

South Dakota State University
**Open PRAIRIE: Open Public Research Access Institutional
Repository and Information Exchange**

Economics Commentator

Department of Economics

7-3-1987

Farm Reorganization Bankruptcies in South Dakota

Larry Janssen

South Dakota State University, larryjanssen@sdstate.edu

Follow this and additional works at: http://openprairie.sdstate.edu/econ_comm



Part of the [Agricultural and Resource Economics Commons](#), and the [Regional Economics Commons](#)

Recommended Citation

Janssen, Larry, "Farm Reorganization Bankruptcies in South Dakota" (1987). *Economics Commentator*. Paper 248.
http://openprairie.sdstate.edu/econ_comm/248

This Newsletter is brought to you for free and open access by the Department of Economics at Open PRAIRIE: Open Public Research Access Institutional Repository and Information Exchange. It has been accepted for inclusion in Economics Commentator by an authorized administrator of Open PRAIRIE: Open Public Research Access Institutional Repository and Information Exchange. For more information, please contact michael.biondo@sdstate.edu.

Economics Newsletter

Editor: Donald C. Taylor

Economics Department SDSU, Box 504A Brookings, SD 57007

Tele: (605) 688-4141

No. 252

July 3, 1987



Farm Reorganization Bankruptcies in South Dakota

Larry Janssen & Brian Schmiesing
Associate Professors of Economics

Greatly increased farm financial stress in the 1980's has caused substantial asset and debt restructuring by farm businesses and debt writedowns by agricultural lenders. Distribution of financial losses between farm debtors and their creditors may be determined by voluntary negotiation or by the legal processes of foreclosure or bankruptcy.

During the 1980's, the incidence of farm bankruptcies has greatly increased. In South Dakota, a state of 36,000 farms and ranches, the number of farm bankruptcy filings increased from 37 in 1980-81 to 241 in 1984 and to 564 in 1986. Another 405 farm bankruptcy filings have already occurred from January 1 - June 17, 1987 (Table 1). A majority of filings have been reorganization bankruptcy filings - mostly under chapter 11 before December 1986 and the new chapter 12 reorganization petitions since then.

In this Newsletter, we briefly discuss farm reorganization bankruptcies and present a profile of South Dakota farmer-debtor characteristics of those filing chapter 11 bankruptcy petitions from January 1980-October 1985. Data sources are initial filing schedules from a random sample of one-half of Chapter 11 bankruptcy filings available at the Federal Bankruptcy Court in Sioux Falls.

Farm Reorganization Bankruptcy: An Overview

Federal bankruptcy chapters 7, 11, 12 and 13 are presently available to farmers and ranchers. Chapter 7 involves liquidation of the farming operation, while the

remaining bankruptcy chapters involve business reorganization plans. A farmer filing a chapter 13 bankruptcy must be a proprietorship with a total secured debt of \$350,000 or less and a total unsecured debt of \$100,000 or less. Relatively few South Dakota farm bankruptcies (less than 10%) are filed under chapter 13.

A chapter 11 reorganization bankruptcy is available to individuals, partnerships, and corporations of all debt sizes in most industries. Briefly, this process is initiated by the filing of a chapter 11 bankruptcy petition, which contains initial filings schedules prepared by the farmer(s) and his/her attorney. After the initial filing, a reorganization plan must be submitted within 120 days and the judge has 240 days to take action on the reorganization plans. Time extensions are common. Creditors are typically divided into classes (fully secured, impaired and unsecured) and each class has specific voting rights on the proposed reorganization plan. The three potential outcomes of a chapter 11 bankruptcy filing are (1) a confirmed reorganization plan, (2) the chapter 11 filing is converted to chapter 7, and (3) dismissal.

Table 1. Number of Farm Bankruptcy Filings
in South Dakota

Year	Farm Bankruptcy Filings ^a	
	Total	Chapter 11/12
1980-81	37	17 ^b
1982	129	76 ^b
1983	189	96 ^b
1984	241	131 ^b
1985	338	163
1986	564	320
Jan.-June 1987 ^c	405	315

^aSource: Federal Bankruptcy Court
Records - Sioux Falls

^bEstimated number.

^cJanuary 1-June 17, 1987

Chapter 12 of the federal bankruptcy law became effective on November 27, 1986. It is intended to reduce difficulties farmers experienced in reorganizing under chapter 11 and 13. This chapter is limited to a qualifying farmer (individual/family, partnership and family farm corporation) with less than \$1,500,000 of debt. The farmer-debtor must present a proposed reorganization plan within 90 days of filing and the judge usually decides to confirm or reject the plan within 45 days after the plan is filed.

In many chapter 12 cases, secured debt is written down to the present value of the security (collateral). All other debts remain unsecured. Proposed reorganization plans must include provisions to repay the written down secured debt and the portion of unsecured debt that is equal or greater than the amount that would be paid if the debtor liquidated assets under a chapter 7 bankruptcy. Creditors have no voting rights on proposed chapter 12 farm reorganization plans. Unlike chapter 11, a bankruptcy trustee is assigned to every chapter 12 case.

Chapter 11 Farm Debtor Characteristics

Farmers of all age and experience levels are filing farm reorganization bankruptcy petitions. The typical (median) filer during 1980-85 had operated a farm/ranch for 20 years. One fourth had been farming as adults for over 30 years, while 34% have only farmed 2-10 years.

Bankruptcy was a "new" experience for most farm filers, with only 5% of those filing in 1980-85 having previously filed for bankruptcy.

Past due local property taxes were owed by 51% of those filing and Federal income taxes were listed as overdue by 14% of filers. Delinquent taxes averaged \$5,280.

Average total debt at time of filing was \$720,700--with \$662,200 of that amount being secured debt and the remainder unsecured. The total amount of debt outstanding for the 219 filers was \$157.8 million. Only 7% of the filers had more

than \$1.5 million of debt, but these filers represented 25% of total debt (Tables 2 and 3). Because their debt level exceeds the \$1.5 million debt limit specified by chapter 12, this category of filers would not be eligible for the new chapter 12 reorganization and would still need to use chapter 11.

An average of 15 creditors (6 secured and 9 unsecured creditors) per bankruptcy filer were listed by those filing under chapter 11. The number of creditors varied between 2-50. The number of secured creditors increased as total debt of farmers increased.

Average total property value reported at time of filing was \$617,700 (Table 3). Sixty percent of reported property value was in farm real estate, including the house. The average total reported property value involved in the 1984 and 1985 filings were less than those reported earlier. Declining real estate values per farm explain most of the decline.

Based on debt and property (asset) values reported, most farm filers were insolvent at time of filing. Almost 69% of filers reported total debts exceeding property values. Average total debt was larger for those with higher debt/asset ratios, while total property values significantly declined.

If filers are insolvent, this may suggest that proposed reorganization plans are not likely to be workable, even if confirmed. Initial filings do not contain past or projected income statements. Therefore, accurate estimates of debt-income ratios, debt servicing ratios and other important cash flow measures of financial stress cannot be made.

Two major factors to be considered by farmers filing reorganization bankruptcy are the amount of time required to obtain a confirmed plan and the amount of legal fees. Seventeen months was the average amount of time from filing to final disposition of the chapter 11 cases. Larger, more complex cases had significantly longer time periods from filing to disposition. The average cash cost for attorney fees was \$4,800 in initial attorney fees, with \$75-80 per hour being charged for subsequent legal action.

Major Characteristics of Creditors

Almost 92% of total debt or \$145.7 million was secured by real estate or personal property chattel. The average filer owed \$662,200 to 6 creditors. Overall, commercial banks held 30% of the secured credit volume. The amounts held by other sources are as follows: Federal credit agencies--29%, the Farm Credit System--21%, individuals--10%, and the remaining 10% was held by insurance companies and agribusiness suppliers.

Commercial banks were listed one or more times by more debtors (81%) than any other type of secured creditor. Farmers Home Administration was listed as a creditor by 64% of filers. The average amount owed per debtor to commercial banks or to FmHA was about \$240,000.

The Farm Credit System agencies were also major creditors. The Federal Land Bank had an average loan volume of \$154,300 on 43% of filings. Only 19% listed Production Credit Association (PCA) as a secured creditor but the average indebtedness (\$380,500) to PCA was the highest of any group. Insurance companies were secured creditors to only 10% of debtor-filers but the average amount (\$327,400) was second highest.

Individuals were listed as secured creditors, primarily contract for deeds, by 44% of the filers and the average amount owed was \$154,200.

About 8% of total debt in the sample (\$12.0 million) was held by unsecured creditors. An average amount of \$60,000 of debt, split among 10 unsecured creditors, was listed by 91% of those filing chapter 11. Local and regional mainstreet businesses were the major unsecured creditors.

An average of 4.5 unsecured farm suppliers were collectively owed \$21,000 by 79% of debtor filers. A majority of filers also owed unsecured debt to machinery dealers, auto repair shops, retail merchants and retail service businesses. Nearly one fourth reported debts to builders and contractors or to doctors, dentists or hospitals. The average total amount owed to these types of unsecured creditors was less than \$6,000.

Concluding Remarks

Bankruptcy is a legal procedure where many of these financial losses are transferred to and absorbed by their agricultural creditors. A majority of filings are farm reorganization bankruptcies (chapter 11 or 12). Approximately one-half of the chapter 11 filings in the sample (1980-85) received confirmed (approved) reorganization plans. At this time, the percentage of reorganization plans that actually succeed is not known.

The record number of farm bankruptcies in the 1980's reflects the continued severe financial stress experienced by thousands of South Dakota producers. Since bankruptcy is a lagging indicator of farm financial stress, farm bankruptcy filings will likely remain at 1985-1986 levels through 1988.

Table 2. Distribution of Farmers Filing by Total Amount of Debt^a

Total Debt (\$1000)	Percent of Farmers Filing	Percent of Total Debt
<500	44	20
500-999	39	39
1000-1499	10	16
1500 or more	7	25
Total	100	100

^aPercentage of total debt (\$157.8 million) reported by all 219 filings.

Table 3. Selected Financial Characteristics of Chapter 11 Farmer-Debtors, 1980-85

Property	Thousands of Dollars ^a	Percent
Livestock, grain	\$119.8	20
Machinery	63.0	10
Real estate	371.4	60
Other property	63.5	10
Total Assets	\$617.7	100.0
Total Debt	\$720.7	
Number of Creditors	15	

^aAverage amount per farmer filing.

Cooperative Extension Service
U.S. Department of Agriculture
South Dakota State University
Brookings, SD 57007

**BULK RATE
POSTAGE & FEES PAID
USDA
PERMIT NO. G 268**

OFFICIAL BUSINESS
Penalty for Private Use \$300

Economics Newsletter

Address Correction Requested

New Publications

Selected highlights of a farm bankruptcy study are reported in the Newsletter. Additional information and details about this study are available in:

Larry Janssen and Brian Schmiesing.
"Characteristics of Farm Reorganization Bankruptcy Filings." SDSU Economics Staff Paper 87-2, June 1987. (15 pp.)

Larry Janssen. "Examination of Farm Reorganization Bankruptcy Debtors and Their Creditors." SDSU Economics Research Report, forthcoming August 1987.

These publications can be obtained by contacting the author or the SDSU Economics Department Library.

Issued in furtherance of Cooperative Extension work, Acts of May 8 and June 30, 1914, in cooperation with the USDA. Richard A. Battaglia, Director of CES, SDSU, Brookings. Educational programs and materials offered without regard to age, race, color, religion, sex, handicap, or national origin. An Equal Opportunity Employer