

FARM BANKRUPTCIES



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FARM BANKRUPTCIES DOWN

The number of Kansas farmers filing for bankruptcy in 1994 was much lower than last year, according to the results of a study by the Kansas Agricultural Statistics Office. Court records show that 50 Kansas farmers filed for bankruptcy in 1994, compared to 89 farmers in 1993 and 141 in 1992. The current level of bankruptcy filings is the lowest total since the survey began 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 1992 through 1994 with their current status as of August 25, 1995.

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 1994 farm bankruptcy filings in Kansas were 39 less than last year, but the average debt per farm case increased again in 1994. The status of cases in this report is as of August 25, 1995. 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 25, 1995.

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
1992	141	214	146	6	41	73	21
1993	89	249	193	7	18	48	16
1994	50	335	150	21	9	19	1
Total	280	247	162	34	68	140	38

1/ Status as of August 25, 1995

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. Forty-nine 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. Eleven Chapter 11 farm cases were filed in 1994. Over the last three years, Chapter 11 cases accounted for 14 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 1994, 13 Chapter 12 farm bankruptcies were filed. Over the last three years, 27 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		
	1992	1993	1994	1992	1993	1994	1992	1993	1994	1992	1993	1994
Cases Filed	68	47	22	14	13	11	42	21	13	17	8	4
Average Debt (000)	190	217	303	57	251	521	346	351	313	116	168	67
Average Assets (000)	132	129	114	104	282	242	197	306	156	108	128	81
Cases Pending 1/	2	1	4	2	2	7	2	3	10	0	1	0
Open/Confirmed Plan 1/	0	0	0	1	1	3	30	12	2	10	5	4
Cases Discharged 1/	64	43	18	5	2	0	0	3	1	4	0	0
Cases Dismissed 1/	2	3	0	6	8	1	10	3	0	3	2	0

1/ Status as of August 25, 1995.

Table 3--BY KANSAS BANKRUPTCY COURTS - ALL CHAPTERS

	Wichita			Topeka		
	1992	1993	1994	1992	1993	1994
Cases Filed	82	52	28	59	37	22
Average Debt (000)	318	238	335	70	264	334
Average Assets (000)	225	196	122	35	190	186
Cases Pending 1/	4	3	7	2	4	14
Open/Confirmed Plan 1/	23	9	5	18	9	4
Cases Discharged 1/	45	32	16	28	16	3
Cases Dismissed 1/	10	8	0	11	8	1

1/ Status as of August 25, 1995.

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. Bankruptcy filings for all types of farms declined in 1994. Livestock farms again led the way with the most filings. This could be linked to low hog and cattle prices in the fall of 1994.

Table 4--BANKRUPTCY FILINGS BY FARM TYPE

	Crop Farms			Livestock Operations			Mixed Crop/Livestock			Unknown/Other		
	1992	1993	1994	1992	1993	1994	1992	1993	1994	1992	1993	1994
Cases Filed	74	25	10	15	32	25	31	15	10	21	17	5
Average Debt (000)	289	262	253	159	272	317	208	236	503	NA	199	249
Average Assets (000)	196	215	95	103	216	133	144	153	271	NA	153	109
Equity (000)	-93	-47	-158	-57	-56	-185	-65	-83	-231	NA	-46	-140
% of Total Cases	52.5	28.1	20.0	10.6	36.0	50.0	22.0	16.9	20.0	14.9	19.1	10.0

Table 5 covers Chapter 7 cases that were both filed and discharged between January 1, 1992 and August 25, 1995. 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 08/25/95	Average Debt (000)	Average Assets (000)	Avg. Days Until Discharge
1992	64	190	132	242
1993	43	215	129	253
1994	17	280	108	222
Total	124	211	128	243

Table 6 below indicates the average length of time until plan confirmation for those cases which are in reorganization. Forty-eight percent of all reorganization cases filed since 1992 have confirmed plans. Forty-three percent of all reorganizations filed in 1993 have been confirmed, while 32 percent filed in 1994 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			
	1992	1993	1994	3-Yr. Total	1992	1993	1994	3-Yr. Total	1992	1993	1994	3-Yr. Total
12	42	21	13	76	30	12	2	44	337	236	267	306
11 & 13	31	21	15	67	11	6	7	24	287	225	181	241
11, 12, & 13	73	42	28	143	41	18	9	68	324	232	200	283

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
1992-1994**

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

Northwest 1992-9 1993-4 1994-3	North Central 1992-13 1993-10 1994- 5	Northeast 1992-16 1993- 3 1994- 6
West Central 1992-5 1993-5 1994-1	Central 1992-25 1993-12 1994- 5	East Central 1992-6 1993-6 1994-4
Southwest 1992-35 1993-12 1994- 6	South Central 1992-22 1993-21 1994-14	Southeast 1992-10 1993-16 1994- 6

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