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## Thriving After a Farm Bankruptcy

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In the midst of a bankruptcy, it is easy to focus your energy on getting through the process. But what happens after the bankruptcy is critical in determining the long term viability and success of the farm business. The goal of this bulletin is to help you set a course for thriving after bankruptcy and avoiding a return to financial hardship.

Getting through bankruptcy requires making tough decisions about your assets and operation and adhering to your repayment plan. You are earning a fresh start by strengthening your balance sheet and downsizing your debt. Now is the time to put a plan in place for moving beyond bankruptcy. This plan should include relying on an accountability team, focusing on your business goals, maintaining records, establishing business spending protocols, rebuilding your credit,

engaging in financial training, repairing relationships, and listening to advice from those who've been through the bankruptcy process. We provide information on each of these parts of the plan below. With a plan in place, you can thrive after bankruptcy. Because yes, there is life after a farm bankruptcy.

### **Rely on an accountability team**

A key suggestion from those who have been through the bankruptcy process is to develop a team of support members. You may have already created a support team when considering whether to proceed with bankruptcy. If not, consider drawing in your accountant, tax professional, Extension educator, attorney, counselor, pastor, and others who will help you

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monitor your progress and financial performance and benchmark your farm's profitability. The team could also assist in providing emotional support as you re-engage with creditors, especially those who were part of the bankruptcy process. Meeting with your team on a regular basis may help ensure that you keep moving forward on your plan.

## Focus on your business goals

In another bulletin in this series, *Facing Farm Financial Stress: Assessing the Bankruptcy Option*, we discuss the importance of conducting a business financial analysis and establishing a mission and short and long-term goals for the operation. These strategies also apply to the post-bankruptcy period. They're critical if your operation changed as a result of the bankruptcy process. Now may be the perfect time to examine your new financial situation and set goals for the future. What do you want the operation to look like in one year, five years, and beyond? Is each enterprise profitable? Are there changes you can make to ensure cash flow? Revisit this type of review of your business situation and your goals regularly. For assistance with conducting a financial analysis of your operation, consider resources like Ohio State University Extension's Farm Business Planning and Benchmarking Program, Iowa's Farm Financial Planning Program. To learn more about setting goals, refer to the fact sheet, *Developing Goals for the Agricultural Business*.<sup>1</sup>

## Maintain your bankruptcy records

While you might prefer to keep the bankruptcy out of your mind, there are a few reasons to have your bankruptcy records organized and readily accessible. The bankruptcy petition provides detailed information about your financial history and your bankruptcy discharge order indicates

debts that have been paid and discharged. A lender may ask to review this information when deciding whether to extend new credit to you, as it gives more insight into your history than a credit report provides. You might also have to rely on your bankruptcy records if a previous creditor or debt collector claims that you still owe a debt. The bankruptcy records offer proof of the debts you've satisfied. Be sure to keep the paperwork organized and in a safe place so that you can provide it if necessary.

## Implement business spending protocols

There's a lot of good that can come with good habits. Adopting and following formal procedures for how you manage your spending can keep your expenses in check and your payments on time. With the support of your team, develop business spending protocols that will help you stay on track, which might include the following:

- Hold weekly or monthly financial meetings to review your budget and analyze cash flow.
- It seems like a no-brainer, but be sure to organize and schedule your bills so that you pay them on time.
- Implement a double signature policy on expenses over a set amount. You may need to utilize your accountability team to review expenditures outside of an established budget. These measures force careful analysis of big spending decisions.
- Be careful about taking out new loans. But if you must do so, shop around for loan interest rates. Some creditors may charge higher than normal rates for debtors coming out of a bankruptcy. Explore loans from governmental agencies as they typically offer lower rates.
- Try to conduct most of your financial business through one financial institution and develop a personal relationship with that lender. Note

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that being a member in good standing can lead to better account terms and perks later.

## Review and build your credit

Your credit score is a three-digit number that represents your “creditworthiness,” or the probability that you will repay your debts. The higher the number, the more appealing you are to creditors. Building your credit score will be a process as you move forward after bankruptcy.

You have several different credit scores that are calculated by the three major credit bureaus. The scores may vary, based upon who is computing the score and the method used for the calculation. Generally, factors that determine your score are:

- Your history of making payments.
- Credit utilization, which is the amount of credit you’re using versus how much credit is available to you.
- The length of your credit history.
- The number and forms of credit accounts you have.
- Whether you’ve recently obtained new credit.<sup>2</sup>

Patience, discipline and having a plan will be key. Securing new credit may be a challenge, as the bankruptcy will appear on your credit report for seven years. Recognize that some suppliers you do business with may require cash on delivery. The business spending protocols you put in place will help you rebuild your credit score. Here are other actions that can be helpful:

- As a first step, make sure to periodically review your credit report for its accuracy. It is not uncommon for creditors to report negative balances even after debts have been discharged through bankruptcy. Keep monitoring the report and take action to

ensure current reporting by your creditors, if necessary.

- Pay your bills on time and if possible, in full.
- Using credit cards after bankruptcy may seem counterintuitive, but having a credit card that you use and pay regularly is one way to rebuild your credit score. The key is to only charge what you can afford and to pay the entire balance each month. Using a secured credit card is a good first step. A secured card requires a cash deposit that establishes the credit limit and is a security for the creditor. Using a secured credit card for a regular payment that you make is a good way to establish a positive record of payments.
- Apply for new credit sparingly as the number of credit inquiries can lower your credit scores.

## Consider financial training

Some types of bankruptcy require that debtors complete a course in personal financial management prior to receiving a discharge of their debts through the bankruptcy court.<sup>3</sup> However, Chapter 12, available to family farmers and fishermen, does not have this requirement. Even though it is not required, continued education in financial management can help you better manage your finances and debt in the future. Seek out programs from educational institutions such as Extension or the Center for Farm Financial Management and from your local financial institutions, particularly agricultural lenders.

## Reestablish community relationships

Some community relationships may have been damaged during the bankruptcy process and it can take time to rebuild these relationships. Do you need to talk directly to your lender, former creditors, businesses you use, or friends? Perhaps explaining your bankruptcy story—why it happened and steps you’re taking to prevent a

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repeat—will be helpful. What other actions can you take to rebuild these relationships? Your accountability team can be an important resource to guide you as you restore these relationships, so consider seeking advice from team members.

## Address family relationships

Family relationships can also suffer from bankruptcy. It is important to monitor how the process impacts each family member as well as the dynamics within the family unit. As with your community relationships, you may need to be honest and direct in communicating your situation and emotions with family members. But you might also need to check in with your family members to discuss their emotions and concerns. How are they feeling? Do they have fears, insecurities, or other emotions they aren't sharing with anyone? Are they distancing themselves from you or the farm operation? Counseling may be helpful in addressing the stresses and strains family members may have, and is especially important when members are still working together in the family business. As with the bankruptcy survival process itself, however, be aware that time and patience may be necessary for resolving family relationship issues.

## Take advice from farm families who've gone through bankruptcy

Experience is a wise teacher. We asked farm families who've gone through bankruptcy, "what advice do you have for farm families facing a similar road?" The box to the right presents their advice for regaining your ability to thrive after bankruptcy.

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### Farmer to Farmer Advice: Thriving after Bankruptcy

- Bust your tail! Make a plan and stick to it. It will take a lot of hard work, but you can do it.
  - Develop a sound financial system. Knowing your financial numbers and developing budgets for each enterprise is key.
  - Live within your means. Create budgets for both the farm and for personal living expenses and stick to them.
  - Create a savings account for emergencies.
  - Not all professionals understand bankruptcy. Make sure to find professionals who do know bankruptcy. It is a complicated process.
  - Reinvent yourself and your farm. If you always do what you have always done, you will end up back in the same financial situation.
  - Instead of looking at one financial solution, look for little solutions that add up.
  - Think outside the box. What other enterprises can you raise or what services can you provide to increase farm income?
  - One or more members of the family may need to seek off-farm employment. This can help the family with medical and retirement benefits.
  - Communicate. It is so easy to hide from the world when you are facing financial struggles. My banker, accountant, and Extension Educator became the team that helped keep me focused on what I needed to do.
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<sup>1</sup> Ohio State University Extension Fact Sheet ANR-45, <https://ohioline.osu.edu/factsheet/anr-45>.

<sup>2</sup> Caezilia Loibl, Credit Score Basics, *Live Smart Ohio*, Ohio State University Extension Family and Consumer Sciences,

Aug. 28, 2017, <https://livesmartohio.osu.edu/money/loibl-3osu-edu/credit-score-basics/>.

<sup>3</sup> 11 U.S.C. §727(a)(11) (2018); 11 U.S.C. §1328(g)(1) (2018)

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