

FARM BANKRUPTCIES



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FARM BANKRUPTCIES DOWN

The number of Kansas farmers filing for bankruptcy in 1993 was much lower than last year, according to the results of a study by the Kansas Agricultural Statistics Office. Court records show that 89 Kansas farmers filed for bankruptcy in 1993, compared to 141 farmers in 1992 and 132 in 1991. The current level of bankruptcy filings is the lowest total since we started the survey in 1989.

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 1991 through 1993 and their status as of August 10, 1994.

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, three 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 1993 farm bankruptcy filings in Kansas were 52 less than last year, although the average debt per farm case increased in 1993. The status of cases in this report is as of August 10, 1994. Cases are reported as pending, open with confirmed payment plan, discharged, or dismissed. Pending cases include all cases not confirmed, discharged or dismissed by August 10, 1994.

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
1991	132	330	203	17	22	73	20
1992	141	214	146	13	51	67	10
1993	89	249	193	19	22	42	6
Total	362	265	178	49	95	182	36

1/ Status as of August 10, 1994

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-two 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. Fourteen Chapter 11 farm cases were filed in 1993. Over the last three years, Chapter 11 cases accounted for 12 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 1993, 22 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		
	1991	1992	1993	1991	1992	1993	1991	1992	1993	1991	1992	1993
Cases Filed	77	67	46	16	13	14	28	43	22	11	18	7
Average Debt (000)	283	190	209	424	62	253	449	338	360	219	123	159
Average Assets (000)	152	133	124	327	112	272	287	192	309	174	107	125
Cases Pending 1/	6	5	4	3	1	8	6	5	7	2	2	0
Open/Confirmed Plan 1/	NA	NA	NA	6	6	3	12	32	14	4	13	5
Cases Discharged 1/	69	60	40	1	5	1	1	0	1	2	2	0
Cases Dismissed 1/	2	2	2	6	1	2	9	6	0	3	1	2

1/ Status as of August 10, 1994.

Table 3--BY KANSAS BANKRUPTCY COURTS - ALL CHAPTERS

	Wichita			Topeka		
	1991	1992	1993	1991	1992	1993
Cases Filed	87	82	52	45	59	37
Average Debt (000)	317	318	238	356	70	264
Average Assets (000)	193	225	196	224	35	190
Cases Pending 1/	9	9	11	8	4	8
Open/Confirmed Plan 1/	11	26	12	11	25	10
Cases Discharged 1/	55	41	26	18	26	16
Cases Dismissed 1/	12	6	3	8	4	3

1/ Status as of August 10, 1994.

This report classifies farm operations as crop, livestock, or mixed farms based on information in court papers. If it is impossible to tell what category the farmer belongs in or they raise exotic plants or animals, they are placed in the 'Other' category. The number of farms classified for each category was fairly even in 1993. Crop farms showed a large drop in the number of filings in 1993. This year, livestock operations had the highest average debt.

Table 4--BANKRUPTCY FILINGS BY FARM TYPE

	Crop Farms			Livestock Operations			Mixed Crop/Livestock			Unknown/Other		
	1991	1992	1993	1991	1992	1993	1991	1992	1993	1991	1992	1993
Cases Filed	72	74	25	36	15	32	8	31	15	16	21	17
Average Debt (000)	393	289	262	245	159	272	550	208	236	128	NA	199
Average Assets (000)	253	196	215	148	103	216	239	144	153	86	NA	153
Equity (000)	-140	-93	-47	-97	-57	-56	-311	-65	-83	-42	NA	-46
% of Total Cases	54.5	52.5	28.1	27.3	10.6	36.0	6.1	22.0	16.9	12.1	14.9	19.1

Table 5 covers Chapter 7 cases that were both filed and discharged between January 1, 1991 and August 10, 1994. 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 08/10/94	Average Debt	Average Assets	Avg. Days Until Discharge
		(000)	(000)	
1991	69	265	135	262
1992	60	178	124	218
1993	40	193	110	232
Total	169	217	125	239

Table 6 below indicates the average length of time until plan confirmation for those cases which are in reorganization. Fifty-five percent of all reorganization cases filed since 1991 have confirmed plans. Sixty-nine percent of all reorganizations filed in 1992 have been confirmed, while 51 percent filed in 1993 had been confirmed. Many of the cases without a confirmed plan 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			
	1991	1992	1993	3-Yr. Total	1991	1992	1993	3-Yr. Total	1991	1992	1993	3-Yr. Total
12	28	43	22	93	12	32	14	58	517	331	220	343
11 & 13	27	31	21	79	10	19	8	37	446	263	218	303
11, 12, & 13	55	74	43	172	22	51	22	95	485	306	219	327

Reorganization cases may also be converted to other chapters of the bankruptcy code. Most conversions are to Chapter 7 for liquidation purposes. 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
1991-1993**

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

Northwest 1991-9 1992-9 1993-4	North Central 1991-12 1992-13 1993-10	Northeast 1991- 6 1992-16 1993- 3
West Central 1991-8 1992-5 1993-5	Central 1991-23 1992-25 1993-12	East Central 1991-9 1992-6 1993-6
Southwest 1991-28 1992-35 1993-12	South Central 1991-27 1992-22 1993-21	Southeast 1991-10 1992-10 1993-16

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