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Chapter 12 Farm Reorganization Bankruptcies in South Dakota; U.S. Wheat Supply and Demand 1989

Larry Janssen
South Dakota State University, larry.janssen@sdstate.edu

Scott Peterson
South Dakota State University

Richard Shane
South Dakota State University, richard.shane@sdstate.edu

Gene Murra
South Dakota State University

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CHAPTER 12 FARM REORGANIZATION BANKRUPTCIES IN SOUTH DAKOTA

by
Larry Janssen, Associate
Professor of Economics
and
Scott Peterson
Research Associate

Severe farm financial stress for many producers in the 1980's has caused substantial asset and debt restructuring by farm businesses and debt write-downs by agricultural lenders. Distribution of financial losses between farm debtors and their creditors may be determined through voluntary negotiation, mediation, foreclosure, or <u>bankruptcy</u>.

Farm bankruptcy filings increased dramatically in South Dakota during the 1980's, from 37 in 1980-1981 to a high of 622 in 1987. Improvement in the farm economy helped to reduce the number of farm bankruptcy filings to 179 in 1988.

In this issue of the <u>Commentator</u>, we briefly discuss farm reorganization bankruptcies and present a profile of South Dakota farm debtors filing Chapter 12 reorganization bankruptcy during Nov 1986 - Feb 1988. Data sources are initial filing schedules and confirmed reorganization plans from a random sample of 1/4 of Chapter 12 filings available at the Federal Bankruptcy Courts in Sioux Falls and Pierre.

<u>Farm Reorganization Bankruptcy: An Overview</u>

Federal bankruptcy Chapters 7, 11, 12 and 13 are available to farmers and ranchers. Only Chapter 7 involves liquidation of the farm operation; the remaining bankruptcy chapters involve business reorganization plans. Farm proprietorships with less than $350,000 secured and $100,000 unsecured debt are eligible for Chapter 13. Chapter 11 is available to almost any individual, partnership or corporate debtor, regardless of the amount of total debt. Most farmers filing for bankruptcy reorganization are not eligible for Chapter 13 because their debts exceed the

(Cont'd. on page 2)

U.S. WHEAT SUPPLY AND DEMAND - 1989

by
Richard Shane
Extension Grain
Marketing Specialist

After a tour of the Kansas hard red winter wheat crop, most grain analysts have reduced projected wheat production and raised wheat price estimates for 1989. The U.S. hard red winter wheat crop is expected to be reduced by around 1/3 compared to normal, while the Kansas wheat crop could be as low as 1/2 of normal depending on rainfall amounts during May and June.

Other wheat types will offset part of the decrease in hard red winter this year. A bumper soft red winter wheat crop is expected in the Great Lakes states and southeast and a normal or slightly better white wheat crop is expected in the Pacific northwest. The biggest IF in production at this time is the hard red spring wheat and durum crops for 1989. These crops are grown predominantly in the Northern and Central Plains states where subsoil moisture is short and topsoil moisture adequate with a requirement for timely rains to get a normal or probably at best a slightly below normal crop.

In total, the U.S. wheat crop will most likely be slightly below two billion bushels. The only year this decade that the wheat crop has been as small was last year (1988) and that was with a 27.5% set aside in the government program (compared to 10% in 1989). This small U.S. crop will contribute to a world crop that is expected to increase slightly from last year. The supply side of the world wheat market has set the stage for excellent prices in 1989--prices at least as high as in 1988 and probably higher.

The key to higher wheat prices in 1989 will be export demand. Domestic demand has remained between 1.0 - 1.1 bil. bu. throughout the decade of the 80's. Exports have grown steadily from a dismal 915 mil. bu. in

(Cont'd. on page 3)

limits, while many others have had difficulty with the lengthy process involved in most Chapter 11 cases.

Chapter 12, enacted in November 1986, is an attempt to address the reorganization needs of "family farms" in the farm finance crisis. Since its enactment, over 2/3 of all farm bankruptcy filings and 5/6 of farm reorganization filings in South Dakota have been in Chapter 12. This chapter is limited to qualifying farmers (individual/family, partnership and family farm corporation) with less than $1,500,000 of debt, 80% of which must be related to agriculture. 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 most Chapter 12 cases, debt held by secured creditors is written down to the present value of their security (collateral). The remainder of debt owed to these creditors is treated the same as debt owed to unsecured creditors. Proposed reorganization plans must include provisions to repay the amount of written-down secured debt and the portion of remaining debt that is equal to or greater than the amount that would be paid if the debtor liquidated assets in a Chapter 7 bankruptcy. Creditors have no voting rights on proposed Chapter 12 farm reorganization plans. A bankruptcy trustee is assigned to every Chapter 12 case.

Chapter 12 Farm Debtor Characteristics

The characteristics of the 101 Chapter 12 filers whose cases we reviewed generally reflect the population of farmers the law was intended to serve. Average total debt at time of filing was $451,800 and 92% of the filers reported less than $750,000 of total debt (Table 1).

Farmers of all age and experience levels filed Chapter 12 petitions. The typical (median) filer had operated a farm/ranch for 25 years. One fourth had farmed 2 - 10 years, while 36% had operated a farm/ranch for more than 30 years.

Table 1. Distribution of Farmers Filing by Total Amount of Debt[a]

Total Debt Class ($1000)	Percent of Farmers Filing	Percent of Total Debt
<250	20.8	8.7
250-499	48.5	40.8
500-949	22.8	32.4
≥ 750	7.9	18.1
Total	100.0	100.0

[a]Percentage of 101 filers reporting $45.6 million debt.
Source: Compiled from Chapter 12 case files, Federal Bankruptcy Court, Sioux Falls & Pierre.

Most Chapter 12 filers operate small to medium size farms with average total property of $211,300 and average gross farm income of $90,000. A majority (55%) of the property value was farm real estate and another 35% was in grain, livestock and machinery inventories. Over half (56%) of the filers reported some nonfarm income, which averaged $7,900 per recipient.

Most Chapter 12 farm filers (98%) were insolvent. Average total debt of $451,800 was much greater than average property values reported by the debtor. This amount of debt was owed to an average of 11.6 creditors per debtor, including an average of 4.5 "secured" creditors.

Major Characteristics of Creditors

Secured creditors held over 93% of the $45.6 million total debt. Overall, Farmers Home Administration (FmHA) held 53% of the secured credit volume. The amounts held by other sources are as follows: commercial banks - 18%, Farm Credit System - 15%, and farm machinery finance companies, implement dealers, individuals and other secured creditors - the remaining 14%.

Over 86% of debtors listed FmHA as a secured creditor and owed an average of $251,500 to FmHA. Commercial banks were listed as a secured creditor by 71% of the debtors and average amount owed was $74,200. The Farm Credit System agencies (Federal Land Bank and Production Credit Association) were also major creditors. Most of the debt owed to FmHA, commercial banks, and Farm Credit System creditors was undersecured.

Unsecured creditors involved in these Chapter 12 bankruptcy cases were 61% of the total number of creditors, but they held only 7% of the total debt. Most of the unsecured creditors were local hospitals, clinics and mainstreet businesses. Most amounts owed per debtor to each unsecured creditor were small - less than $5,000.

Chapter 12 Farm Reorganization Plans

Chapter 12 reorganization plans provide a detailed description of how the debtor's operation is to be restructured, including the amount and schedule of repayment for each creditor. For the Chapter 12 South Dakota filers studied, total debt was reduced 44.4%, from an average of $451,800 owed at time of filing to $251,000 owed to creditors in the reorganization plan (Table 2). The average amount of debt reduction per debtor was $200,800. In general, the amount and percent of debt reduction increased as total debt increased.

In most cases, the post reorganization plan debt-to-asset ratio was about 1.0. This result occurred because almost all debtors (98%) were insolvent at time of filing and few debtors owned any remaining farm assets that were not already pledged as collateral to a lender.

Table 2. Debt Reduction Characteristics by Total Amount of Debt

Total Debt Class	Average Amount of Debt[a]		Average Debt Reduction	
	Initial Filing	Debt Plan Reorganization	Amount	Percent
($1000)	($1000)	($1000)	($1000)	(%)
<$250	$ 189.4	$ 124.4	$ 63.0	33.3
$250-500	$ 379.8	$ 213.6	$166.2	43.8
$500-749	$ 643.5	$ 333.1	$310.4	48.2
≥$750	$1031.2	$ 571.8	$459.4	44.6
All	$ 451.8	$ 251.0	$200.8	44.4

[a] Average amount of debt owed to all creditors at time of filing and after the reorganization plan is confirmed.

Source: Compiled from Chapter 12 case files, Federal Bankruptcy Court, Sioux Falls & Pierre.

Concluding Remarks

Chapter 12 bankruptcy was established in November 1986 to assist financially troubled "family farms" with less than $1.5 million of total debts to reorganize their farm business and continue farming. The evidence for 101 South Dakota farm bankruptcy cases filed during Nov 1986 - Feb 1988 indicates that most Chapter 12 bankruptcy filers have been in business an average of 25 years, operate small to moderate size farms, and are insolvent at time of filing. It remains to be seen how many reorganization plans will be successful and the final impacts that Chapter 12 will have on the behavior of agricultural lenders -- including the credit terms extended to farm families.

Readers interested in more information on this topic may contact the authors about a forthcoming publication "Characteristics of Chapter 12 Farm Reorganization Bankruptcy Filings and Approved Reorganization Plans", SDSU Economics Staff Paper, May, 1989.

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(U.S. Wheat ...)

1985 to around 1.5 bil. bu. for the last three marketing years. The export enhancement program (EEP) has been the catalyst which spurred this export growth as market shares were regained from the European Community.

Just this week, President Bush announced an EEP wheat offer to the USSR on 1.5 mil. bu. However, Office of Management and Budget (OMB) would like to see this program reduced or eliminated to help in Federal budget cutting efforts. If exports are to be held at the 1.4 -1.5 bil. bu. level, EEP will have to be offered freely to potential importers. More than likely the program will be cut to some extent and exports will total 1.2 - 1.3 bil. bu. However, even this reduced export level will contribute to total demand of 2.2 - 2.3 bil. bu.and surplus stocks will once again be reduced in the U.S.

Given this current supply-demand outlook for U.S. wheat, it is very likely that prices will remain above $4.00/bu. for much of the 1989-1990 marketing year. Prices may slip below this level at harvest if the spring wheat crop is near normal and then follow a normal seasonal pattern thereafter. The seasonal pattern normally calls for price increases into Nov-Dec. Each producer will have to evaluate potential seasonal price increases and basis improvement at harvest time to decide whether to store or not. In summary, current supply and demand conditions are supportive for wheat prices for at least 12 to 18 months.

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LIVESTOCK OUTLOOK

by

Gene Murra
Extension Livestock
Marketing Specialist

While there have been some changes in the livestock sector since the last **Economics Commentator** in early April, the general outlook hasn't changed very much. Fed steers prices have held above $75, while hog prices have remained below $40. That was pretty much what was expected in early April. A favorable supply picture along with adequate demand in April support cattle prices. An adequate demand, however, was not enough to offset burdensome supplies on the hog side.. What can be expected in the rest of 1989?

SOUTH DAKOTA STATE UNIVERSITY
Economics Department
Box 504A
Brookings, SD 57007

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For cattle, that still probably means lower prices in the near-term, with $70 or even slightly below for short periods not out of the question. Current futures market prices for this Summer are in the $70 area. It appears that cash prices likely will drop from the mid-$70 area to the $70 area rather than having futures prices rally up to the mid-$70 area. Larger supplies of cattle from feedlots should be enough to pressure prices. Also, supplies of non-grainfed cattle, especially cows, have been greater than year-ago levels. While that supply source should be lower in the near-term, much will depend on weather and related pasture and range conditions.

The beef demand picture generally is favorable. The next 60-90 days typically is the "best" demand period of the year. The cook-out season and promotions for Mother's Day, Father's Day, Memorial Day, and the Fourth of July combine to create a healthy demand picture for beef. Because of that expected good domestic demand, however, foreign buyers, especially the Japanese, may stay out of the U.S. market.

Prices this Fall could be close to or maybe even above 1988 levels. Lower supplies of beef by then should be the major positive factor. Even then, the year's high prices probably are behind us.

For the hog industry, the worst should be past. Lower supplies of slaughter hogs and a favorable demand picture should help move prices above $40 in May, with the mid-$40's to even a shot at $50 possible for this Summer. Record supplies of pork in cold storage will be a drag on the market through the Spring and Summer. However, those supplies will of necessity be lowered because quality deteriorates if pork is held too long. Heavy promotion of bacon at low prices and the possible use of pork bellies as trimmings should reduce supplies.

Prices for the Fall likely will be lower than for the Summer, but could stay above $40. The outlook for this Fall and for 1990 improves the longer prices stay below $40. Since low prices already have been around for almost two months, the outlook for 1990 is better than it was earlier this year.

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COMMENTATOR

EDITOR: Donald C. Taylor, Agricultural Economist

ECONOMICS DEPARTMENT
South Dakota State University
Box 504A
Brookings, SD 57007
Phone: (605) 688 - 4141