKRUPTCIES UP

The number of Kansas farmers filing for bankruptcy in 1992 was larger than last year, according to the results of a study by the Kansas Agricultural Statistics Office. Court records show that 141 Kansas farmers filed for bankruptcy in 1992, compared to 132 farmers in 1991 and 101 in 1990. The current level of bankruptcy filings remains below the 1988 level when 213 farmers filed bankruptcy cases.

This bankruptcy project began in 1989 because of widespread concern about the number of farmers who were resorting to bankruptcy to deal with their financial problems. Experts in farming, banking, and law believed that farm bankruptcies had greatly increased in the mid-1980's following the drastic decline in land prices. However, no data had been available on the total number of farm bankruptcies.

This report includes bankruptcy cases filed from 1990 through 1992 and their status as of July 15, 1993.

There are several factors that complicate the tabulation of bankruptcy case filings. A single farmer sometimes files more than one bankruptcy case. A few farmers file separate cases for different farm operations. When a case is dismissed, farmers may file a new case, often under a different chapter or in a different court. In previous years, two examples were found of farmers filing a new bankruptcy case while an existing one was still unsettled. As a further complication, pending cases may be converted to another chapter of the bankruptcy code.

Because of these problems, the data in this report should not be treated as exact counts of the number of filings, dismissals, or discharges under the different chapters. However, they are strong indicators of the recent trends in Kansas farm bankruptcies.

The first table in this report contains statewide totals for all farm cases filed. Other tables report summary data by bankruptcy chapter (7, 11, 12, or 13), by type of farm, and for the bankruptcy courts in Wichita and Topeka. The table of Kansas on the back page shows the number of farm bankruptcy filings for each Agricultural Statistics District.

Table 1 shows that the number of 1992 farm bankruptcy filings in Kansas were 9 more than last year. The average debt per farm case decreased in 1992. The status of cases in this report is as of July 15, 1993. Cases are reported as pending, open with confirmed payment plan, discharged, or dismissed. Pending cases include all cases not confirmed, discharged or dismissed by July 15, 1993.

The confirmation of payment plans in reorganization cases (Chapters 11, 12, or 13) is a key event. Confirmation means that the court has approved a plan under which the farmer can reasonably be expected to repay his creditors in his present economic situation. Successful reorganization cases last from three to five years. A confirmed case is considered a successful bankruptcy. The intent of Chapter 7 cases is liquidation of the farm business, so no payment plan is involved. The confirmation category is, therefore, not applicable to Chapter 7. A discharged Chapter 7 case is a successful liquidation. Dismissed cases under any chapter are generally considered unsuccessful bankruptcies. However, a case may be dismissed at the request of the farmer, perhaps because circumstances have changed or a voluntary arrangement has been worked out with creditors.

Table 1--STATE LEVEL TOTALS

Year Filed	Cases Filed	Avg. Debt (\$000)	Avg. Assets (\$000)	Cases <u>1/</u> Pending	Cases <u>1/</u> Confirmed	Cases <u>1/</u> Discharged	Cases <u>1/</u> Dismissed
1990	101	348	201	30	6	57	8
1991	132	330	203	60	12	54	6
1992	141	214	146	65	16	54	6
Total	374	291	181	155	34	165	20

1/ Status as of July 15, 1993

STATE LEVEL TOTALS

Table 2 breaks down farm bankruptcy filings by the chapters of the bankruptcy code. Farmers can file bankruptcy under four different chapters. Chapter 7 is for liquidations and Chapters 11, 12, and 13 are for reorganizations. Under Chapter 7, the farmer intends to terminate his operation. In liquidations, all non-exempt assets are sold for the benefit of creditors and the remaining debts are discharged. Fifty-four percent of the cases covered in this report were filed under Chapter 7. Chapter 7 cases are much more likely to be successfully discharged than cases under the other chapters.

Chapter 11 cases are for reorganization of financially troubled businesses. Under this chapter, creditors may veto a farmer's proposed payment plan. Creditors may also propose an alternate plan. Thirteen Chapter 11 farm cases were filed in 1992. Over the last three years, Chapter 11 cases accounted for 11 percent of all farm filings.

In 1986, Congress created a special chapter of the bankruptcy code (Chapter 12) to make it easier for family farm operations to reorganize financially. In 1992, 44 Chapter 12 farm bankruptcies were filed. Over the last three years, 26 percent of farm cases have been under Chapter 12.

To be eligible for Chapter 12, 80 percent of an operation's debt and 50 percent of its income must come from farming. Under Chapter 12, creditors do not have veto power over a farmer's payment plan. Also, creditors may have to settle for the current value of their collateral. This clause is particularly significant where sharp drops in land value have occurred.

Chapter 13 is restricted to individuals or sole proprietorships. To be eligible to file under Chapter 13, an individual must have no more than \$350,000 in secured debt and a maximum of \$100,000 in unsecured debt. Ten percent of all farm cases in this report have been filed under Chapter 13.

Table 2--STATE-WIDE TOTAL BY CHAPTERS

	Chapter 7			Chapter 11			Chapter 12			Chapter 13		
	1990	1991	1992	1990	1991	1992	1990	1991	1992	1990	1991	1992
Cases Filed	58	77	66	11	16	13	25	28	44	7	11	18
Average Debt (000)	241	283	183	690	424	62	490	449	344	123	219	123
Average Assets (000)	142	152	128	357	327	112	286	287	198	107	174	107
Cases Pending <u>1/</u>	4	26	12	6	11	7	17	18	33	3	5	13
Open/Confirmed Plan <u>1/</u>	NA	NA	NA	3	3	3	2	7	9	1	2	4
Cases Discharged <u>1/</u>	53	50	52	1	1	2	1	1	0	2	2	0
Cases Dismissed <u>1/</u>	1	1	2	1	1	1	5	2	2	1	2	1

1/ Status as of July 15, 1993.

Table 3--BY KANSAS BANKRUPTCY COURTS - ALL CHAPTERS

	Wichita			Topeka		
	1990	1991	1992	1990	1991	1992
Cases Filed	38	87	82	62	45	59
Average Debt (000)	377	317	318	312	356	70
Average Assets (000)	215	193	225	172	224	35
Cases Pending <u>1/</u>	8	28	33	22	32	32
Open/Confirmed Plan <u>1/</u>	2	10	9	4	2	7
Cases Discharged <u>1/</u>	27	46	35	30	8	19
Cases Dismissed <u>1/</u>	1	3	5	6	3	1

1/ Status as of July 15, 1993.

This report classifies farm operations as crop, livestock, or mixed farms based on information in court papers. The number of farms classified as mixed operations increased in 1992. Crop farms were the largest group in all three years. This year, crop operations had the highest average debt and all farm types showed a decrease in average debt.

Table 4--BANKRUPTCY FILINGS BY FARM TYPE

	Crop Farms			Livestock Operations			Mixed Crop/Livestock			Unknown/Other		
	1990	1991	1992	1990	1991	1992	1990	1991	1992	1990	1991	1992
Cases Filed	55	72	74	19	36	15	20	8	31	7	16	21
Average Debt (000)	353	393	289	406	245	159	326	550	208	196	128	NA
Average Assets (000)	213	253	196	193	148	103	213	239	144	83	86	NA
Equity (000)	-140	-140	-93	-213	-97	-57	-114	-311	-65	-113	-42	NA
% of Total Cases	54.5	54.5	52.5	18.8	27.3	10.6	19.8	6.1	22.0	6.9	12.1	14.9

Table 5 covers Chapter 7 cases that were both filed and discharged between January 1, 1990 and July 15, 1993. Because the farmer is not attempting to reorganize his business, Chapter 7 cases are generally less complicated and less time consuming.

Table 5--CHAPTER 7 CASES DISCHARGED

Year Filed	Number Discharged by 07/15/93	Average Debt	Average Assets	Avg. Days Until Discharge
		(000)	(000)	
1990	53	238	143	334
1991	50	298	159	276
1992	52	160	113	203
Total	155	231	138	271

Table 6 below indicates the average length of time until plan confirmation for those cases which are in reorganization. However, only 20 percent of all reorganization cases filed since 1990 have confirmed plans. Only 22 percent of all reorganizations filed in 1991 have been confirmed, while 21 percent filed in 1992 had been confirmed. Many of these cases will stay open for years with farmers making multiple attempts to file payment plans acceptable to the court or to creditors.

Table 6--AVERAGE TIME UNTIL CONFIRMATION OF PAYMENT PLANS IN SUCCESSFUL REORGANIZATION CASES - CHAPTER 11, 12, & 13

Chapter	Total Filings				Number with Confirmed Plans				Average Days Until Confirmed			
	1990	1991	1992	3-Yr. Total	1990	1991	1992	3-Yr. Total	1990	1991	1992	3-Yr. Total
12	25	28	44	97	2	7	9	18	378	467	328	388
11 & 13	18	27	31	76	4	5	7	16	459	223	293	313
11, 12, & 13	43	55	75	173	6	12	16	34	432	365	312	352

Reorganization cases may also be converted to other chapters of the bankruptcy code. Most conversions are to Chapter 7 for liquidation purposes. The statistical tables in this report do not cover these conversions. These conversions basically represent unsuccessful attempts to reorganize and save the farm business by filing bankruptcy, because in the end the farmer decided to liquidate.

Table 7--KANSAS FARM BANKRUPTCY FILINGS, by Agricultural Districts 1990-1992

This table shows the number of farmers who filed for bankruptcy in each of the nine Agricultural Statistics Districts

Northwest 1990-10 1991-9 1992-9	North Central 1990-12 1991-12 1992-13	Northeast 1990-13 1991-7 1992-16
West Central 1990-6 1991-8 1992-5	Central 1990-10 1991-23 1992-25	East Central 1990-8 1991-8 1992-6
Southwest 1990-15 1991-28 1992-35	South Central 1990-15 1991-27 1992-22	Southeast 1990-12 1991-10 1992-10