Presentation from the USDA Agricultural Outlook Forum 2017

United States Department of Agriculture
93rd Annual Agricultural Outlook Forum
“A New Horizon: The Future of Agriculture”

February 23-24, 2017
Arlington, Virginia
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 property taxes soar amid souring incomes

Collapsing prices for U.S. corn and soybeans have farmers paying their property taxes, at a time when these taxes are being delinquent. Bankruptcies are rising, but bankruptcy remains weak. The debt-to-asset ratio, a commonly used measure of financial stress, was 33.2% in 2016 and will suck over time as land values fall, perhaps as high as 38%. That would be the highest since 2002 but far below 22.2% in 1995 (at the worst of the agricultural recession). The situation is much different than it was then, notes Johnson.

One farmer in Ohio said his property tax bill has tripled from less than $120 seven years ago.

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.
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

Be sure to file the type of bankruptcy that’s right for you

By Miral Kala Marketing
on November 13, 2016, at 5:00 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 1 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. 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 long-time 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

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

By Tracy Rudolfs and P.J. Huffstutter | CHICAGO
Bankruptcy data

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

• 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.
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 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 in 1993
Land values, farm income, and bankruptcies

• How does the decline in farm income for a 4th 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

Bankruptcy rates vs farmland values

- Land values
- Farm bankruptcy rate

Farmland values, $

Farm bankruptcy rates per 10,000 farms

1989 1991 1993 1995 1997 1999 2001 2003 2005 2007 2009 2011 2013 2015
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
Negative relationship between net cash income and bankruptcy rates

Bankruptcy rates vs farm sector net cash income

- Net cash income, mil $
- Number of farm bankruptcies
- Farm sector net cash income
- Number of farm bankruptcies per 10,000 farms
- Year: 1989 to 2016
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, bankruptcy rates can be thought of as a lagging indicator of farm financial stress.

• In contrast, delinquency rates for ag loans can be thought of as leading indicator 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!

Ani Katchova
Associate Professor and Farm Income Enhancement Chair
Department of Agricultural, Environmental, and Development Economics
The Ohio State University
katchova.1@osu.edu