



Transfer Planning for Farmers without an Identified Successor

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The situation

- 60% of New England farmers are > 55.
- 92% of our farmers over 65 do not have an operator under 45 working with them.
- 25% of New England farmers are beginners.
- 15% of principle operators are <35.
- Over 60% of beginning farmers are >45.

- Source: *Gaining Insights, Gaining Access*, AFT and LFG 2016



The situation

- 2/3 Retiring Iowa farmers do not have an identified successor.
- Only 29% US farmers have a succession plan.
 - Of those, 65% have a successor.
 - Of those, only 20% are non-family.
- Planning without a successor...

Source: *US Farm Succession Plans and the Process of Transferring Land Ownership*, J.M. Harris (USDA) and A.K. Mishra (AZ State Univ.)



The issues

- No *family* successor v. no *identified* successor
- Transfer of land v. operation (income, assets and management)
- The “succession effect”
- Definition of “retirement”
- Commodity disconnect



What farmers say

67 farmers without identified successors in 7 focus groups:

- All want to see their land remain in farming if possible.
- All willing to look outside the family for a successor.
- Most are open to innovative approaches.
- Many say they need/want help.



“Familiness”

- Career ladder starts early
- Family culture
- Transfer of “human capital”
 - Skills and knowledge, incl. “tacit knowledge”
 - Site-specific (farm v. firm)
- Financial advantages (e.g., gifts/bargains)
- Motivations (altruism, form of exchange)

Family transfers

- Assumptions about “inter-generational transfers”
 - If transferred w/in the family → “source of great strength and renewal...”
 - If not transferred w/in the family → “not a family farm anymore.”
- Most succession literature and guides assume family successors.

Source: *Keeping it in the Family: International Perspectives on succession and Retirement on Family Farms*, Lobley, Baker & Whitehead, eds.



Soft issues in transfer planning

- Vision and goals
- Trust
- Communications
- Treatment of non-farming heirs
- Mentorship
- Anxiety
- Timing (planning process, recruitment, transfer)

Hard Issues in Transfer Planning

- Legalities and Instruments
 - Purchase and Sale Document
 - Defining included and excluded assets
 - Closing Documents, including 2nd mortgage
 - Consulting Contract – if former owner is retained.
 - Real estate option, including right of first refusal



Hard Issues in Transfer Planning

- Farm Viability
- Is the farm currently or potentially profitable?
- Can it afford to have a second operator?
- Changes and associated costs needed to make it profitable?
- Definition -What is adequately profitable?



Hard Issues in Transfer Planning

- Exit Strategies
- What if the “deal” is not working?
- Buy/sell documents
- If operation only purchased – real estate maintenance standards
- Legal remedies – foreclosure, deed in lieu.
- Please! Spend extra time to properly craft agreement and documents up front



Hard Issues in Transfer Planning

- Establishing a price
 - Fair market value versus affordability
 - What is included versus what is excluded
 - Straight sale versus installment
 - Goodwill value?
 - Consulting income
 - Share of future earnings or royalties?



Recruiting a successor

- Many BFs seeking land.
- How many willing to work with an exiting farmer?
- How many are suitable successors...
 - Experience and skills?
 - Commodity?
 - Assets?

Who could it be?

- Son, daughter or in-law
- Niece, nephew
- Employee
- Neighbor
- Apprentice
- Grandchild
- Linking program seeker



Recruiting a successor

- Starts with personal, family and business values and goals:
 - Is there a shared vision?
 - What's most important?
 - Can a to-be-identified successor carry that vision?
 - Is a different vision possible?



Assessment

- Personal
 - Risk tolerance
 - Patience and flexibility
 - Communication and management style
- Family
 - On the same page??
 - Roles and responsibilities
- Farm viability (as Jon explained)



The process

- The offer (“in the market for a successor”)
 - What do prospective transferees need to know?
 - What’s the deal?
 - What’s the process?
 - Getting it out there
- The politics of the process
- Screening: criteria, proposals, interviews

Vetting the successor

- Education and experience
- Management ability
- Financial strength and skills
- Personality and ethics; can you get along?

Bringing on the successor

- Legal and financial agreements
- Communications and conflict management
- Trials and exit strategies
- Roles and responsibilities (for all)
- Transferring management
- Attend to other farm stakeholders
- Benchmarks and accomplishments



Program and policy matters

- Pair mentoring and succession
- Connecting seekers and retiring farmers
- Incentivizing timely succession planning
- Adequate support for non-family succession
- Tax policy and succession (e.g., capital gains tax)





Thank you.

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