Farm Bankruptcies in the United States

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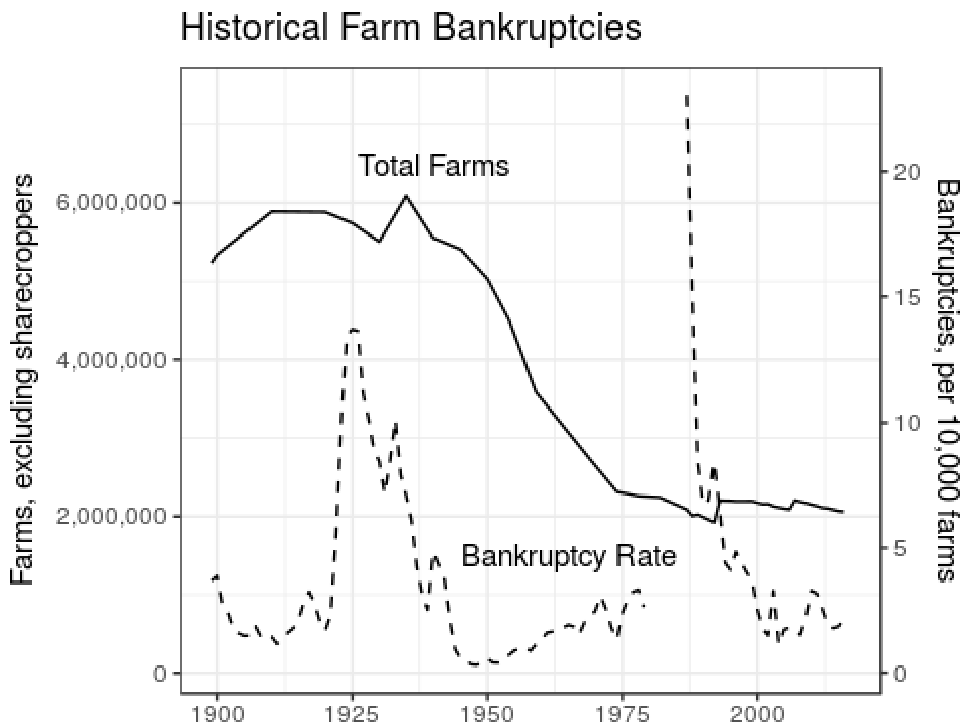
Key Highlights:

- Farmers have a variety of chapters to file for bankruptcy with Chapter 12 being specifically designed for farmers and fishermen to reduce their financial burden while continuing operations.
- Farm bankruptcy rates (chapter 12 filings) have remained relatively low during the last decade, but the agricultural downturn during the last three years has resulted in a small uptick in farm bankruptcy rates.
- While there is a considerable variation across the US, farm bankruptcy rates remain low and stable for several Midwest states.

Farm Bankruptcies over Time

When a business files for bankruptcy, it is generally perceived as a sign of financial stress. Filing for bankruptcy may ultimately lead to the cessation of operations, although this is not a certainty and there are many instances of businesses successfully using a bankruptcy filing to reduce their financial burden and continue operations. There are various forms of bankruptcy available to businesses -- Chapters 7, 11, and 13 are available to all types of businesses not just farms. For farms, there is an additional option in the bankruptcy code (Chapter 12) that they can utilize in times of financial stress, which is not available to other businesses. A major advantage to this form of bankruptcy for farmers is that they are able to continue farming while their debt is restructured.

Farm bankruptcy filings have been filed and recorded since the late 1890s with the exception of a change in bankruptcy reporting procedures which lasted from 1978 to 1986. Ever since the 1940s, the total number of farms within the US have consistently declined while total agricultural production has increased its concentration in fewer and fewer farms. Over this time, farms have had two major run-ups in farm bankruptcies which both eventually led to Congress intervening with temporary legislation in response: the Great Recession and the 1980's Farm Crisis.



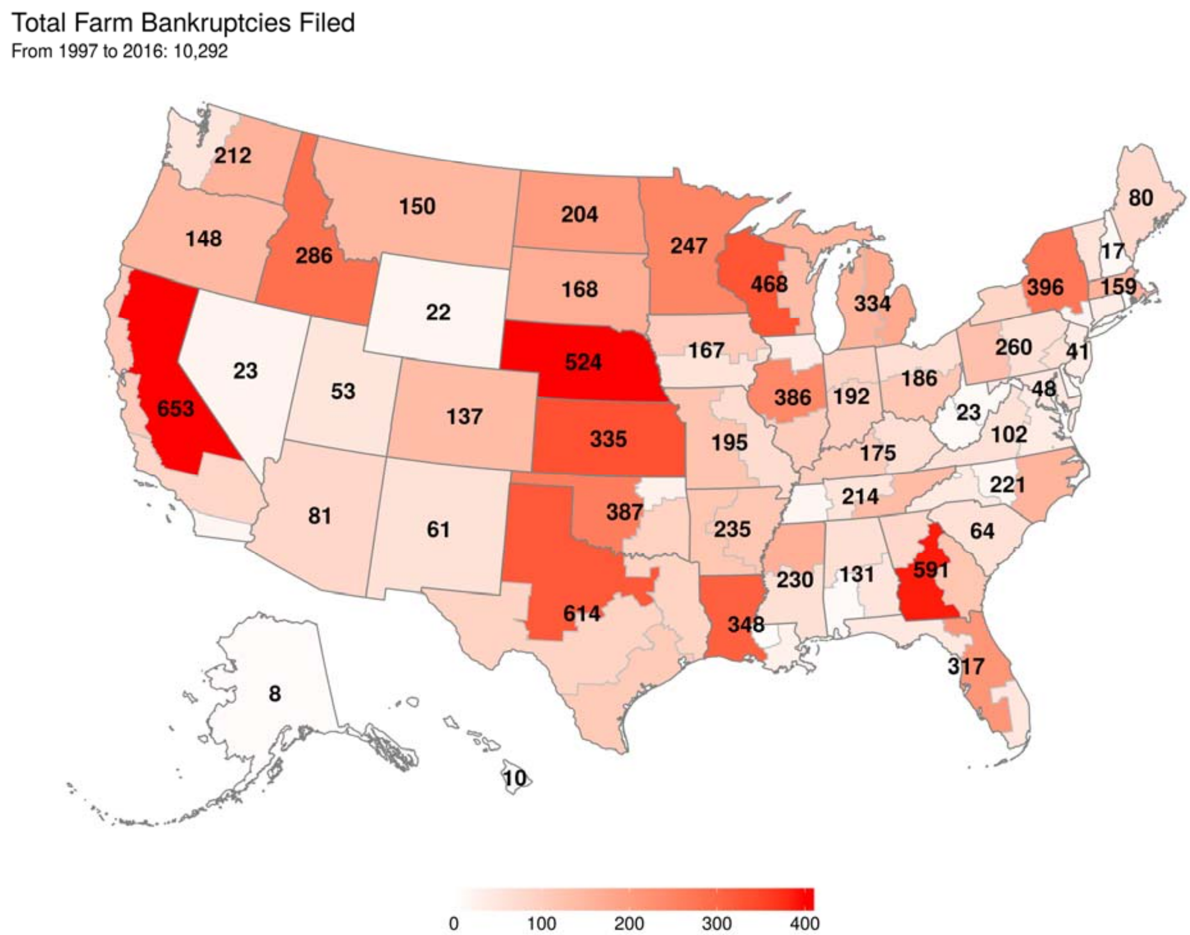
In response to the Great Recession, Congress passed the Frazier-Lemke Act in 1934 which gave farmers filing for bankruptcy the privilege of re-purchasing their farm at an appraised value. In addition, twenty-five states passed various legislation throughout the 1930s which provided a moratorium on farm foreclosures in response to agricultural distress.

The Chapter 12 code for bankruptcy was initially a temporary response to the 1980's Farm Crisis with the passage of the Family Farmer Bankruptcy Act of 1986 and only meant to be a temporary measure. It was not until 2005 that Chapter 12 officially became a permanent fixture of the bankruptcy code with the Bankruptcy Abuse Prevention and Consumer Protection Act of 2005.

Although only farmers (and fishermen since 2005) can file for Chapter 12 bankruptcy, a farmer has the ability to file for one of the other Chapters if they choose to pursue financial relief through bankruptcy. Since 1986, the bankruptcies per farm is only measured through Chapter 12 filings, which under-counts the true number of bankruptcies. It is highly likely that the farm bankruptcy rate in the late 1980s was higher than that of the Great Depression. Farm bankruptcy rates have remained relatively low during the last decade, but the agricultural downturn during the last three years has resulted in a small uptick in farm bankruptcy rates.

Farm Bankruptcies across the United States

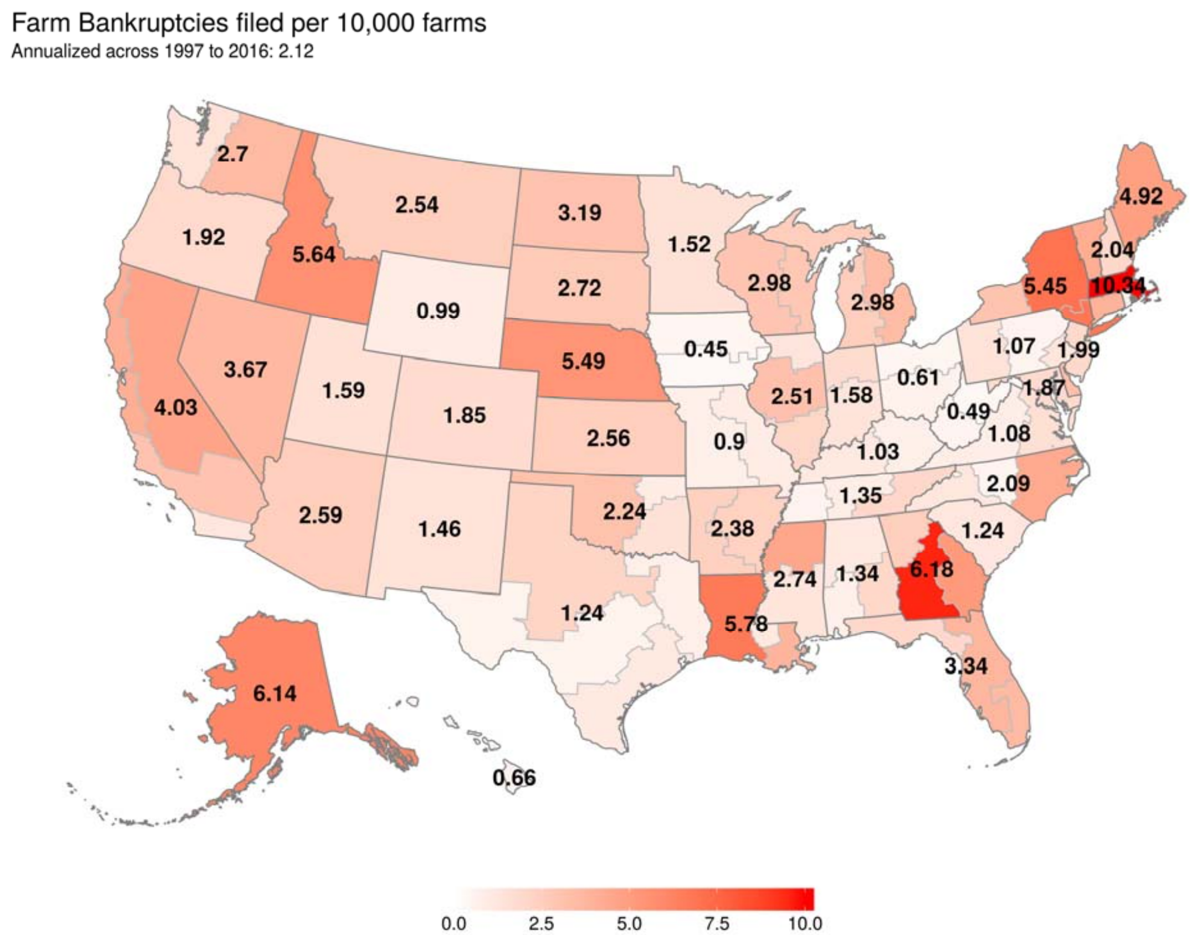
Since October of 1996, there have been 10,292 Chapter 12 bankruptcies filed within the United States according to Judicial Business Table F-2 which also tracks district level filings. A district is a sub-state level court, although the majority of states only have one district. The number of districts in a state generally increases with the population of a state as the three states which have 4 districts were the top three states by population in the 2010 Census (California, New York, and Texas).



Note: Printed values are for state totals for the number of bankruptcies since October 1996, the color scale applies for each district.

The majority of Chapter 12 bankruptcy filings occur within areas which generally have high number of farms and farm production, which is no surprise. Of all the districts, the top 5 for bankruptcy filings since 1996 are Nebraska, California Eastern, Georgia Middle, Kansas and Wisconsin Western districts with total filings of 524, 439, 390, 335 and 329 respectively. However, a state like Iowa -- which is the second highest producing state as measured by cash receipts -- has relatively few bankruptcies compared to its production level. In contrast, Massachusetts ranks 47th in production with about 2% of the production as Iowa but has a similar number of bankruptcies filed (159 to 167).

A map of Chapter 12 filing rates, adjusted for the number of farms in each district, indicates a slightly different spatial distribution of financial distress. The average bankruptcy rate between October 1996 and December 2016 is 2.12 farm bankruptcies per 10,000 farms.



Adjusting for farms within a district helps indicate that the middle of America (Nebraska, Kansas, Oklahoma, and Northern Texas) which had a high number of Chapter 12 bankruptcies no longer has as high of a rate of bankruptcies for the United States. At the same time, Middle Georgia remains a region with a high level of financial distress and it becomes evident that Massachusetts has an elevated risk of farm bankruptcy. This further demonstrates Iowa's strong financial position as it has the lowest rate of farm bankruptcies of any state in the United States.

However, over time, bankruptcies have not been equally dispersed across the United States. There are clear time periods of elevated financial stress since the government fiscal year of 1997. Of particular note is the substantial decline in filings around 2004 with a subsequent jump after 2005, which reflected an anticipation of the agricultural sector for new legislation as it related to Chapter 12. There was a further increase bankruptcy filings across the entire United States due to the Great Recession (roughly 2009 to 2011). Nevertheless, some regions have experienced relatively low and stable bankruptcy rates. One such region coincides loosely with the Corn Belt encompassing the states of Iowa, Missouri, Illinois, Indiana, and Ohio post 2000. This region, which is one of the most productive regions across the United States, has had substantially lower rates of farm bankruptcies filed across the US.

In contrast, the Northeast and Southeast regions appear to have elevated levels of financial stress post 2009. In particular, the elevated number of Chapter 12 filings for Massachusetts occurred around 2010 and appears to have died down substantially after 2013. This does not coincide with the added eligibility of fisherman which occurred in 2005, and is puzzling.