

How to Buy a Farm

A Guide for Farmers



1st Edition

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The Land Connection is a nonprofit based in Champaign, Illinois, that works to build a better food and farming system for our state through a variety of activities designed to bring about change from soil to the supper plate. We provide training and education to farmers, connect and empower farmers and farmland owners through our Illinois FarmLink profile system and free advising, organize local farmers markets, run a food access program that boosts affordable access to local food, and carry out a variety of education activities that inspire and equip families to use local foods in their kitchens. One of the organization's signature activities is organizing the annual Organic Grain Conference that advances knowledge, practices, and community around organic grain farming. Learn more at thelandconnection.org.

Land For Good (LFG) is a New England-based nonprofit organization, founded in 2004, with a mission to expand secure farmland access, tenure, and transfer. LFG offers education and individualized coaching to farmers and landowners; engages in advocacy and research; provides professional development opportunities and collaborative networks for service providers to better assist farmers; and produces educational materials with national relevance. We work with farm seekers looking to access land to start or expand a farm business, transitioning farmers wanting to transfer their farm or identify a successor, and landowners seeking to make their land available for agriculture. Informed by our work on the ground, we also share lessons learned and raise awareness of these top challenges facing farmers. Learn more at landforgood.org.

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Disclaimer

Material in this publication is subject to change as laws, policies, and customs evolve. The material herein does not constitute legal, financial, or other professional advice. The authors and their organizations are not liable for errors and omissions. Please consult legal and other technical expertise to verify or update the information in this guide.

Land Legacy

Wherever we live in the US, we acknowledge that we all live and work on unceded ancestral lands of peoples who were unjustly removed from their land. We acknowledge centuries of land dispossession and displacement that caused suffering to Indigenous communities. We recognize and honor the history and traditions of the original stewards of the land.

A NOTE TO READERS



We and our organizations help farmers from all backgrounds achieve their goals of land security. In doing this work, we have met many farmers who have faced a wide range of challenges during the farm-buying process.

That's no wonder. The process is complex. It is time consuming. It involves unique people, properties, and communities. It requires patience, compromise, and a willingness to learn. There are technical terms that can be confusing—even for native English speakers. You may encounter unfamiliar options, such as “for sale by owner.” Perhaps most dauntingly, the cost of farmland is often alarmingly out of step with the income that most farmers can generate from the land.

When we looked for a clear, comprehensive, and holistic roadmap to guide farmers through this process, we couldn't find one. So we created this guide to fill that gap.

This guide will help you understand the entire process. It offers, too, practical ideas to support your farm-buying success. This guide can't make buying a farm easy. We do hope, however, that it will reduce the anxiety that can naturally arise from venturing into new territory and making big decisions with long-term implications.

While there are alternatives to farmland ownership, many people who feel called to farming dream of the security and deep rootedness that come from owning land. If that dream resonates with you, having the right information and expectations can help you avoid unnecessary stress and costly mistakes.

This guide is also for you if you've purchased real estate in the past but not a farm. You might already understand the legal, financial, and logistical aspects of real

estate transactions, but you may well find valuable insights here that are specific to farmland.

We hope this guide proves to be a helpful resource as you navigate your journey toward farmland ownership. We also hope you have the support, perseverance, and good fortune you need to turn your vision into reality. Despite the challenges, many farmers successfully purchase farmland every year.

On behalf of Land For Good and The Land Connection, we want to express gratitude to the funders, supporters, subject matter experts, and farmers who contributed to this project and helped strengthen the final guide.

Most of all, we are grateful to farmers like you—who feel called to dedicate your lives and energies to growing the food and fiber that sustain us all.

Sincerely,

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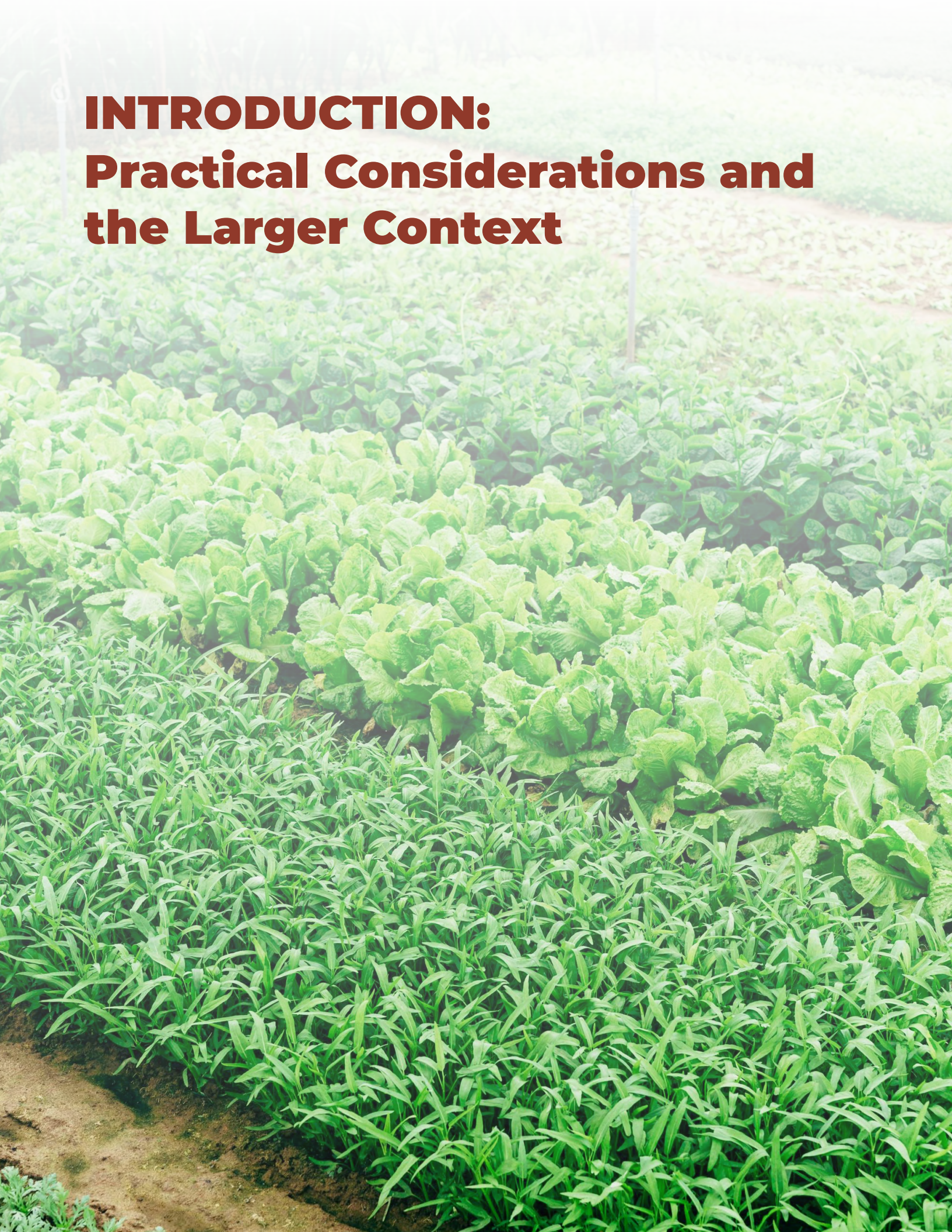
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INTRODUCTION:

Practical Considerations and the Larger Context



INTRODUCTION

This guide is primarily written for the first-time buyer of farm real estate. Even if you've bought a home or farm in the past, however, you'll very likely learn new things here about the particulars of buying farm property.

Here we offer practical suggestions for how to use this guide most effectively. We also address the larger context in which your farm-buying journey sits—the historical legacy and current circumstances surrounding land ownership.

PRACTICAL CONSIDERATIONS

This guide covers complex topics related to buying a farm, from laws and finances to real estate and even human psychology. It is based on our experiences working with farmers, input from experts, and our writing team's research.

We strongly encourage you to read through the guide from the beginning. Even if you don't absorb all of it immediately, you will get a sense of the total process and possibilities. Then, as you begin the actual process, you can zero in on the sections that address your particular questions and needs.

You will notice, too, that some concepts and information are repeated where relevant and useful in different sections. This is intentional. The farmland search and purchase process can take a long time. We want to make sure you can easily find key information related to a topic, even if that information was presented earlier in the guide.

Here are some other things to keep in mind as you dive into the guide.

1. **Overview, not a technical manual:** This guide is an overview of the farm-buying “territory” rather than technical instructions for every detail of the process. We believe this guide provides a good foundation and mental “map” to help you navigate.
2. **Topics:** In addition to the technical topics you would expect in this guide (financing, the purchase process, etc.), you will also find related topics that farmers encounter in the process of purchasing a property, such as working with real estate professionals and dealing with emotions that come up along the way.
3. **Terms:** Some terms may be unfamiliar, confusing, or technical. We have included a glossary of terms for your reference. Terms explained in the glossary will be in **bold** the first time they appear in the text.
4. **Professional advice:** This guide does not provide definitive legal or financial advice. Be sure to consult with professionals, including lawyers, when going through your farm-buying process.
5. **Variations by state:** This guide was prompted by The Land Connection's

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farmland access work in Illinois, but it quickly became apparent that the information and insights were widely applicable across the US. However, while the general principles apply across the country, specific practices and regulations vary by state.

6. **Whether to buy:** While many farmers have their hearts set on owning their farm, it may not be the most prudent strategy for everyone. Research¹ shows that beginning farmers without land debt are more likely to succeed in the long run. Other research² indicates that owning farmland can enable the farmer to better weather downturns and make key long-term investments. We encourage you to do your homework and consciously choose the right path for your situation. For additional guidance on options for accessing and securing farmland, see Land For Good's [Farmland Access Methods: A Decision Guide](#).³ Keep in mind, too, that many farmers own some land and rent additional land. This could be your strategy.
7. **Keeping an open mind:** We discuss several nontraditional models and methods for you to consider. You may find success thinking outside the box.
8. **All types of farm businesses:** This guide was written primarily for people who farm as a business enterprise as opposed to, for example, homesteading or selling surplus backyard veggies to neighbors. Most of this material applies to all types of agricultural operations.
9. **What's for sale:** This guide focuses on buying farm real estate. It does not generally address buying a farm business, except where specifically noted. Unless otherwise noted, *farms* and *farmland* mean real estate.

THE LARGER CONTEXT

We wrote this guide knowing that how land is held, by whom, and under what conditions has always been a subject of study and debate. Nor are issues around farmland access and transfer new. Farmland and its ownership evoke a deep emotional response as they represent a sense of independence, a source of livelihood, land as legacy, intergenerational wealth, and rootedness in a community.

Currently, issues around farmland ownership and access are receiving heightened attention. Farmers of all kinds are experiencing fear and uncertainty as they confront escalating farmland prices; fierce competition with larger, more established farm businesses; social fragmentation; generational disconnection; and inadequate support for farm access and transition. In fact, today's beginning farmers report that land access is their biggest challenge.⁴

For some farmers of color and people from other marginalized communities, buying a farm or home can be even more fraught. Discrimination and structural inequities across generations have made accessing the necessary resources

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and support to tackle a farm purchase particularly challenging for some. Black, Indigenous, and People of Color (BIPOC) communities have been subject to discrimination, such as being denied land ownership and real estate loans. Systemic racism, the history of land theft in the US, and policies that advantage white people continue to present barriers and limit opportunities for communities of color, including those who aspire to own their farm.⁵

Farmers from all marginalized communities disproportionately suffer from inequitable power dynamics in land transactions. They continue to experience discrimination from lenders, land sellers, real estate professionals, and neighbors. Some farmers confront language and communication barriers as they navigate a farm purchase. Many struggle to find sensitive, supportive, and knowledgeable advisors. Others must deal with cultural differences around borrowing or farm practices. It is not an accident that 98% of US farmland is owned by white people.⁶ Land ownership is a major component of farm wealth and generational wealth. In short, land is power.

We acknowledge the deep and systemic flaws in our current system of land access and ownership. It is a reality that it can be challenging for any farmer to buy land and meet their farming goals in the present day. Because we believe that a just and sustainable food and farming system is essential for our country's future, these land access difficulties are immensely significant. Some farmers' land tenure goals can be achieved through traditional or innovative methods that don't involve ownership. In fact, about 40 percent of US farmers rent some or all of the land they farm.⁷ But for some, the desire to own one's farm runs deep, whether a half-acre for growing direct-market Asian specialty vegetables or several hundred acres for commodity grain or livestock.

The good news is that farm advocates increasingly recognize contemporary barriers to farmland access. Many seek solutions to farm ownership that go beyond typical land transfers. Groups are exploring models and relationships built on greater fairness and transparency for all farm seekers. More technical assistance providers are helping to empower diverse farmers and landowners to successfully navigate land transactions. More policies and programs support farmers in achieving their farm-buying goals. More landowners are responding to the call for just and affordable farm access. The path to farm ownership is widening.⁸

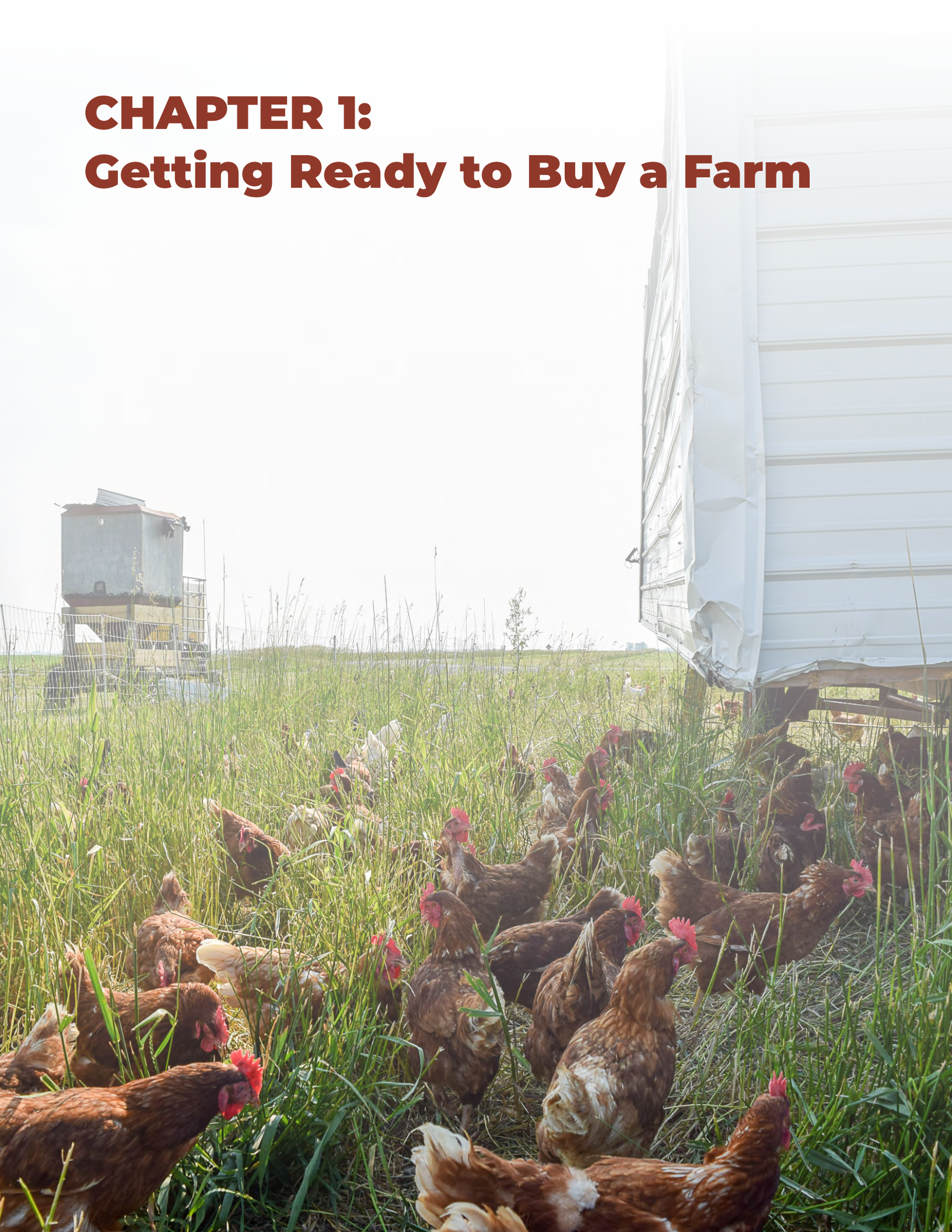
Despite these challenging circumstances, it is your right to dream of buying land. Our hope is that this guide increases the possibility that you will be able to realize that dream for your family and your community. Remember that whatever your beliefs, values, and priorities around farmland tenure, buying a farm is not simply a business transaction. It is also deeply personal and meaningful. We hope you will delve into the story of the land you are purchasing. We hope, too, that you will honor past stewards and commit to stewarding the land while it is your turn.

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CHAPTER 1:

Getting Ready to Buy a Farm



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Any large purchase can be daunting, but buying a farm can feel especially so. Whether you have purchased real estate or this is your first experience, finding and negotiating for a farm of your own can be one of life's most meaningful milestones. Few things can compare to the thrill of holding the deed to your dream farm.

As with the start of any long journey, it makes sense to thoughtfully prepare for each step of looking for and purchasing farmland. Part of doing that is setting realistic expectations for what the experience will be like and what it will demand of you. It's also vital to build a support team of professionals and others who can encourage you along the way.

THE UNIQUE COMPLEXITY OF BUYING A FARM

Farmers looking to buy land come from all kinds of family backgrounds. For some, this is their first time buying property. Others may have bought a home already or at least know a little about the process for purchasing a house. Buying a farm is, however, a uniquely complex process for almost everyone. As you get ready to search for and buy a farm property, it is important to expect that complexity.

Farm properties come in a wide spectrum of types, sizes, and conditions. A farm property can be raw land (no buildings or other improvements). It may be land that was farmed in the past but then abandoned. You may be looking for less than an acre in a metro suburb or several hundred acres for commodity grains or livestock. A property may include farm infrastructure in various states of usefulness and disrepair. It could include one or more residences. In this guide, unless specified otherwise, *farm* means any of these scenarios. Where applicable, *farm* also includes ranches and ranchland.

In some cases, a farm is not just the real estate. If there is an active farm business on a property of interest, some or all of the business assets could be for sale, too. You might be interested in acquiring and carrying on the same business or a similar business. You might consider purchasing some or all of the equipment or livestock for your business. If you want to buy an existing business or some of its assets, the overall transaction will be more complicated. Whether a turn-key sale or gradual transfer of business equity and assets is envisioned, the legal and financial considerations are substantial.

Because most people seek a farm or farmland to start or grow a farm business, the farm purchase decision can have personal, family, business, and community components. Therefore, the criteria are more complicated than buying a house, and sometimes the priorities are in conflict. You may, for example, need to weigh proximity to farm markets against factors like the suitability of schools, distance to

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relatives and community members, or off-farm job commute distances.

Buying a property for your farm business (unlike just buying a home) requires that you have a good handle on your business and what it needs to succeed in a particular location. Your farm business plan, which is discussed further in [Chapter 4](#), should guide you in your search. It should inform you about the characteristics of the farm you need, from soil types to buildings. That said, nonbusiness considerations, such as location near family and community, will also play an important role. Farm property lenders will need to see a viable business plan. They will want to know if the revenue stream of the business can generate enough money to support the purchase and how much of your farm purchase will rely on farm versus off-farm income. This presents challenges since it's harder to make a good plan without knowing the particulars of land you haven't farmed.

The farm business may have more decision-makers and stakeholders than in a single-family house purchase. Not surprisingly, this can create additional complications.

Searching for a farm property presents other special challenges. Farm property evaluation is multipronged: natural factors, buildings, location, acreage, microclimates, water, access routes, and more. Sometimes farm equipment is included in the offer. Moreover, not all real estate professionals are knowledgeable about farm properties. Farm appraisals can be more complicated than for a house.

THE ROLLER COASTER

Many farm seekers experience a variety of emotions over the course of the farm-purchasing experience. Some farmers describe it as an emotional roller coaster. It's good to expect that as well.

You will likely have many ups and downs. The process of finding and buying a farm often takes longer and costs more than the buyer initially hoped or planned for. There are delays and surprises along the way. For example, you may get excited about a property and have your offer accepted by the seller only to have an inspection uncover a faulty septic system or a hidden farm chemical dump out back. Lenders may be more cautious about lending to you than to someone of a different background or community. A scheduled appraisal may take weeks.

Lining up financing takes time. It can be scary taking on a larger loan than anyone in your family ever has. In fact, you may even question whether you are worthy of taking such a big step when perhaps your family has struggled to get by in the past or has even had land taken away. Purchasing real estate of any type can also

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prompt examination of one's values and trigger anxiety and confusion. For people from communities that have experienced discrimination, this process can be especially fraught.

Sticker shock is common with real estate purchases regardless of your family history—the **closing costs** alone can add up to quite a bit. The negotiation process can be a nail-biter. Will the seller accept your offer? Will you haggle over the **contingencies**? How much are you willing to compromise? And are all decision-makers on the same page about these choices?

The exhilaration of falling in love with a farm is a roller coaster high. But there can be troughs of disappointment and stress. After all, your choices will impact your livelihood, your family life, and your wellbeing. When one farmer experienced a one-month delay on the closing for a farm, he confessed, “I never felt so powerless and out of control.”

Patience, perseverance, flexibility, and creativity are essential for managing your farm purchase “ride” all the way to the finish line. **Due diligence** and sensible caution must be exercised. You may need to compromise on your original specifications for your dream farm. You may also want to consider nontraditional methods of buying that land, several of which are discussed in this guide.

If and when you find yourself buffeted by emotional ups and downs, we encourage you to build a support system of friends, family, professional advisors, and community members. These people will listen to you, encourage you, ask good questions, and celebrate successes with you all along the way. That will make a big difference.

SETTING YOUR CRITERIA

Determining your criteria for the ideal farm before you begin searching and negotiating is invaluable. An excellent resource in this regard is Land for Good's [Necessary, Desirable, Optional worksheet](#).¹ This worksheet prompts you to determine what farm features are absolutely essential, what features would be very helpful to have, and what features would be nice but not dealbreakers. With those criteria in place (as well as a clear idea of your financial limits), you will be better able to avoid getting so emotionally attached to a property that you can no longer think objectively about it during your search and negotiations. Sometimes walking away from a property is the wisest approach. Having these “lines in the sand” can give you at least some sense of control as well.

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BUILDING YOUR PROFESSIONAL TEAM

Finding, evaluating, and buying a property is a complex process. You will need trustworthy professional help along the way. Although it isn't required, many people find it helpful to work with a licensed real estate professional. **You will also need a real estate attorney and ideally should have one before you make any offers.** (See this resource on [working with a lawyer](#).)² It is likely that you will work with one or more lenders. You may benefit from turning to other advisors, such as agricultural consultants, as you pull all the pieces together (Box 1A).

No matter what your financial means and level of knowledge regarding finances and lending, it is wise to seek out a financial advisor early on in the purchase planning process. A good farm financial advisor helps you to deeply understand the relative strengths and weaknesses of your finances. This enables you to understand the financial risks and opportunities of buying a farm at different price levels and to understand what lending institutions are looking for from potential customers.

A farm financial advisor can also

Box 1A Your Team Roster: Advisors You May Need

- Attorney(s)
- Farm financial advisor
- Real estate professional
- Appraiser
- Lender(s)
- Agricultural specialist
- Land access program specialist
- Inspectors
- Insurance agent



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assist you in developing a realistic and sound business plan, which is critical for determining the farm characteristics necessary for your operation to be successful.

Finding reputable and available members of your team isn't always easy. Your family lawyer may not specialize in real estate transactions. Local lenders may not be willing to lend on a farm property. Inspectors and appraisers may be tied up for months. But help is out there. Nonprofit organizations that specialize in land access, such as The Land Connection and Land For Good, have staff with expertise to assist with the farm search process and a network to refer you to other professionals. They may know financial advisors who don't charge for their services. Other nonprofit organizations that can help include farm link programs and farmland access organizations, land trusts, farm-focused legal groups and networks, agricultural mediation programs, cooperative extension, local food groups, Farm Bureau, state and federal agencies, and commodity associations. Fellow farmers in your area who have gone through the purchase process can also be good sources of information about who to use (and who not to use).

Perseverance is essential to wind up with the right team members. Expertise matters, and so does chemistry. It is important to feel comfortable with your team—especially your real estate agent, lawyer, and lender. They should “get” you. They should appreciate the unique sensitivities and challenges of your community. They should all be ready to explain each element of the process in ways you can understand. Your team should help you manage the stresses, not add to them!

WORKING WITH A REAL ESTATE AGENT

Many farm buyers and farm sellers use a real estate professional, who then plays a large role in the search and purchase process. It is important to know how they work. You will often hear the terms *real estate agent*, *broker*, or *realtor* to describe these professionals (Box 1B).

Real estate agents who work on behalf of a potential farm buyer are known as buyer agents or buyer brokers. Buyer agents can help you with finding a property, negotiating with the seller, securing financing, and guiding you through the process. Some buyer agents may be helpful in assessing the property as well if they are familiar with farms. Some will be familiar with lenders and the unique aspects of farm financing, though this is considerably less common outside of largely agricultural regions. In short, a buyer agent with the right expertise can be a valuable shepherd in your search as well as in the negotiation and purchase processes. The best agents may also have knowledge and connections you don't have because real estate work is their profession.

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Box 1B. Real Estate Professionals: Who's Who?

For this publication, we will generally use the terms *real estate agent* or *agent* when referring to real estate professionals. We will specifically use *buyer agent* or *seller agent* to indicate on whose behalf an agent works.

Following are definitions of the different types of real estate professionals:

- **Real estate agents** are licensed to help people buy, sell, and rent real estate and must work for a sponsoring broker or brokerage firm.
- **Brokers** have additional training and licensing requirements and can work independently or hire other real estate agents to work for them.
- **Realtors** are licensed real estate agents or brokers who are a member of the National Association of Realtors, which requires members to follow its code of ethics.

From: Investopedia³

If you decide to use a buyer agent, choose carefully and understand your contractual relationship with them, including how they will be compensated. To learn more about choosing and working with a buyer agent, see Box 1C.

It is important to remember that the seller agent or the agency listing a property for sale represents the seller. This is important because in the transaction and negotiation process, their responsibility is to look out for the interests of their client (the seller), not you. It is prudent to be cautious about what you reveal to the seller agent about your situation or finances, as it could put you at a disadvantage in negotiations. If you are not represented by your own real estate agent or broker and wish to discuss a potential offer with the listing agent of the property, you may do so. However, you must be aware that this situation presents a conflict of interest since both parties are relying on the agent's advice, yet the interests of each party may be adverse to one another. Many states require the seller or "listing" real estate agents to provide potential buyers with a form defining this relationship of representation on behalf of the seller.

If a real estate agent is representing both the buyer and a seller in a transaction, this is called dual agency, and both parties to the transaction must provide written consent. A discussion of the pros and cons of dual agency and its associated risks is of absolute importance. While dual agency is allowed in most states, there are restrictions to what that agent may or may not do in this type of transaction.

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Box 1C. Tips on Choosing and Working with a Real Estate Agent

You don't have to use the first real estate agent you meet in your farm purchase journey. And you don't need to feel stuck with one if they are not the right fit. Here are some tips and questions for assessing candidates:

Experience: How many years of experience has the agent had in real estate? How much of their experience has been with farmland purchases? How much does the agent know about farming and about the specific area you are looking in?

Capacity: How many clients is the agent currently working with? If the agent is juggling a large number, they may not have time to travel to see farms, attend inspections, and pay close attention to your needs.

Understanding of you and your community: A good real estate agent will not jump right into looking at properties with you. They will sit down or talk on the phone with you about who you are and what exactly you are looking for. They will also be considerate of the community you are part of or want to have connections to in a new location. If they don't ask questions to understand you, it's a yellow flag. Listen to your gut, too. If you can't imagine having a pleasant and professional time looking at multiple properties together with that person, maybe there is a better choice.

Good references and online presence: A good way to find a good real estate agent is a referral from someone who already worked with them to find a farm. You might check realtors' social media accounts to get a sense of their familiarity and comfort level with you and your community. There are associations of realtors, such as the National Association of Hispanic Real Estate Professionals, that may be able to connect you with a local realtor who has a deep understanding of your community's particular needs.

Remember that real estate professionals are people, too. They are busy, and if they don't sell properties, they don't make an income. So their time is valuable. Here are some tips for ways you can contribute to an effective partnership with your real estate professional:

Be clear about what you want: You need to know what you are looking for. This is especially critical when there are multiple people (like a spouse or partner) involved in the buying decision. Writing the criteria down can be helpful.

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Know your financials: Have an accurate sense of what you can afford BEFORE you talk to real estate professionals. If you don't have a strong financial record-keeping system for your farm business, and you plan to pay for your new farm with at least some on-farm income, get that system in place before going further.

Be reasonable: Remember agents have other clients. Give your real estate agent sufficient time to respond to texts and emails. It is discourteous for them to interrupt a property visit with another client to respond to you. It is good to talk about communication expectations (including hours they can be reached), at the beginning of your buyer-agent relationship.

While individual real estate professionals handle their first meeting with a potential buyer-client differently, here is what will likely happen:

Get to know each other: Real estate professionals will ask questions of a potential client and, in turn, answer questions of potential clients. Typically, an agent will make a point to share resources about their company and their own personal experiences.

Paperwork: The real estate professional will also share paperwork that defines the agent-buyer relationship, makes clear what “agency” is, and delineates how responsibilities will be allocated between buyer and agent. As of August 2024, a federal court ruling requires that an agent must have a signed representation agreement in place before showing you a property. The agreement can be limited to a single showing, a specific property, a facilitation agreement, or an exclusive buyer-agency agreement. Each agreement will clearly outline how compensation will be provided to the agent and the duration of the arrangement. To end the agreement, the buyer may need to send a written notice to the agent.

Note that in some cases, you may choose to work with an agent, while the seller does not. (Learn more about For Sale by Owner situations in [Chapter 7](#))

While real estate agents can be helpful for all of the reasons described, there is no legal or other requirement for you to work with a buyer agent. If you choose to not work with a buyer agent, it will be even more important for you to educate yourself about searching for and evaluating farms, determining and making a fair offer on a property, negotiations, and the legal aspects of real estate transactions.

It is advisable not to attempt to do everything yourself. With or without a real

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estate agent, plan to assemble a supportive and knowledgeable group of farm and financial advisors to assist you. It is crucial to work with a real estate attorney in any farm purchase process.

Commission and compensation: Historically, both buyer and seller agents have been compensated through a commission calculated as a percentage of the final negotiated sale price. Typically, sellers negotiate “listing” agreements with the seller agents, which obligate the seller to pay a commission on the final sale price of the property. This has typically been a 5% to 6% commission on properties with houses, though that has ranged from 3% to 8% and has been as much as 10% on open land without housing or other buildings. Sometimes the commission might be a flat fee for open land sales without a house. In the negotiation between seller and seller agent for the listing agreement, they would generally agree up front as to how much buyer agents would be compensated if they represent the buyer in the transaction. Very often this has been a 50/50 split of the total commission. If the buyer was not represented by a buyer agent, the seller would typically still be obligated to pay the entire commission to the seller agent, who would keep the entire commission for themselves unless negotiated otherwise. However, this has not been common.

As a result of the March 2024 federal antitrust lawsuit settlement by the National Association of Realtors, however, the approach to real estate commissions and real estate agent compensation is rapidly changing. This change “decouples” buyer and seller agent compensation, and sellers are no longer automatically required to



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cover the buyer agent's commission. Buyer agents are also now required to sign a representation agreement with the buyer that specifies the agent's compensation. If you work with a buyer agent, it will be important for you to understand this contract, what the agent will be doing for you under that agreement, and for what compensation the contract may require you to provide compensation even if the agent is unsuccessful in helping you find a suitable farm, or if your attempt to purchase a farm is unsuccessful. It should also be made clear whether the representation agreement requires you to work exclusively with the agent and, if so, for what period of time.

It has been asserted that these changes following the federal lawsuit settlement will allow for more negotiation of commissions or alternative approaches to compensation. This could potentially lower costs for seller, buyer, or both, while also potentially allowing for more opportunity to negotiate on price. But there is still uncertainty over how this will play out, especially in terms of how buyer agents will be compensated. In some cases, it has actually already resulted in higher rather than lower compensation costs for the buyer. Sellers may still choose to pay compensation to the buyer agents as has been the tradition, but that will no longer be the standard, and that can no longer be advertised. The question of compensation may even become part of negotiations between seller and buyer in the purchase contract. Alternatively, a "flat fee" paid by the buyer for the buyer agent's compensation may become more common. In that scenario, it's important to understand what is covered under a flat fee and what services might cost extra. There may also be opportunities to negotiate to pay for certain services and not for others. Again, it's important to know if the contract will require you to provide compensation even if the agent is unsuccessful in helping you find a suitable farm or if your attempt to purchase a farm is unsuccessful.

If you use a buyer agent, you will likely want to negotiate with the seller to cover some or all of the compensation for your agent. This will typically be through a commission, though it could be through fees. Alternatively, you may request that the seller provide you with a "credit" to be applied to the purchase price to cover the buyer real estate commission or fees. However, this is basically the same as the seller paying the commission and may still be rejected by the seller. If the seller does not cover your real estate agent's compensation, you must have cash available to cover this cost, unless your lender is willing to roll this cost into the loan at closing.

At the time of the publication of this guide, real estate agents have observed that many sellers are continuing to offer compensation to the buyer's agent in the traditional manner of the seller agent and buyer agent sharing the commission, but it is not always the case. If you use a buyer agent, you may be partly or solely responsible for paying their compensation directly.

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TAKING OWNERSHIP OF THE PROCESS

Even with the best team of advisors to assist you, it is still your process. It is important to take ownership, being proactive rather than reactive. Learn all you can, for example, about the intricacies of buying land. Ask questions when you hear something you don't understand or doesn't sit right. Seek out advice and support from knowledgeable friends and community members. You should expect quality service and patient explanations from professionals you are paying.

It is also important to keep in mind that you can't expect your real estate agent to turn up all of the possibilities that are out there. As you will read in the next section, real estate listings are just one way to learn of farmland for sale. Even the most dedicated and energetic real estate agent won't be looking for your farm 24/7. Like other professionals, they serve multiple customers.

The fact that you are reading this guide shows you are already committed to proactively searching out knowledge and insight to make your search more efficient and effective. Keep it up!

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1. <https://landforgood.org/wp-content/uploads/LFG-Necessary-Desirable-Optional-Worksheet-Finding-Your-Farm-2.pdf>
 2. <https://farmlandaccess.org/how-to-use-a-lawyer/>
 3. <https://www.investopedia.com/ask/answers/101314/what-are-differences-among-real-estate-agent-broker-and-realtor.asp#:~:text=The%20agent%20may%20represent%20either,agents%20who%20work%20for%20them.>

CHAPTER 2:

How to Find Properties



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Sometimes just finding the right farm is the biggest challenge! Below we outline several methods for searching for farm properties. Use a wide variety of search methods to give yourself the best possible odds of locating the farm that is right for you.

REAL ESTATE AGENTS AND LISTINGS

Many sellers choose to list their properties with a seller agent and their agency or brokerage on the open market. These properties are then typically listed through what is known as a multiple listing service (MLS). MLS is a platform created, maintained, and paid for by the real estate industry in a region. Each MLS compiles and posts listings for sale in that region, sharing standardized information about the listed properties with the public and among real estate agents in the area. These listings are in turn typically posted publicly online through real estate agencies' websites and also often with real estate aggregator websites such as Realtor.com, Zillow, Redfin, Trulia, and Acres.com. While these aggregator sites often have arrangements to carry the regional MLS listings, this is not yet universal across the entire US. Seller agents will offer information electronically and in print and will show you the property, either by appointment or at an open house. This approach means that you are typically looking at properties that are represented by seller agents working for private real estate companies who, as noted in Chapter 1, work on behalf of the sellers, not you.

When searching for farms, many people will rely on their buyer agent to suggest properties and accompany them on visits. Buyer agents will select properties for your consideration based on the search information you provide. That said, many will also suggest properties outside the criteria you communicated to them. It can be annoying when the suggested property is beyond your budget or is missing a required attribute. Don't, however, assume your agent is not paying attention. A dedicated and creative agent may want you to understand the market and see properties that have potential in ways you may not have considered. Depending on your criteria, geographic region, and timing, properties that meet all your desired attributes and your budget simply may not be available.

Box 2A. What Do the Status Terms Mean in Online Property Listings?

Active: As the term implies, the property is actively for sale and available for you to look at and make offers on.

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Under Contract: The seller has accepted the offer and signed a legally binding contract with the buyer, but there are **contingencies** to clear before the sale can be closed (i.e., completed, see [Chapter 6](#)).

Contingent: The property is under contract, but some of the conditions have not yet been met. Often this may mean the same thing as simply being “under contract.”

Active Under Contract: The property is under contract, but the seller is actively accepting “backup offers” in case the original offer and contract falls through (see additional comments below).

Pending: The seller has accepted an offer and entered into a contract with a buyer, and there are no outstanding contingencies, so the listing is no longer active. The property will remain pending until all of the legal paperwork is processed and the sale is officially completed.

Note: In many cases, even when a property status is “under contract” or “contingent,” and also definitely when it is “active under contract,” you will still be able to arrange to view the property in person. And in some cases, depending on state law and the seller’s desires, as with “active under contract,” you may also be able to place a backup offer on a property that is listed as “under contract” or “contingent” in case the original offer falls through. However, the seller will not be able to accept your offer or negotiate with you unless the original contracted sale does not go to completion. Before making a backup offer, you should discuss with your attorney or your real estate agent the implications of making the backup offer, and how to do so in a way that protects your legal and financial interests. (See also [Chapter 5](#) about making an offer on properties.)

CASTING A WIDER NET - OTHER APPROACHES

Even if you work with an agent, look for properties outside the formal real estate listing system to give yourself every chance of finding the right property at the right price.

It is critical to remember that *most farm properties that change hands never appear on a real estate listing*. This includes transfers of properties within families or between people who already know each other, such as neighbors or between employers and employees. You may find your farm by working on or renting it

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first. Or the farm may be sold by the owner without involving a real estate agent or real estate listing (see [Chapter 7](#)). Please note, however, that some buyer agency agreements can require a buyer to pay the agent even if the buyer finds a property on their own. It is worth discussing this scenario when negotiating the buyer agency agreement.

The following are additional search methods that increase your likelihood of finding a property that is a good fit for you.

ONLINE LISTINGS AND CLASSIFIEDS

There are several online channels to investigate. Start with mainstream real estate aggregating websites like Zillow, Redfin, Trulia, and Realtor.com. These are also usually available as apps you can add to your phone. These sites/apps will allow you to create and save searches that will then generate notices to you automatically when a property is listed on the market with the search characteristics you are looking for. Some property websites specialize in larger properties for farming or hunting, some of which are undeveloped. Examples include Acres.com, Whitetail Properties, and Land.com.

Don't forget online classifieds. For example, an aging Wisconsin farmer with significant acreage placed a Craigslist classified ad that was discovered by a family that was living in New York but wanted to move to begin a farming life. The resulting connection ultimately led to a farm real estate and farm business transition that was satisfying to both sides. Facebook Marketplace is another option. Friends in Facebook groups for a particular area may become aware of opportunities, too, that aren't listed with a real estate agent.

SCOUTING AROUND

Some **for sale by owner (FSBO)** opportunities are only “advertised” by a For Sale sign at the property. Periodically driving around the area you are interested in may turn up interesting possibilities you would find no other way. A farmer happened to ride her bike by a 14-acre farm in Wisconsin just as the landowner was putting out the FSBO sign. She and her partner were able to purchase the property by acting quickly.

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WORD OF MOUTH AND NETWORKING

Some farmland owners are on the verge of selling but haven't yet taken that big step. If you can make contact with them before their intentions become widely known, you could avoid or reduce market competition. Toward this end, you might introduce yourself to area farmers and other residents and ask them if they know of any farmers who might be open to selling their farm.

A network of friends, acquaintances, and farm colleagues in your area of interest can help you become aware of farms that are or could be available for purchase. Building relationships in that area can grow your network of potential connections. Use your existing networks to make new network connections. Put yourself out there! Inquire at your state department of agriculture, conservation district, local USDA offices (Farm Service Agency [FSA] and Natural Resource Conservation Service [NRCS]), Farm Bureau, cooperative extension, and trade groups. Network at conferences. Check with "buy local" groups, farmer training and education programs, lenders, local town boards (such as agricultural commissions), neighbors, farm veterinarians, and suppliers. Spread your word at twilight meetings, mixers, and workshops. If you are currently farming on leased land, let your customers—and your landlord—know that you are looking for land or a farm to purchase.

SOCIAL MEDIA

Pay attention to social media platforms and groups in the community where you are looking in which people might share news of properties going up for sale, whether their own or somebody else's. Some rural communities, for example, have Facebook groups where a seller from the community may announce their plans to sell their land. You (or, better yet, a friend already rooted in that community) could also make a post in that kind of group, sharing your search for land.



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SENDING LETTERS AND KNOCKING ON DOORS

You can send letters directly to the owners of farms you have identified as fitting your criteria and are interested in buying. In such letters, you can briefly explain who you are and express courteous interest in talking to them about purchasing their land. If you are bold, you can even knock on their door. The odds of this approach working are low but are not zero. If you have luck and reach out to the right landowner in the right way and at just the right time, you could avoid the competition that normally surrounds a farmland property sale. This approach also enables you to proactively choose which properties are the best fit for you. To research farms and their addresses, you can often use the **geographic information system** (GIS) of local counties that are available online. Sometimes, however, you may need to access records (like a plat book) through the county office. You should be prepared for what might come next if the landowner actually responds to your contact. They may need to talk to family members. They could immediately ask you what you would like to offer and assume you are interested in an FSBO transaction.

PHYSICAL POSTINGS

The local feed store, farm supply store, gas station, or coffee shop might have “For Sale” flyers posted by a farmland owner. Check the classifieds of local papers and farm publications. Remember, many farmland owners looking to sell properties are older; they may not feel as comfortable with newer online media. Don’t limit yourself to the channels you know or like. Think about where they might go to spread the word about something.

You can also be your own best advocate by posting ads yourself. This is where a flyer can really shine, both in hard copy and electronically. Showcase who you are and what kind of land or farm you are looking for. Post your flyer at conferences and meetings. Tack it to bulletin boards at your co-op, farm supplier, USDA, extension and conservation district offices, farm lender offices, and local farm organizations. If you are already farming, put it out in your farmstand, your farmers market booth, or CSA newsletter.

LAND TRUSTS

Land trusts are nonprofit organizations that specialize in land and natural resource conservation. Many land trusts actively acquire and hold land with conservation values, such as open space, water quality, wildlife habitat, and scenic amenities.

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Most land trusts also hold protective **conservation easements** on properties owned by others. Land trusts that work in the agriculture arena can be important sources of information on available land. Some have their own online lists of properties for sale or rent. Many land trusts, even those that do not focus on agriculture, have wide networks of relationships with landowners. If there is a land trust in the area where you want to buy land, it is worth reaching out to them as they may help you make good connections. Some will post requests for proposals to purchase a specific property they own. In such cases, they will have criteria and processes for selecting the farmer-buyer.

Box 2B. Finding Land Trusts in Your Area

Looking for a land trust? One simple method is a Google search using your locale—a town, county, state, or region—and the term “conservation land trust.” Some states have a central organization that serves all of the land trusts there. Such groups will usually have a website and map showing which land trusts are present and which areas they serve. An example is Illinois, which has the Prairie State Conservation Coalition, who offers this [map](#).¹ The Land Trust Alliance has a [directory of land trusts](#)² for the whole country. (Note: Some states, like Illinois, also have “land trusts” that are legal tools for people for holding property. These are different from nonprofit land trust organizations.)

FARM LINK PROGRAMS

In a growing number of states and locales, there are nonprofit organizations that specialize in helping farmers and farmland owners find each other. These **farm link** programs usually have a website feature that allows farmers and farmland owners to post public profiles of what they are looking for. Farm link staff may also have more ideas and opportunities not seen on the website. Often, these program staff help farm seekers sort out their options, assess their financial readiness, and develop search strategies.

AUCTIONS

Auctions are a common way for the owners of farms and farmland to sell their properties, particularly in the Midwest and Great Plains states of the US, where a

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large portion of farmland is sold by auction. Auctioneers have mailing lists that you can get on and also advertise widely, including through social media and farm publications. However, buying a farm or farmland at auction adds certain unique complications to the farm purchase and financing process. See [Chapter 8](#) for more details about finding and buying properties through auctions.

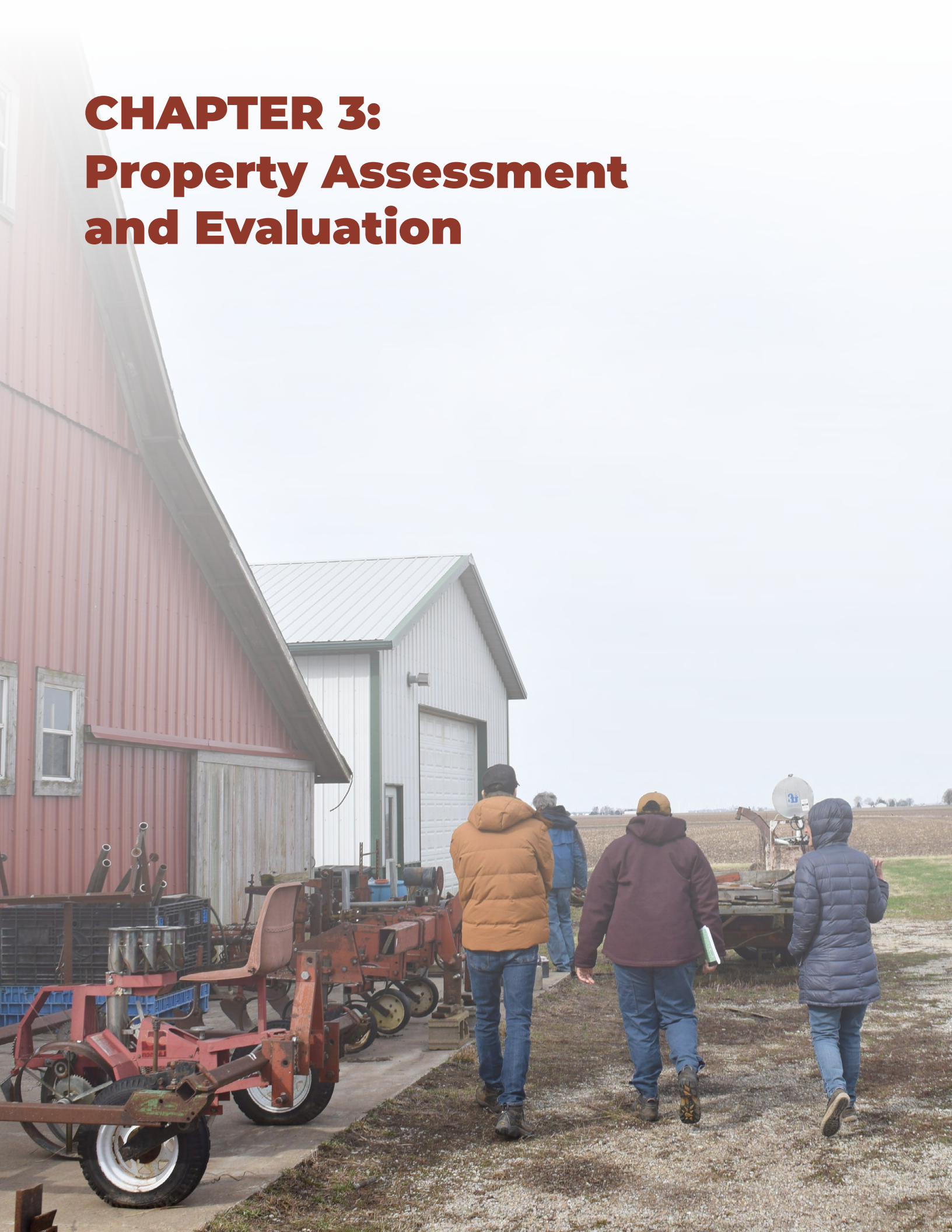
TAX AND FORECLOSURE SALES

Farms are also sometimes sold through tax and foreclosure sales, which might also be by auction or through a different mechanism. These are particularly complicated ways to buy a farm and generally should only be attempted by the sophisticated real estate buyer with adequate capital. See [Chapter 8](#) for more details about finding and buying properties through tax and foreclosure sales.

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1. <https://prairiestateconservation.org/wp-content/uploads/2024/02/2024-Land-Trust-Statewide-Map.pdf>
 2. <https://landtrustalliance.org/land-trusts>

CHAPTER 3:

Property Assessment and Evaluation



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When you want a new pair of pants, you likely shop around, try several on, and then purchase what gives you the best value for what you can afford. You can pretty easily return them if you change your mind. No such options exist when buying a farm. All your due diligence has to happen up front. You must assess the property, determine its features, and then evaluate the extent to which those features meet your needs. You don't want to end up investing a great deal of time and money in a farm purchase to wind up with second thoughts or to find you've made a mistake that results in your farm being less successful than you had hoped.

There are two elements to making a sound decision on whether to buy a property. **The first element, as discussed briefly in [Chapter 1](#), is determining what you want, need, and can afford before you set foot on any property.** What features of a farm and its location (such as proximity to a farmers market or veterinarian) are absolutely necessary? What would be desirable but you could make do without? What would just be icing on the cake? Writing these down will help when you start considering properties. Don't be surprised if your must-haves change during the search process. For example, one farm seeker doubled her initial search radius upon seeing the limited options in her initial desired area.

It is not uncommon to discover that you may not be able to purchase a farm with all the features that you need, either because it's not available or because you can't afford it. You may consider leasing additional land or even infrastructure.

Since you are purchasing this farm for your business, your business plan will be a significant guide to the characteristics that you need in the farm—the soil types, acreage, water, infrastructure, and buildings, including housing for you and perhaps for farm labor. The business plan will also help you determine what you can afford. Business plans are discussed further in [Chapter 4](#). If you are planning to buy a farm to engage and build community in some way, then you will also benefit from understanding what features of a farm are needed for the activities you have in mind (for example, is there enough parking area?).

Box 3A. Two Key Principles of Assessing Farm Properties

1. Know what you want, need, and can afford

Write these down as a helpful reference.

2. Study each farm of interest very carefully

Gather data before and during your visit. If the property seems to fit your criteria, doing more research after your visit about any remaining questions can be very useful as well.

The second element in making a wise purchase decision is scrutinizing each

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farm of interest very carefully. At this stage of exploration, you'll want enough information to determine if you want to make an offer. Listings for farm properties will have quite a bit of information about the property, but that is just the beginning of a thorough property assessment. You should tap other sources of information before visiting a property. Your information gathering will continue during your visit to the property and then, for properties that seem intriguing, while you consider making an offer after the visit. Lastly, you will gather more information during what is known as the **due diligence** period after your offer has been accepted and you have signed the **sales contract** or **purchase and sale agreement (PSA)**. (See [Chapter 6](#).) (NOTE: Different people in different regions can use either of those terms for referring to the binding contract between a buyer and seller of real estate. In this guide, we'll be using "PSA" because it feels more distinct from other kinds of sales contracts and carries more gravity.)

It's easy to lose track of the information you gather from many sources, especially if you are looking at multiple properties. Keeping good files (digitally, on paper, or both) helps, as does a checklist of the features you want to find out about (Box 3B).

In the rest of this section, we detail the diverse sources of information you can tap for your assessment of farms.

Box 3B. Checklists for Requirements and Assessments

Thinking through what you need in a farm property and then assessing what it actually offers can be challenging. Working off of a checklist can help you be thorough and focused. Here are some useful checklists available online.

1. [Land Requirements Checklist](#)¹ (American Farmland Trust)
2. [Farmland Assessment Checklist](#)² (Penn State University)
3. [Farmland Assessment Checklist](#)³ (California Farm Link)
4. [Farm Evaluation Checklist](#)⁴ (Land For Good)

INFORMATION FROM AGENTS AND LISTINGS

Real estate agents are required by law and professional ethics to provide you with honest information that is complete to the best of their knowledge. Many states require the seller to complete and provide you with a **property disclosure report** (also called a seller disclosure report). In the report, the seller provides personal knowledge of the condition of the property they are selling. The real estate agent

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may not always fully verify everything that the seller has put on the form. In all states, it is illegal to fraudulently conceal major defects in a property. That does not mean that you won't run into situations where there is fraudulent, misleading, or missing information. This is why it is important for you to view the property and evaluate it carefully.

As you gather information, it is important to remember that the agent or agency listing the property works on behalf of the seller. This is important because in the transaction and negotiation process, their responsibility is to look out for the interests of their client—the seller. Not you. It would be a conflict of interest for them to do otherwise. It is prudent to be cautious about what you reveal to the seller agent about your situation or finances as that information could put you at a disadvantage in negotiations. Many states require real estate agents to provide potential buyers with a form defining this relationship of representation.



The property disclosure report is particularly helpful for learning about potential issues of concern with the house(s) and also about the property configurations, easements, and other general characteristics. Examples of disclosure forms can be found [here](#)⁵ and [here](#).⁶ It may, however, be less useful for some of the specific soil and farm infrastructure information you may need to determine the suitability of the farm or to negotiate your offer. You should ask questions to obtain missing information or conduct additional research on your own as described in the next section.

In asking questions about the property, keep in mind that not all buyer or seller agents are knowledgeable about agriculture and commercial farm properties. They

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may know very little about the agricultural aspects of the particular property you are considering. Sometimes even the property owner may not be able to accurately describe the agricultural features and their condition, particularly if they are not farmers themselves. A listing may say “15 acres of beautiful farmland,” but the real estate agent or the property owner may not have the expertise, or the soil maps, to tell you whether or not the soil is suitable for growing vegetables commercially. A photo of a historic barn may not reveal the rotting interior beams or an outdated layout. This is why you will likely need to look beyond the listing by visiting the property and gathering additional information from elsewhere.

Box 3C. Location, Location, Location

The potential of a farm property to be good for your farm business and your family isn't just about the property itself. You should also pay attention to the location. Is it, for example, high in the watershed or downstream and affected by what is happening upstream? If you plan to send your children to public schools, are the schools good? If you plan to sell food locally and directly to customers, is there likely a good market? Will you, your family, and your community be welcome? Are there divisive issues in the community? If you raise animals, how close is the nearest vet?

We recommend using a combination of your buyer agent's insights and the alternative sources of information described in the text to get a better idea of the context of a property. Be prepared for some conflicting information. Take what you hear with a grain of salt. And don't expect 100% certainty. But doing your homework will help you make a wise choice.

INFORMATION BEYOND AGENTS AND LISTINGS

Once you've examined the listing, you'll be able to generate your own list of additional information you need. Some you can gather during a property visit while other information will need to be found elsewhere. Remember, nothing is more important than getting a full and accurate assessment of a property you are considering. To secure that complete picture, you may well need to do a lot of your own research, rather than accepting general assurances from the seller or real estate agent.

For example, the listing may not include anything about local and state zoning, building codes, and tax codes. This information is critical to understanding the

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answers to the following questions, which could have huge implications for the success of your farm operation:

- Will a farm stand or agritourism be allowed?
- What is required for new structures?
- Can you install a mobile home or tiny home as a residence or a short-term rental?
- What about farm stand parking and signage? What kinds of activities may not be defined as agriculture, such as barn social events, wood processing, or value-added jam making?
- Are there restrictions about livestock?
- What are the regulations regarding wetlands and waterways?
- Will the property be eligible for any property tax benefits if farming is carried out?
- If the zoning isn't what you want or need, is it possible to get a variance or change the zoning once you buy a property?

Do not assume that because a property looks like a farm that you can do any kind of farming or anything related to agriculture on it. Nor should you assume that if a property is zoned for agriculture that you can do any normal farming activity on it. Different counties may, in fact, use the same zoning classification categories but have different rules and restrictions. To really understand the rules that apply to a particular property, be sure to first talk with county and municipal staff (usually in the planning department) to get a good idea of the rules the farm is subject to and their practical implications for your operation. If there are key questions they can't answer, they should be able to point you in the direction of someone who can.

If you are going to need water for your farm operations, then you will also want to dig into understanding the water situation of that property and that area. The most fundamental question is the history of flooding of the farm's fields. Maps and online data may be general or not completely reliable. Be sure to gather information from a variety of local sources—the seller, tenant farmers, neighbors, Natural Resource Conservation Service (NRCS) staff, extension agents, and even town officials.

Box 3D. Websites with Searchable Soil Information

- NRCS [Web Soil Survey](#)⁷
- UC Davis [SoilWeb](#)⁸
- AcreValue [soil maps](#)⁹

There are other water issues to consider as well. Are there any issues around ground and surface water access and/or water rights? What is the capacity of any wells that may be on the site and what is the quality of the water? Some states have websites (like the [Illinois State Geological Survey](#))¹⁰ that provide comprehensive information

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on wells and aquifers in an area. One farm couple pulled up permit records for wells on a property they were considering and learned that the wells were over 1,000 feet deep, with one dry and the other offering only a low flow. Neither the seller nor the buyer agent knew of this.

Be sure to take advantage of the many online tools that are available for you to gather information about a property and its surroundings before ever visiting. You might use Google Maps to determine the locations of the nearest grocery stores, pharmacies, restaurants, schools, and car repair shops. The USDA Web Soil Survey is invaluable for getting an initial read on the soil types on the property (Box 3D).

Many counties and states also maintain public online geographic information system (GIS) websites that allow you to learn about the property boundaries, soils, terrain, flood zone delineation, wetlands, property taxes, property owner, and other useful property information. You can even see who owns surrounding properties. Land owned by a development company gives you a different sense of the future of the area versus a nature preserve owned by a public agency. These kinds of sites, as well as Google Earth, can give you the ability to view aerial imagery from the present day as well as from past decades so you can see how that particular farm's landscape was managed over time.

Box 3E. How Many Tillable Acres?

It is important for your future success to obtain accurate field acreage measurements. Don't assume a real estate listing or the seller has the exact acreage, as field size can be inaccurately estimated. The acreage of a field can be calculated online using the Web Soil Survey website or from Google Earth. If the property has ever been enrolled in a USDA program, and the owner provides written permission for the maps to be shared, your local NRCS or Farm Service Agency (FSA) office can also help you with acreage calculations.

It is also good practice to look into legal aspects of the property, such as easements and rights-of-way and mineral rights, that will impact how you (and others) can use the property. You should be aware of whether there are separate gas, oil, and mineral rights. Deeds and tax maps, which may be part of the disclosures or may need to be requested, are useful sources of information. Be sure you know, too, whether there are any contracts with wind, solar, or cell tower companies or if any of the property is in the NRCS **Conservation Reserve Program (CRP)** or other USDA programs.

Find out what you can about the property's use history, such as application of

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chemicals and/or biosolids, chemical spills, or dumps on the site. You may be particularly concerned about eligibility for organic certification or the presence of PFAS/PFOA (sometimes known as “**forever chemicals**”). While these factors should be fully clarified during the due diligence phase after a PSA has been concluded and before the closing, it is ideal to know about them even before you decide whether or not to make an offer. If you have concerns about contamination of any kind, you will likely want to have a soil testing contingency in your PSA and have the testing carried out during the due diligence period (see [Chapter 6](#)).

Don't take utilities and communications infrastructure for granted. What sources of energy are or could be provided to the property? What about high-speed internet access and good cell phone reception? Some rural areas lack adequate internet access, which can be a major stumbling block to the success of your business. Ask your buyer agent, the seller, the utility, and neighbors about these important matters. You can also test your own phone for cell service, although different carriers can have different levels of coverage in more rural areas.

If there is someone renting the property from the seller, make sure you understand the legal situation for that tenant and for you. What does the lease say? What does state law say? If you are counting on farming the land you buy, and the current tenant has the legal right to farm for another year or more, that could throw a monkey wrench into your plans. Your attorney should be your guide through these topics.

Conversely, it is also important to know if the current farm operation relies on land that is being leased from others. If you will need this additional acreage for your farm business, you will want to know how likely it is that this other land will be available for lease to you. You cannot take this for granted since those owners may have other prospective tenants or other plans for their property. And as a part of your assessment process, you should talk to the owners of the other properties about the potential for you to lease the property. You may want or need to get something in writing once you have committed to purchasing the main farm property, and your lenders may also want to see something in writing from future landlords as well before committing to financing. You may make this a condition of the farm purchase. Ideally, you will have written leases in place by the time the purchase process is complete to ensure that this land will in fact be available to you after you buy the farm.

Farmers at Pink Tiger Farm, whose story is shared in [Appendix B](#) of this guide, made a point of calling local utility companies and the local villages/towns about upcoming infrastructure projects. Some of those projects (like installation of high-speed internet or upgrades of water infrastructure) could make the property you are looking at more valuable in the future. Big repair projects on local roads or highways could hurt your business for some time.

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INFORMATION FROM THE PROPERTY VISIT

You must visit the property before thinking about making an offer! Don't be satisfied with the listing's photos and information you've collected from different sources. Do a thorough site visit. Walk the cultivated fields and pastures as well as the unfarmed areas. Look in the buildings. If possible, bring friends or advisors who know about farm buildings, vegetation, and soils, for example, so you can get a variety of perspectives about the property.



In many cases when the property is listed with a real estate agency, the seller will not be present to answer your questions when you view the farm. And if the seller's real estate agent does not have a sufficient background in and knowledge about farms, they may not accurately relay your questions or the seller's responses back and forth to get you the information that you need. Be persistent but patient and reasonable. When possible, ask to speak directly with the seller and others, such as farm managers or tenants, who can provide firsthand knowledge about the agricultural aspects of the property.

Pursue local knowledge, too. Is there an active or past NRCS conservation plan for the property that the owner is willing to share? It may be possible to talk with neighbors and former tenants who could tell you about area politics, the farming community, or development threats. Does the county Soil and Water Conservation District have information on this farm that could be shared? If there are any surveys of the property, these might be included in the disclosure or as public records filed in local or county jurisdictions.

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Sometimes the desirability of a farm property hinges on its infrastructure—the barns, sheds, irrigation systems, wells, fencing, access roads, lanes, and residence(s). These need to be carefully examined as well during your visit. What do you need and what can you build or adapt? Which structures are suited to your needs? What is the condition of each? What must be repaired, updated, or removed? If you get to the agreement stage, you should hire professionals to assess the condition of structures, the electrical wiring, or plumbing, for example (see [Chapter 6](#) for more information on inspections). It is uncommon but possible for licensed inspectors to accompany you at the early exploration stage, before any PSA is signed.

If the property includes a residence, another layer of assessment is in order. Many more cautions and regulations apply to a dwelling than to a barn, from lead paint to suspicious water marks on the ceiling. Again, you have the option of bringing inspectors with you on your exploration visit. If you get to the agreement stage, paid inspections will be on your list of contingencies. It is acceptable to ask the seller ahead of time for any information and records on maintenance or prior repairs prior to making an offer.

Often a farm property will include forest, prairie, wetlands, or similar areas that are important parts of the farm. Ask about management plans for these areas. What is the quality of the woods and have they been recently logged? In your vision, woods and prairies may just be ancillary—nice to walk in—or they may be a significant part of your plan, such as for agroforestry, lumber, hunting, or wild harvesting.

Don't neglect the neighbors! Talk to them if feasible. This can give you a sense of who you may be living and/or farming next to. Do they seem friendly and welcoming? How are they using their land? It also may give you a chance to ask questions such as, "Have you seen this lower field flood in the spring?" It is not unreasonable to want to visit a property more than once before making an offer. In a hypercompetitive market, however, you may not have that luxury.

Box 3E. Climate Change and Property Assessment

Climate change is bringing significant change to weather, temperatures, and precipitation patterns. Keep climate change in mind as you assess farmland properties.

1. Study what is already happening to the climate of the region you are looking in and what changes are projected to unfold in decades to come.
2. Do not assume that the flood zone delineations in your area will be accurate in the future. Warmer climates mean that the atmosphere can

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hold more water and dump more rain. There may be flooding beyond what flood zone maps indicate.

3. Study the topography of each property as it relates to handling water, nearby waterways, and flooding.
4. Study the property's position in the watershed and the activities in the watershed. The further downstream in a watershed you are, the more you will be impacted by the activities of property owners upstream. If the area has limited aquifer capacity and is being drawn down, question whether current or future wells will supply the water you will need during periods of intense drought in years to come.
5. Value wooded areas as assets. Trees can slow surface water runoff, help with percolation, hold soil, and provide shade for livestock.

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1. <https://farmlandinfo.org/tools/land-requirements-worksheet/>
 2. <https://extension.psu.edu/farmland-assessment-checklist>
 3. <https://drive.google.com/file/d/0ByAUwukN5EMmS29qNVRkekxXSzdsblhreFZqdnJxZ1NmcGIw/view?resourcekey=0-if6kToxQAS4Z214DYOHx9g>
 4. <https://landforgood.org/wp-content/uploads/LFG-Farm-Evaluation-Checklist.pdf>
 5. <https://legaltemplates.net/form/property-disclosure-statement/>
 6. <https://cdn.cosmicjs.com/35e2ace0-5130-11eb-ba68-91d1fc5c8777-RESIDENTIAL-REAL-PROPERTY-DISCLOSURE.pdf>
 7. <https://websoilsurvey.nrcs.usda.gov/app/>
 8. <https://casoilresource.lawr.ucdavis.edu/gmap/>
 9. <https://www.acrevalue.com/>
 10. <https://prairieresearch.maps.arcgis.com/apps/webappviewer/index.html?id=e06b64ae0c814e-f3a4e43a191cb57f87>

CHAPTER 4:

Financing



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Before you search for a farm, it is essential to determine if you are, in fact, financially ready to purchase. It is also important to understand the typical loan eligibility requirements of farm lenders and to know which lenders offer relevant financing before you look for a farm to buy.

This chapter will discuss business planning and determining affordability based on your business plan, current financial assets, and any off-farm income you intend to contribute to the purchase. It then details the process of financing your purchase.

Many people find tackling finances and financing to be intimidating on many levels. There are, however, farm service providers who are understanding and ready to help you navigate your journey compassionately and wisely. Be sure to reach out and find those kinds of agricultural service providers.

Due to high land costs, most US farms are purchased via debt financing—that is, borrowing money for some or all of the purchase. [Chapter 8](#) discusses alternative methods that can replace or reduce at least some of the debt financing needs. Unless you have substantial available capital, it will be impossible to buy a farm without some type of financing. Not everyone is comfortable taking on debt. Pursuing a real estate loan can be an uneasy, if not scary, process. With careful planning and budgeting, along with assistance from your farm financial advisors, however, you can determine an amount of debt that will allow you to live and farm relatively comfortably with your loans and reduce the risks (e.g., default or foreclosure) that come with debt financing.

Box 4A. How Much Cash to Bring to the Table?

You might have cash to bring to the table for your farm purchase beyond the required down payment. Although putting down more cash can reduce the amount you need to borrow, it is generally not a good idea to put all your available cash into purchasing a property. Plan carefully before deciding how much cash to put down. You will likely need money for livestock, equipment, infrastructure, supplies, and working capital to operate the business and perhaps living expenses while you get established. You may need to spend available cash on repairs and improvements. It is also prudent to put at least a half-year's worth of family living expenses aside as a reserve in case you can't work and produce an income. This cushion will reduce stress.

The process of financing a farm is often very different from the process of financing a house, even when a residence comes with a farm property. This is because a farm purchased for the purpose of having a farm business is, from a lender's perspective,

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fundamentally a commercial property. As such, a lender's financing decisions will often be based on current and/or potential farm income, even when off-farm income may still play a role in supporting future mortgage payments. To explain and justify the current and/or potential farm income, lenders will typically require a business plan instead of or in addition to employment history and off-farm income verification.

Finally, don't be surprised if you find the process of assessing a wide variety of financing options and having lending institutions scrutinizing your financial health emotionally challenging. One Wisconsin farm couple described it as "very daunting and intimidating." It may take some time to become familiar with the terms and the workings of lenders and lending institutions. Remember that lenders that work with farmers will understand the challenges of making a living as a farmer and of financing a real estate purchase. Most will be sympathetic to what you are trying to achieve.

YOUR BUSINESS PLAN, PROPERTY CHARACTERISTICS, AND WHAT YOU CAN AFFORD

A well-developed business plan with a complete and thorough set of financial projections based on sound assumptions will determine your capacity for financing a real estate loan, commonly referred to as a **mortgage**, as well as your ability to support other **carrying costs** to own a property. These carrying costs include property taxes, insurance, and maintenance of buildings and other infrastructure. Your ability to cover all of those expenses may come from both farm and off-farm income. Your business plan should show your other family living costs and how you will be generating income to cover them. Your business plan will also describe the acreage, soil types, and parameters of infrastructure that you will need to support your business. It is important to be thorough in your determination of these needs and realistic about your capacity to cover carrying costs.

Farming is a risky business, and there are things that are often out of your control, such as weather extremes, expense inflation, dramatic changes in market conditions and commodity prices, and major shifts in the economy. And, particularly if you will be new to the particular farm and farmland you are buying or are dramatically increasing the scale of your existing farm business with this farm purchase, there can be a very big learning curve before you are able to achieve your optimal yields, productivity, and economic efficiency. It is very common to not achieve your initial projections, which is why it's important to have very conservative projections in your business plans, especially for the initial years of ownership, and to build in contingencies for addressing financial shortfalls.

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Part of developing your business plan and preparing to finance a farm should include understanding the **“5 Cs of credit”**: collateral, capital, capacity, condition, and character. If you are not familiar with the 5 Cs, read this [publication](#)¹ from Michigan State University Extension. The 5 Cs will be taken into consideration by lenders in evaluating your business plan and your application for your mortgage as well as the other loans that you may carry in addition to the mortgage.

Finding the perfect property that matches up exactly with your initial business plan may not be possible. Thus, as you explore potential properties, you may need to adjust your business plan. For instance, you may find a farm that meets most of your desires but doesn't have the acreage you require. However, you may be able to lease additional acreage to make up the difference. By carefully reworking your business plan's assumptions, you can determine if you can make the numbers work if you buy that property and lease the additional land. Your lender will want to see these calculations and the assumptions behind them. They may also want evidence that you will be able to secure a lease on that additional land.

Box 4B. Business Plan Basics and Resources

Many organizations and resources can help you with developing your business plan. The USDA publication [“Your Guide to FSA Farm Loans”](#)² includes a list of some print and online resources (e.g., U of MN's [AgPlan](#))³ as well as names of professionals who can help with farm business planning. The USDA Website [“How to Start a Farm: Plan Your Operation”](#)⁴ includes a description of business plan components and includes some worksheets. Financial assessment tools and resources are also available through organizations such as American Farmland Trust and the National Young Farmers Coalition. The [Loan Readiness Toolkit](#)⁵ can help you assess if you are ready to pursue financing.

This is just a sampling of the resources that are out there to help you. Farm business planning classes and also direct technical support can be found across the country, including from cooperative extension, state farm business viability programs, local Small Business Administration (SBA) offices, SCORE (a nonprofit organization that partners with the SBA and USDA to provide free mentorship programs for business planning), and the support offered by various nonprofits that support farms and agriculture.

It is not uncommon to find that a farm does not have all the infrastructure you need or that the infrastructure requires significant renovation, modification, or updating. This will prompt the critical question: can you afford to finance both the

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purchase and the improvements to implement your business plan while generating income sufficient to meet your carrying costs and family living needs? To answer that question, you will need to estimate the cost of needed improvements, adjust your business plan accordingly, and determine if the numbers will work. Where the funding would come from is a key part of the overall equation. Do you have cash that you could shift from some other intended purpose? Or can you borrow additional funds to make the improvements? Don't forget that you also must cover your closing costs for the purchase transaction.

Preparing realistic budgets with the financing included is important both to protect your own interests as well as to satisfy your lender that you are capable of purchasing this farm and operating a viable, profitable business. This is when it will be useful to have a farm financial advisor (in addition to the lender) who can help you wrestle with all of these questions and give good practical guidance.

RESIDENTIAL VERSUS COMMERCIAL MORTGAGES

Most lenders provide home mortgages for properties that will be used primarily or exclusively for personal use as your residence. These mortgages commonly have terms as long as 30 years. The lender will decide on how much you can afford by verifying your employment and income. Many home mortgage lenders are wary of self-employment income, unless there is a strong track record of consistent income.

However, if you are looking to purchase your farm at least partially based on income generated from the farm, most lenders (especially conventional banks and mortgage brokers) may not consider the loan a home mortgage. Instead, they will typically look at the farm as a commercial property, which will require a commercial real estate loan. The lender will consider a number of factors in making this decision. These factors include how much of the value of the property to be purchased is attributed to the residential portion of the property, the extent of reliance on farm income to pay the mortgage by the borrower, and the lending policies of the specific lending institution.

Commercial mortgages often have shorter loan terms (20 to 25 years or less) and higher interest rates than residential home mortgages. Some of the agricultural lenders described below, including the USDA Farm Service Agency (FSA), are the exceptions; these are willing to provide longer terms and lower interest rates for a farm purchase. Commercial loan providers and agricultural lenders will typically require you to provide a business plan to demonstrate your ability to make the projected mortgage payments when your farm income is assumed to be part of your financial base for paying the mortgage.

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Even when you are purchasing a farm exclusively with off-farm income, many conventional banks and other mortgage lenders may not be willing to provide a home mortgage for the farm property. Many lenders turn around and sell their home mortgages on “the secondary market” to other mortgage companies such as Fannie Mae, Freddie Mac, or others. Those companies tend to be wary of properties with “excess acreage,” barns, and other outbuildings because they are concerned that those properties will be difficult to resell if they need to **foreclose** on a borrower who has defaulted. Even when a lender does not resell the mortgage, they may still have the same concerns. That said, some conventional lenders are comfortable providing home mortgages for “rural residential” properties with farm characteristics as long as the borrowers have sufficient off-farm income, and that income will be the only source of income for the mortgage payments.

Because of the more complicated nature of farm mortgages, the time from application to approval will also often be longer than the typical time to get full approval for a home mortgage. It will typically take two to three months compared with one to two months for the approval of a typical home mortgage. In some cases, it can take three to five months to get fully approved for a farm mortgage, depending in part on the lenders involved. This needs to be built into your offer and purchase contract as will be described in detail in [Chapters 5 and 6](#).

UNDERSTANDING MORTGAGES, AMORTIZATION, AND INTEREST RATES

A traditional **mortgage** is a type of loan used to purchase a property over time, typically decades. The loan is usually structured with regular monthly payments that include **principal** and **interest**. The principal part of the mortgage allows the buyer to build **equity**—meaning here the amount your property is worth minus what you owe on it. Interest is collected by the lender to cover the risk associated with investing capital in a loan and also to generate sufficient income to operate in a sound manner, which includes loan officer compensation and loan servicing costs such as record keeping and collecting and processing payments, the lender’s cost to secure the funds, and, in some cases, profit to the lending institution.

Box 4C. About Amortization

An amortization schedule shows how much of each payment is going to principal and how much is going to interest each month until the loan is paid off. There are free online loan and **amortization calculators** ([here](#)⁶ is one

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example) that allow you to determine the potential costs of your mortgage based on the sale price, your down payment (if any), the term length of the loan, and interest rate(s). These calculators will show you the monthly payments and the total interest paid over the entire loan term in addition to the breakdown of what portion of each monthly payment is going to principal and what portion is going to interest. The portion paid to interest will be very high in the early years of the loan and will decline as you continue to pay down the principal balance. Conversely, the amount of your payments going to principal will be relatively small in the early years and will increase over time. Therefore, at the beginning of the loan, you will build equity at a much slower rate than at the end of the loan term.

A few important things to know about mortgages:

- In a typical **fee simple purchase** with conventional debt financing, the deed of ownership of the property is transferred fully to the buyer. However, there is a **lien** put on the property by the lender, which is a claim (legal right) against the property, used as collateral to satisfy a debt in the event of **default** (failure to repay according to the terms of the loan). The lien gives the lender the right to take legal actions, including taking possession of the property (**foreclosing** on the property), if you have defaulted because you have failed to make mortgage payments or meet other loan obligations.
- Early in a mortgage, most of the payments are going toward interest rather than principal, so you are building very little **equity**. An **amortization schedule**, explained in Box 4C, will clearly show you this. On the schedule, you will see the point in the future when more of your monthly payments goes toward principal than interest.
- The longer the term of the mortgage, the lower the monthly payments will be compared to borrowing the same amount with a shorter term and the same interest rate. Many people focus only on the interest rate of a mortgage, which causes them to underestimate the impact of different mortgage term lengths.
- The longer the term of the mortgage, the longer it takes to increase your equity and the greater the total interest that will be paid over time.

Box 4D. Two Scenarios Illustrating the Effect of Loan Terms

1. You borrow \$400,000 for your mortgage. At 6% interest paid over a 20-year term, your payments will be \$2,866/month or about \$34,400/year. By the end of the loan, you will have paid about \$288,000 in interest in

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addition to the \$400,000 of the actual mortgage principal. Ten years into the mortgage, you will still owe \$258,000. In that 10th year, about \$16,000 of your payments for the year will have gone to interest, and about \$18,000 will have gone to paying the principal, reducing the balance due on the loan by that amount.

2. You borrow \$400,000 for your mortgage, but over a 30-year term instead of 20 years. Over a 30-year term at 6%, your payments will be \$2,398/month, or \$28,800/year. By the end of the loan, you will have paid about \$463,353 in interest as well as the \$400,000 in mortgage principal. Ten years into the mortgage, you will still owe \$335,000. In that 10th year, about \$20,400 of your payments for the year will have gone to interest, and about \$8,400 will have gone to paying the principal, reducing the balance due on the loan by that amount.

See Table 4A, which demonstrates the financial differences between these two scenarios.

Table 4A.

Amount Borrowed	Term length (in years)	Interest rate	Monthly payment	Total annual payment	Total interest over the entire loan term	Amount owed after 10 years	Total interest payments in 10th year of loan	Total principal payments in 10th year of loan	Total amount paid over loan term
\$400,000	20	6%	\$2,866	\$34,400	\$288,000	\$258,000	\$16,000	\$18,000	\$688,000
\$400,000	30	6%	\$2,398	\$28,800	\$463,353	\$335,000	\$20,400	\$8,400	\$863,353

People unfamiliar with loans often fail to realize how much of their payments is going to principal and how much they are paying in interest. They don't realize how long it takes for them to start building a significant amount of equity with a long-term loan. And they don't realize how much a different length of loan term affects this calculation as well as how much total interest they will pay overtime. The amortization schedule shows all of this.

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It is often possible to refinance a mortgage for different loan term lengths or better interest rates at some point in the future. But refinancing comes with costs. The borrower may need to pay for a new appraisal, legal costs, and loan fees. Alternatively, you can start with the longer-term loan and direct additional payments on the mortgage toward paying down the principal. In this way you gain equity more quickly and pay off the mortgage early. Make sure your lender knows that your extra payments are specifically for paying down the principal; otherwise, the lender may treat these as regular payments. You will need confirmation from the lender ahead of your loan application that there will be no penalties for prepayment of the mortgage and clarity on the procedure.

Interest rates vary depending on market conditions, the type of mortgage, the length of the loan term, the risk profile of the borrower, and the lender involved. For example, all else being equal, longer-term mortgage loans such as 30-year loans tend to have higher interest rates than shorter-term mortgage loans such as a 20-year term. In some cases, current interest rates for a specific lender are publicly posted. In other cases, they can be determined, or at least estimated, by reaching out to prospective lenders. Interest rates fluctuate with some frequency. You won't know the actual interest rate that you will be working with until after you have formally applied for your loan and your interest rate is determined by the lender during the loan process.

Interest rates are either fixed, meaning that the rate stays the same throughout the course of the loan, or variable, meaning that the rate may change during the course of the loan based on changing market and economic conditions. Variable rates move or "float" based on an index such as the prime rate, treasury bonds, or the rates set by the Federal Reserve. Fully variable mortgages can change your mortgage payments as often as monthly.

One type of mortgage with a variable interest rate is known as an adjustable-rate mortgage (ARM). In many ARMs, the rate may be fixed for a period, often 5 years (but can be less) or as much as 10 years. The initial rate is sometimes referred to as a "teaser rate" if it is particularly low and set to attract borrowers to the lender or to attract borrowers to choose an ARM. At the end of the fixed period ("maturity"), the interest rate will then adjust periodically or regularly, depending on the terms of the loan. With consumer home loans, the rate can't move more than a fixed percentage at maturity. With commercial loans, there may be no limit to the change in rate.

It is important to know what types of rates your lender offers, particularly in times when rates may be changing significantly or are at risk of changing significantly. Generally, a fixed interest rate is preferable to a variable rate since it provides you with a stable payment obligation. This makes it easier to budget and eliminates the risk that your payments could significantly increase with higher interest rates.

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However, there are times when a variable or adjustable rate may be desirable, such as when rates are projected to be lower in the relatively near future. Variable rates also tend to be lower than fixed rates, at least initially, because a lender will typically price in expected rate increases over the life of the loan. But you need to weigh that against both the risk that rates could increase significantly and your ability to pay the potential higher rates. You should work with your advisers to determine whether you can tolerate the risk of fluctuations that come with variable interest rate loans.

It is essential to run different scenarios to determine how much you can afford to borrow based on specific sales prices, down payment levels, loan term lengths, interest rates, projected farm income flows, and expected off-farm income. Once you have secured a loan, your lender will provide you with an amortization schedule based on the particular terms and rates of your loan.

To help make your monthly payment more affordable, a lender may be willing to amortize your loan payments for a longer period than the loan term in combination with the requirement that you make a balloon payment due at the end of the term. A balloon payment requires you to pay or refinance the balance of the principal due at the end of the actual loan term. For instance, the lender may agree to a 10-year loan term, but amortize the loan based on a 20-year loan amortization, meaning that the monthly payments are based on a 20-year loan term length. But the loan term would actually end at year 10, at which time the remainder of the principal (the balloon payment) will be due. At that point the loan will be retired, or you will refinance the balance due.

This type of loan structure allows you to benefit from lower monthly payments during those 10 years, while gaining at least some equity before the final payment is due. Keep in mind that most of the payments over the early part of the loan will go to interest rather than principal. At year 10, the expectation is that you will have sufficient equity and enough success farming that you will be able to pay off or, more likely, refinance the balance of the principal due with your original lender or another lender.



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BUDGETING FOR OTHER CARRYING COSTS

When budgeting for a farm purchase, it is important to take into account the ongoing costs associated with ownership in addition to the mortgage. These are referred to as **carrying costs**. These include, at a minimum, property taxes, property owner insurance, municipal and other fees, and ongoing maintenance:

- The current property tax bills for a property for sale should be available to you if the seller is properly disclosing the facts about their property. The current tax amount can also be obtained from the tax assessor's office. Keep in mind, however, that taxes generally go up over time.
- Your farm insurance agent should be able to give you a ballpark figure for property insurance to use in a budget until you have a quote on a specific property.
- Estimating maintenance can be a challenge since there are so many variables. Older buildings will often need more maintenance. The number and size of buildings, their initial condition, and how well the seller took care of them will also be factors. As a general rule, it is recommended that you budget between 1% and 3% of the expected purchase price of a house to be spent annually on ongoing maintenance. In some cases, applying these percentages against the total purchase price of a farm may be adequate as a starting point for budgeting for the maintenance costs for the entire farm until a more precise estimate can be determined.

THE DOWN PAYMENT

Many people are familiar with the concept of a **down payment**—an up-front payment for a large purchase. In some cases, such as when working with the USDA-FSA as a lender, a down payment may not be required at all. When a down payment is required, in most cases, a lender will require 20% to 30% of the value of the property to be put up by the buyer. For open land without buildings, the down payment requirement can be in the same range, but in some circumstances, some lenders may require a much higher level, as much as 50% of the value.

Despite these common ranges, the down payment required can vary substantially depending on the lender as well as the characteristics of the borrower. Some lenders may have programs for beginning farmers (typically farmers who have less than 10 years of experience running a farm), that can reduce the down payment required. USDA-FSA also has a beginning farmer down payment loan program, which, in conjunction with another lender, can reduce the down payment required to 5%. FSA Direct Farm Ownership Loans require no down payment. One major difference between a home mortgage and a real estate loan for a farm is if the

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farm buyer puts down less than 20%, it is not common for a lender to require the **mortgage insurance** normally required for home mortgages in this scenario.

When discussing down payment requirements, the word value is critically important. That is because lenders typically have lending requirements based on the **loan-to-value ratio**, which expresses the maximum percentage of the property value the loan amount could be. For instance, a lender who has a requirement of an 80% loan-to-value ratio cannot lend more than 80% of the value of the property. For the purposes of the loan, the value is going to be based on an **appraisal** carried out by a professional appraiser chosen by the lender.

It is important to understand that the lender is not going to base their loan approval on the price agreed upon between the buyer and seller unless that aligns with the appraisal. The appraisal is therefore crucial to the loan decision. If a farm appraises for less than the agreed-upon price, the lender can only loan 80% of the appraised value, not 80% of the agreed-upon price. In such a situation, for the sale to go through, the amount of the down payment will actually have to be higher than 20% of the agreed-upon price, unless the buyer and seller agree to renegotiate the contract based on the appraised value.

For example, a buyer and seller agree to a price of \$100,000 for a property. The buyer applies to a lender that has an 80% loan-to-value requirement. As luck would have it, the farm appraises at exactly \$100,000. Therefore, the lender can loan 80% of this value or \$80,000, and thus the required down payment will be 20% or \$20,000. But now assume that the farm appraises only for \$90,000. The lender can now only lend 80% of \$90,000 or \$72,000. In some cases, a buyer may be able to request a second appraisal. But assuming that is not possible or results in a similar figure, this leaves the buyer in a position where they either need to bring \$28,000 to the table for the down payment or renegotiate the contract with the seller for a \$90,000 sale or possibly meet somewhere in the middle.

An exception to this can be if you already own farmland or other real estate and have enough equity in that real estate to cover the difference between the value and the purchase price and are willing to also offer that real estate for security. And if you have enough equity in this other property, you may also be able to apply this equity to cover some or all of the remainder of any required down payment.

Conversely, if a farm appraises for greater than the agreed-upon price, the lender may still apply its same loan-to-value ratio requirements, and thus the down payment may be reduced or, in some cases, eliminated.

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BUDGETING FOR CLOSING COSTS

The completion of the purchase of real estate is commonly referred to as the **closing**. There are several costs associated with doing your **due diligence** related to the property you are buying. There are also other transaction costs such as legal fees and perhaps land transfer taxes. These costs are collectively known as **closing costs**. Closing costs are described in detail in [Chapter 6](#).

Total closing costs frequently range between 2% to 6% of the purchase price. While total closing costs can be \$5,000 to \$10,000, there are many cases where closing costs for a farm can be substantially higher, with \$10,000 to \$20,000 not out of the question, and even higher for larger, more expensive properties. Sometimes you can roll some or all of these costs into your loan and/or get the seller to share some of the costs with you. But when this is not possible, you will need to have these funds available to pay directly out of your cash reserves. Make sure that your budget takes this into account. Your farm financial advisors, your attorney, your real estate agent, and your lender can help you with a budget estimate for the particular price range for the specific property that you are considering.

FINANCING RENOVATIONS AND NEW INFRASTRUCTURE

It is not uncommon for there to be a need to renovate the existing farmhouse(s) or farm infrastructure or to build new farm facilities and infrastructure. In looking at the property and deciding what to offer and what you can afford, you need to take these needs into consideration. It is not uncommon for farmers to underestimate the costs of renovations of barns, facilities, and other infrastructure. Work with your financial advisors and consult with building contractors to get reasonable estimates of what these costs will be, preferably before going forward with an offer to purchase the farm.

If you have sufficient cash available, you may choose to hold out cash for some or all of these costs rather than use these funds directly for purchasing the farm. Otherwise, financing these costs will be based on your capacity for higher loan payments as well as the collateral that you have to offer. If you are already financing to purchase the farm to the maximum loan-to-value ratio allowed by your lender, you may run into a problem since you will not have enough collateral left in the farm itself to cover the farm mortgage with the costs of renovations and new improvements included in the financing. Further, new infrastructure typically does not add value to the property in direct proportion to the cost of investment. This is known as lost capital. For instance, it might cost \$500,000 to build a new barn, but the barn might only add \$100,000 to the resale value of the farm and therefore to

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your collateral. The more specialized the infrastructure, the bigger the lost capital usually is.

If the cost of financing the renovations or new infrastructure substantially increases your loan payments, will you be able to afford the increased financing costs of the mortgage? There may be offsets from the work, such as reduced energy bills, which lower family living or farm production costs. Or you might be able to demonstrate in your business plan how the new or renovated infrastructure will enable you to increase farm profitability and therefore the capacity for greater loan payments.

In some cases, there may be funding programs available for items such as energy efficiency improvements, lead paint abatement, or historic barn and building restoration. You may also find USDA grants or state and local agricultural economic development funds that can offset and reduce some of your renovation or construction costs.

If you can't figure out how to reduce or offset costs so that you can afford the financing, you may have to evaluate what you can live without or put off until you have more equity or more funds available. Be realistic. You don't want to put yourself in a bind where you don't have sufficient farm infrastructure in adequate working order for a profitable farm business, potentially thwarting your business plan right out of the gate. You don't want to put your family in a home that is not safe, stable, and comfortable. You don't want to buy a farm that needs more additional investment than you can afford. Carefully considering all these factors will set you up for success after your farm purchase.



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FINANCING FOR “RAW” OPEN LAND

The purchase of “raw” open land (land without a house and with little or no infrastructure) will also usually be treated differently than a home mortgage and also often differently than other commercial farm loans. This is especially true if farm income is used to purchase the property. The loan term lengths offered on these loans are sometimes shorter and the interest rates higher than a home mortgage and sometimes even higher than other commercial farm loans. In addition, conventional banks and agricultural lenders may require a larger down payment compared to a mortgage for a home or a farm with a house. Lenders may require as much as 50% of the value for a down payment or, alternatively, require additional collateral to secure the loan for raw land. Again, there are exceptions to this, particularly among lenders specializing in farm loans, who may only require the 20% to 30% required for most other mortgages.

Box 4E. Buying Raw Land: One Farm Buyer’s Advice

In 2022, I purchased 14 acres of hayfield just a few miles south of downtown Carbondale, Illinois. It has a beautiful $\frac{3}{4}$ -acre pond and ample flat ground for growing vegetables. I have subsequently built my farm business—BeetRoot Farm—on the land, and the business is thriving. Following are several lessons I have learned along the way that I hope others can apply to their own land-access journeys. Noah Scalero, BeetRoot Farm (2025)

Buying undeveloped land with the intention of turning it into an operational farm can be an attractive alternative to buying a fully developed farm with established infrastructure. This is especially true for farmers with limited start-up capital or borrowing capacity. Buying raw land has other advantages, too. You can develop the property as funds and time allow. You can design the farm the way you want.

But be cautious! Undeveloped land may have a lower price tag, but, as I found out, turning it into a functioning farm can quickly become an expensive endeavor. Wells, fencing, barns, and other infrastructure can easily blow the budget. Too often, starry-eyed buyers don’t put a realistic budget together that includes a 20% to 30% overrun contingency. In some cases, it may be cheaper to purchase an existing farm with infrastructure you can use and adapt. Carefully consider your infrastructure needs and assess the potential and relative costs of developing the farm from the ground up.

Here are several considerations about purchasing raw land:

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- **What are your skills?** Do you have carpentry, electrical, plumbing, engineering, and/or design skills and experience? Can you call on family and friends? Getting some of the work done without having to pay contractor rates can greatly reduce the costs of building out the farm. If you use conventional financing, you may be required to hire a licensed general contractor.
- **Where will you live?** Will you live on the farm? Do you need to build a dwelling? If living off-site, consider the added costs of rent, mortgage, and/or transportation while you develop housing on the farm. Can you live in temporary housing on the property during the construction process?
- **What is your timeline for beginning production and related farming activities?** Buying a “turnkey” farm will likely allow a faster startup. Can you afford to take time to develop the farm before beginning operations (and generating farm income), or will you be doing both simultaneously?
- **How many “hats” are you willing to wear?** Do you want to focus on farming? I worked many long days to set up the farm while also beginning a farm business operation. But developing raw land could overwhelm you and cause a lot of stress. Do you have the capacity to focus on property development?

FINANCING HOUSE CONSTRUCTION

If you are buying open land without housing, you might want to build a house. Financing house construction, however, is particularly tricky.

You may want to build the house yourself, but most lenders consider this too risky since there is a history of houses not being completed or borrowers constructing them poorly due a lack of experience, skills, and time. Lenders generally want borrowers to hire a licensed general contractor to build the house completely within a specified time period, often one year. Even if you help build, it will be up to the contractor to make sure that the house is built to code, zoning requirements, and expectations. Lenders will want to see formal plans and a complete budget with contingencies for overruns as a part of your loan application.

Because of greater risks involved with building a house, lenders will put in place substantial safeguards before building and throughout the process. A lender

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will, for example, usually require an “as-will-be appraisal” done at the borrower’s expense, in which the appraiser reviews the building plans and estimates what the house will be worth upon completion as a part of your application for a construction loan. Once the loan amount is determined and the construction loan is approved by the lender, the borrower deposits their down payment, and the lender typically deposits loan proceeds into **escrow** with a title company. At certain milestones during construction, the title company or the lender sends out an inspector to verify that the work has been completed. The title company or the lender then issues payment to the contractor. The borrower is charged for each inspection and disbursement. When construction is completed and a certificate of occupancy is issued, there is a final inspection and final disbursement. The lender may then require that the finished house be appraised. At that point, they will refinance the construction loan into a longer-term mortgage, using the appraisal to set the value in the loan-to-value ratio. Some lenders may be able to issue a single loan that provides for advances during the construction phase and then converts to a longer-term mortgage without requiring a second appraisal or closing, simplifying the process and reducing some loan costs.

Aside from the challenges around trying to get a house built while you are farming, the biggest challenge is that home construction costs are so high. Many people hope to build a house at a lower cost than buying an existing house, but it often does not work out that way. There are also many risks for cost overruns combined with a risk that the house might actually appraise below the cost of construction. To help avoid financing problems in these cases, you and the lender will typically want to build in a significant contingency to cover overruns, which also can mean a much bigger down payment from the borrower.

If a borrower is using FSA financing and has zero to 5% equity in the property, they will have a very hard time financing construction of a home unless FSA is willing to make the loan or the borrowers have equity in other real estate that they can use for collateral.

In short, there are many reasons to be cautious about buying a property where you will need to finance and build a house.

LOAN PRE-APPROVAL VERSUS PREQUALIFICATION

These terms are sometimes used interchangeably, but they’re slightly different. Typically, getting **prequalified** is based on data you provide and is more of a preliminary step to determine the size of a mortgage you could qualify for. **Pre-approval** is more involved. It signals what a lender will conditionally approve for the loan amount, with final approval not coming until after you are under contract on a

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specific property.

Pre-approval for a specific mortgage amount can have some advantages in terms of putting sellers at ease that a buyer has the capacity to make a purchase; it also speeds up the loan process. Some sellers and real estate agents may also expect buyers to come with pre-approvals, particularly real estate agents who are unfamiliar with farm lenders, or they may favor buyers who have been pre-approved for loans.

However, while pre-approvals for loans are fairly common for home mortgages, they are not always available for farm purchases in which farm income will be the basis of, or at least a main contributor to, funds to pay the mortgage. This is especially the case for first-time farm buyers. Further, at the time of this publication, pre-approvals are not available from USDA-FSA, though there are efforts in Congress underway to change that. The main reason that pre-approvals are often not available for farm purchases is that not all farm properties are going to align exactly with the business plan of the buyer. There can be a great deal of variability among farm properties—their condition, the capital investments that may be required on them, and their ability to generate income. Further, you may also decide to dramatically change your business in size, products, or efficiency based on the purchase of a particular property. All of these factors will influence the affordability of a farm and your ability to make your mortgage payments when a steady off-farm income is not going to be the primary source of funding to purchase the farm.

Since farm loans are at least in part, if not largely or completely, determined by the ability of the farm to generate the income to make the mortgage payments, you may need to modify the farm business plan to demonstrate how it will be applied to the particular farm in question. Thus, even when loan pre-approval is available, pre-approval for a specific amount will work only when the farm to be purchased lines up perfectly with your needs for their business or when the business and its income potential will not change drastically due to the purchase of the specific farm. This is often not the case.

Box 4F. Modifying Your Business Plan: An Example

Several years ago, a farmer who was leasing eight acres for organic vegetables developed a business plan with the help of a farm business adviser. Based on her expectations then, the plan was developed for 25 acres of vegetables on a hypothetical farm protected by a conservation easement purchased for \$275,000 to \$300,000.

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But a few years later, a 64-acre farm with beautiful river-bottom soil and a conservation easement came up for sale for \$385,000. The farmer and her advisor scrambled and rewrote a plan for a 64-acre wholesale/retail operation. They needed to show that the farmer could actually access sufficient wholesale markets over time. Since the farm was in conventional corn, they had to plan for the farmer to keep growing on the eight acres of rental land while she transitioned to the new property she was purchasing, and for her to grow conventional vegetables for wholesale markets until that new land could be certified organic. The farmer would also convert the horse barn on the property to a wash and pack facility with cold storage and root storage. And she had to budget for the costs for scaling up all of her equipment to farm 64 acres. In the new business plan, the farmer and the advisor had to show she had the capacity for the additional loans for equipment and infrastructure in addition to the mortgage.

If the farmer had been pre-approved for only \$300,000 and limited herself to considering properties that were in the price range she was originally pre-approved for, the farmer would not have even considered this farm. Instead, the farmer bought the farm and is now successful there.

Pre-approval for loans is more likely to be available when off-farm income will be the main source of the funds to pay the mortgage, or when you already have an established farm with a proven track record and don't expect to need to make many significant changes when you purchase a property. Buying additional land for an expansion of an existing successful operation is an example of when pre-approval is more likely to be available. But even in these cases, you will at least need financial projections, if not a full business plan, in order to demonstrate your ability to afford the mortgage payments. Plus, you may still need to modify the plan to accommodate the particular parameters of the property that you find.

As mentioned above, some agricultural lenders will offer to do a "pre-qualification," which will give you a ballpark estimate or an estimated range of what you can afford based on the data and business plan that you provide for them. This doesn't hold as much weight as a pre-approval. And when you find the farm you intend to buy, you will still need to complete a full loan application based on that actual property and the cost and parameters of that property within the context of your business plan as described above.

Talk to your potential lenders about the option of getting pre-approval, or at least pre-qualification. But don't panic if it's not available to you. Farms are frequently purchased without loan pre-approval. Some sellers may be assured of your financial

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soundness by other means, like a copy of your bank statement that shows you have sufficient funds for the down payment. Even if you do get pre-approved, be prepared to have to revisit the pre-approved amount and your business plan when you find the specific property that you want to purchase.

LENDERS

Finding and choosing a lender to finance a farm should be done very early on in the farm search process. Already having a clear understanding with a lender of what you can afford and what their terms will be prepares you to act quickly on a financing application once an offer has been accepted. Even before you meet with a lender or lenders, you should begin assembling your business plan and the other documents that a lender requires.

Your lender may finance several components of your operation, or you may have more than one lender financing the farm. For example, you may work with one lender who provides one loan to finance the real estate purchase and also provides separate loans for working capital, livestock, equipment, and/or infrastructure. Or you may have one lender who provides the real estate loan and another lender provides an operating loan. If you need to purchase livestock and equipment in order to pay the mortgage, the lender(s) will want to see that you have the cash or other borrowed capital to purchase these things. It is a package deal.

Lenders can also be among your farm financial advisors. Many lenders are willing to talk over your situation and provide at least basic advice and input before you become a customer. While you won't want to rely solely on your lender for financial advice, they can definitely be an important part of your team. Lenders who specialize in farms have a front-row seat to what is working and not working on farms. They see where farmers succeed and where they fail. They get to look at detailed farm financial statements frequently, so, like an experienced doctor examining a patient, the lender can quickly assess from your budget what is reasonable and what needs more thought. When they give you a loan, they want to see you succeed. They want to provide you with good advice and cultivate you as a customer.

It is usually very useful to meet with and get to know various institutional farm lenders, even before you start looking for farms to buy. It is common for farmers to build relationships with lenders during the start-up phase, when they come in for their first farm loans for livestock, equipment, or operating capital, starting on leased land. Building a relationship at that early stage often pays additional dividends when it comes time to apply for a farm purchase mortgage, because the lender will already know a great deal about your business as well as your personal

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abilities and character (the 5th C of credit).

Box 4G. Discrimination in Lending

There is a history of discrimination in the lending industry, including by the USDA. A 1999 lawsuit against the USDA documented decades of discriminatory lending and assistance practices toward black farmers. It's important to know your rights and to seek advice if you experience unfair treatment from any lender. If you believe that your lender or your loan officer has treated you unfairly, you may pursue resolution by requesting a different loan officer or appealing to a supervisor or senior staff of the lending institution. You can also seek mediation through the [agricultural mediation program in your state](#).⁷ For issues of discrimination involving the USDA, the Office of the Assistant Secretary for Civil Rights (OASCR) has a complaint resolution process. If you believe a commercial lender discriminated against you, you can file a complaint with the Federal Trade Commission or with the US Consumer Financial Protection Bureau (CFPB). Complaints involving Farm Credit System institutions may be filed with the Farm Credit Administration.

Below are the types of lenders you might seek out to pursue a farm mortgage.

Conventional banks, mutual banks, and credit unions

Your local bank or credit union may be an option for financing your farm. While many banks and credit unions do not finance commercial farms due to the high risk profile of farms and a lack of knowledge of how to evaluate farm business plans, there are exceptions to this, particularly in areas where agriculture is a large part of the local economy. In these areas, some banks and credit unions may even have farm loan officers on staff who specialize in farm loans and are well qualified to evaluate farm loans. These lenders may also be qualified to participate in joint financing together with USDA-FSA ([see upcoming “USDA-FSA” section](#)). As described earlier, conventional banks typically will not offer residential mortgages for the purchase of commercial farms when the mortgage will be paid from farm income. Instead, they will treat the mortgage as a commercial mortgage loan, often with shorter loan terms and higher interest rates.

You will need to research which banks and credit unions in your area do farm real estate loans. For those that do, you should also find out if they have an agricultural loan officer on staff or, if not, the appropriate loan officer to talk to. You will want to find out their loan requirements, including loan-to-value ratio requirements, the loan term lengths, interest rates, and whether they are qualified to do joint financing with FSA. Also find out if they are “preferred lenders” with USDA-FSA.

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Preferred lenders can move much more quickly on joint financing loan packages with FSA.

Farm Credit System (FCS)

The Farm Credit System (FCS) is a nationwide network of customer-owned cooperative lenders. Nearly 50% of farm debt in the US is provided by the cooperative lenders in the FCS. The independent Farm Credit lending institutions are governed by the customers that they serve and overseen by the Farm Credit



Administration, a federal agency. Farm Credit cooperative lenders are set up to support farmers, ranchers, agricultural producers, rural infrastructure providers, and rural homebuyers in all 50 states and Puerto Rico. In most cases, borrowers become members of the cooperative and are eligible for patronage, which is the term used to describe dividends paid by a cooperative to its members. When those are available, the patronage dividend can be seen as offsetting some of the annual cost of the loan. A list of the FCS lenders can be found [here](#).⁸ Note that not all FCS lenders have “Farm Credit” in their organization name. In Illinois, for example, Compeer Financial is an FCS lender. Most regions of the country will have one FCS lender that serves that particular area. However, some areas, particularly in Texas, may have more than one FCS lender from which borrowers can choose.

USDA-FSA

The FSA is the lending arm of the USDA. FSA offers loans to help farmers and ranchers get the financing to start, expand, or maintain a farm. FSA offices are found in every state. Locations can be found by doing an online search for the USDA-FSA office directory in your state.

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FSA offers a range of loan programs. These include operating loans, microloans, farm ownership loans, and loan guarantees. FSA beginner farmer loan programs include direct loans and loan guarantees for both real estate and operating expenses. Since USDA is not supposed to compete with private lenders, you may be told that you need to be turned down by another lender to pursue an FSA loan. This used to be true but is no longer always the case. Now, FSA loan officers simply need to determine that it is likely that the borrower will not be able to obtain adequate financing from another lender. FSA loan officers must consider a “test for credit,” looking at the financial strength of the applicant and if other lenders are “actively” making agricultural loans in the applicant’s area at reasonable rates and terms. Don’t be afraid to meet with an FSA loan officer to discuss your situation. Even without being turned down by another lender, you can get an opinion directly from FSA about whether or not you will qualify for FSA loans.

At the time of writing this publication, FSA does not offer either pre-approval or pre-qualification for loans, though there are efforts to change that.

Typically, FSA has the lowest interest rates available. FSA also can extend the loan term out to as much as 40 years, whereas some other farm lenders may only go out 20 or 25 years—not even as long as the typical 30-year home mortgage. Often this extended loan term helps even more than their low interest rates in making payments affordable and the cash flow work.

FSA can provide **loan guarantees** to FCS lenders, banks, and other farm lenders who may otherwise be unwilling to lend because they view the borrower or the loan as too risky or unable to meet their loan requirements. Sometimes a lender will propose an FSA loan guarantee and bring FSA into the conversation. In other cases, FSA may first suggest a loan guarantee as a strategy with another lender. Often it helps to start the loan conversation with both lenders at the same time.

FSA also offers joint financing with other lenders. In joint financed loans, FSA can lend up to 50% of the property value, typically for an even lower interest rate than for their direct loan. The other lender loans the balance of the property value at their regular interest rate and gets a loan guarantee from FSA. This is particularly useful when the value of the farm is greater than the current (as of 2025) \$600,000 limit FSA has on their direct loans.

As you might expect, FSA and its many programs are nuanced and have specific parameters and requirements. Moreover, the processing of applications for a property can take longer than loans from other lenders, which may make the programs impractical if you need to move quickly to secure a property in a competitive real estate market. For more information about FSA and FSA loans, including current interest rates and eligibility requirements, go to the [USDA-FSA Farm Loan website](#).⁹ Also review [“Your Guide to FSA Farm Loans”](#).¹⁰

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Other public institutional lenders and CDFIs

Several other public lending agencies lend for farm businesses. A directory of some state programs can be found [here](#).¹¹ A directory of state and federal programs targeted to beginning farmers can be found [here](#).¹²

You may also consider so-called alternative lenders such as community development financial institutions (CDFIs). CDFIs provide financial services in low-income communities and to people who lack access to financing. CDFIs include regulated institutions such as community development banks and credit unions, as well as non-regulated institutions like loan and venture capital funds. Some CDFIs offer specific programs for agriculture and farm loans. A directory can be found [here](#).¹³

Family, friends, and others

Loans from personal connections should not be ruled out. Such loans can be clearly and fairly constructed, often with favorable terms. However, the IRS requires a minimum interest rate to be charged, called the **applicable federal rate** (AFR). The AFR is published monthly by the IRS and can be found [here](#).¹⁴ If a lender chooses to not charge a friend or family member a rate of interest at least equal to or above the appropriate AFR in effect at the time a loan is made, the IRS may impute the interest by taxing the lender on the difference between the AFR and the interest rate the lender actually charged.

If you do borrow money from family and friends, you need to treat this the same as if you were applying to any other lender. You shouldn't be surprised, for example, if family and friends want information to demonstrate that you have the financial capacity to pay them back.

You should create all the proper legal documentation, including a **promissory note**. You can find promissory note examples and templates online. In general, be mindful that mixing financial transactions with family or friend relationships can damage those relationships if not handled carefully.

Box 4H. Unregulated Lenders

Crowdfunding, seller financing, and certain “alternative” loan providers are unregulated lenders. This means that they don't have to abide by the same government regulations that banks, FCS institutions, credit unions, and other regulated lenders need to follow. On one hand, this can allow for flexibility and creativity by the unregulated lenders. On the other hand, the borrower could have less legal protection and face additional risks. It's possible to have a situation where an unregulated lender experiencing financial problems could threaten a financing arrangement. Do your homework about alternative lending options, the opportunities they offer, and their potential risks.

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Crowdfunding

Crowdfunding is the practice of funding a project or venture by raising money from a “crowd” or large number of individuals, typically online. There are different types of crowdfunding arrangements. *Donation-based crowdfunding* is just that—a donation or gift where no financial return is promised or expected. For example, a farmer might ask for donations from their community-supported agriculture (CSA) members or religious community toward a down payment on a piece of land. *Equity-based crowdfunding* gives equity ownership shares in exchange for providing capital. In *debt crowdfunding*, the money provided by others is treated like loans. It is important to be clear in your “pitch” as to what approach that you are taking. It is also extremely important that you understand the legal and tax implications as well as the due diligence requirements of each of these methods. Be sure to consult with your attorney and tax advisor before pursuing any crowdfunding approach.

Seller financing

In some cases, a seller may be willing to provide partial or full financing of the farm purchase. This means that the seller holds the mortgage and the farmer-buyer pays the mortgage payments to the seller. There can be advantages to seller financing. The seller may be far less demanding than a bank or other lending institution when it comes to qualifying for a loan. The seller may also be much more flexible regarding the terms of the loan, although older sellers may insist on a shorter mortgage length with a balloon payment at the end. In addition, a down payment may not be required, and the seller’s interest rate could be more favorable than a bank. None of these potential advantages, however, are explicitly guaranteed in seller-financed sales, as all terms will have to be negotiated with that particular seller. Further, an important thing to keep in mind is that if you need to pursue financing from other lenders for renovations or improvements to the real estate beyond the purchase, institutional lenders will typically be unwilling to provide financing for these costs without being in “first position” ([as described in the upcoming “Partial seller financing” subsection](#)).

This arrangement is used most often between family members, but it is perfectly legitimate between any two willing parties. Regardless of who the seller-lender is, you need to consider this opportunity carefully, not as a casual shortcut. You should approach seller financing as you would applying to any other lender. In fact, it is important for both parties to do the same due diligence as would be done in any sale. It is reasonable for the seller to expect you to demonstrate that you have the capacity to pay the loan along with your other obligations and are at relatively low risk of **defaulting** on the loan. The seller will likely want to review your balance sheet, credit history and credit score, tax history, references, bank balances, and business plan before deciding to provide financing. The seller may still require a cash down payment. And be ready to have all of the proper legal documentation. You should not attempt to do seller-financing agreements on your own; work with

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an attorney and other advisors.

Certain items and tasks required in conventional loans to protect your interests also pertain to your seller-financed loan. You still should get a farm appraisal to make sure that the property provides sufficient collateral. Your due diligence should include a **title search** to make sure that there are no liens, mortgages, or other encumbrances associated with the **title**. If there is an existing mortgage and/or other encumbrance on the property, you will want to make sure that all are cleared as a part of the sale closing. You will still want to purchase title insurance and to carry an adequate farm insurance policy.

The seller and buyer can negotiate the term length of their loan and the interest rate. However, as previously noted, the IRS requires a minimum interest rate to be charged to avoid tax implications, called the **applicable federal rate** (AFR). Alternatively, a seller may instead require an interest rate higher than market rates in order to offset some of their risk. It is important to make sure that you can still afford the loan payments at those rates.

Buyer and seller must work with their respective attorneys to make certain that there is a proper loan agreement (i.e., **promissory note**) in place with a clear **amortization schedule** and customary loan legal terms. A mortgage **lien** on the property making it collateral should be in place as well so that there is adequate collateral for the seller financing, and the seller can foreclose on the property in the case of default. If the transaction will also include seller financing for personal property, including crops, livestock, and farm equipment, the proper **Uniform Commercial Code (UCC) security interest agreement** documentation, which is a lien collateralizing that type of property, should also be in place. A prudent seller will require ongoing proof of adequate and appropriate insurance and full, timely payment of property taxes due on the property. You will want to work with your attorney to negotiate suitable terms that address late payment as well as the conditions and process for seller foreclosure within state law. You will also want to address whether the seller can transfer their right to repayment to a third party.

It's important to be aware that USDA-FSA generally cannot refinance a mortgage originating from another lender, including seller financing or personal loans, except under a very narrow set of circumstances. So it is not wise to pursue seller financing with the idea that you will refinance the mortgage with FSA later. However, most other lenders will likely be able to refinance the seller-financed mortgage with their institutions, provided that you meet their application requirements and lending criteria.

Partial seller financing. It is common for a seller to be willing to provide partial funding. In the case where only partial seller financing is provided and other lenders are providing the balance of the financing, the other lenders will want to

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know the terms of the seller-financed loan and will take this loan into consideration when making their own loan decisions. The other lenders will want to see that you have sufficient capacity to cover all of your debts.

In these cases, the other lenders will want to be in “first position” and the seller to be subordinate or in “second position” or even “third position.” If a borrower defaults on the loans, the primary lender (in first position) gets the first right to recoup their losses through the resale of the farm or other legal action. As long as there is sufficient collateral, the lender in second position (in this case, the seller) will also be able to recoup some or all of their losses. However, if for some reason there are not enough funds to cover all of the balances due with the other lenders, the lender in second position (the seller in this case) may not receive full reimbursement of the unpaid loan balance since the primary lenders will be compensated first. It is necessary to make sure that there is sufficient collateral to cover all of the lenders, including the seller, at the time of determining the loans. The collateral will be based on the value of the property; therefore, an appraisal of the farm at the time of sale is important and will be required and ordered by other lenders. If the seller offering partial financing insists on being in first position, many lenders will not be willing to provide the additional necessary financing. Further, as mentioned above, if you need to pursue renovations or improvements to the real estate beyond the purchase, lenders will typically be unwilling to provide financing for these costs without being in first position.

Box 4I. Beware of Default!

If you default on a loan, the lender may force a sale or foreclose on the loan and take possession of your collateral (equipment, livestock, or real estate) securing the loan. They will typically sell these assets, often at an auction, to recoup what is owed to them as well as the cost of foreclosing and selling the property and other late fees and penalties. If the value of collateral is insufficient to cover what the lender wants to recover, the lender—including a seller who is financing the loan—is not going away. They will still pursue recovery of their loan funds out of your other farm and personal assets and wages. If that is not enough or you are unwilling or unable to pay, they may take you to court to pursue a judgment requiring you to pay out of your personal assets or garnish wages to cover their losses. You might even have to declare bankruptcy to address the deficiencies. Even when you borrow as an limited liability company (LLC) or limited liability partnership (LLP), lenders usually make each member sign a “personal guarantee” that if the LLC is in default, the individuals are still personally liable for the debt, thus getting around the “limited” liability protection. Sellers who use an attorney or are

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sufficiently savvy will also request a personal guarantee. Until it's paid off, the debt will likely remain on your credit report and may affect your credit score for years.

If there is a possibility you might default, let your funder know before your problems become serious. Lenders would prefer to help you weather your challenges rather than have you go into default. They may be able to temporarily modify your payments or offer other assistance.

Short-term seller financing and balloon payments. Some seller-lenders desire a shorter loan term so that risk is spread over less time and they can access funds from the sale sooner. Shorter loan terms are particularly common for older sellers who may need the money for retirement. In these cases, the seller may offer full or partial funding with a loan term only between five and 10 years.

Alternatively, the seller may provide a loan with a shorter term length but with a longer amortization period and a balloon payment due at the end of the term (see “Understanding Mortgages, Amortization, and Interest Rates” section earlier in this chapter for more on balloon payments). When the original term is completed and the balloon payment is due, if you are unable to refinance with an outside lender, the seller could decide to extend the loan based on the original amortization schedule or refinance the loan with you. The seller would not, however, be required to do so unless you negotiated extension rights at the outset of the loan. To reduce your risk of not being able to make the balloon payment and subsequent foreclosure, you should start to pursue financing from other sources at least one year before the end of the loan term. A similar timetable is recommended if you would like to pursue an extension or refinancing of a new loan with the seller.

USING HOME EQUITY

If you own a home and have sufficient equity in the property, you may be able to use that equity to secure financing to purchase a farm or open land. This is generally done through either a home equity loan or a home equity line of credit (HELOC). Both types of lending use the equity you have in your home as the security for the loan. The main difference is that with a home equity loan, you draw all the money at once and start making interest payments immediately. With a HELOC, you are only paying interest on the portion that you have actually withdrawn from the lender following approval. Either option may offer better interest rates or terms than other borrowing options. You may secure these loans

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prior to finding a property. This allows you to have cash readily available to bring to the purchase.

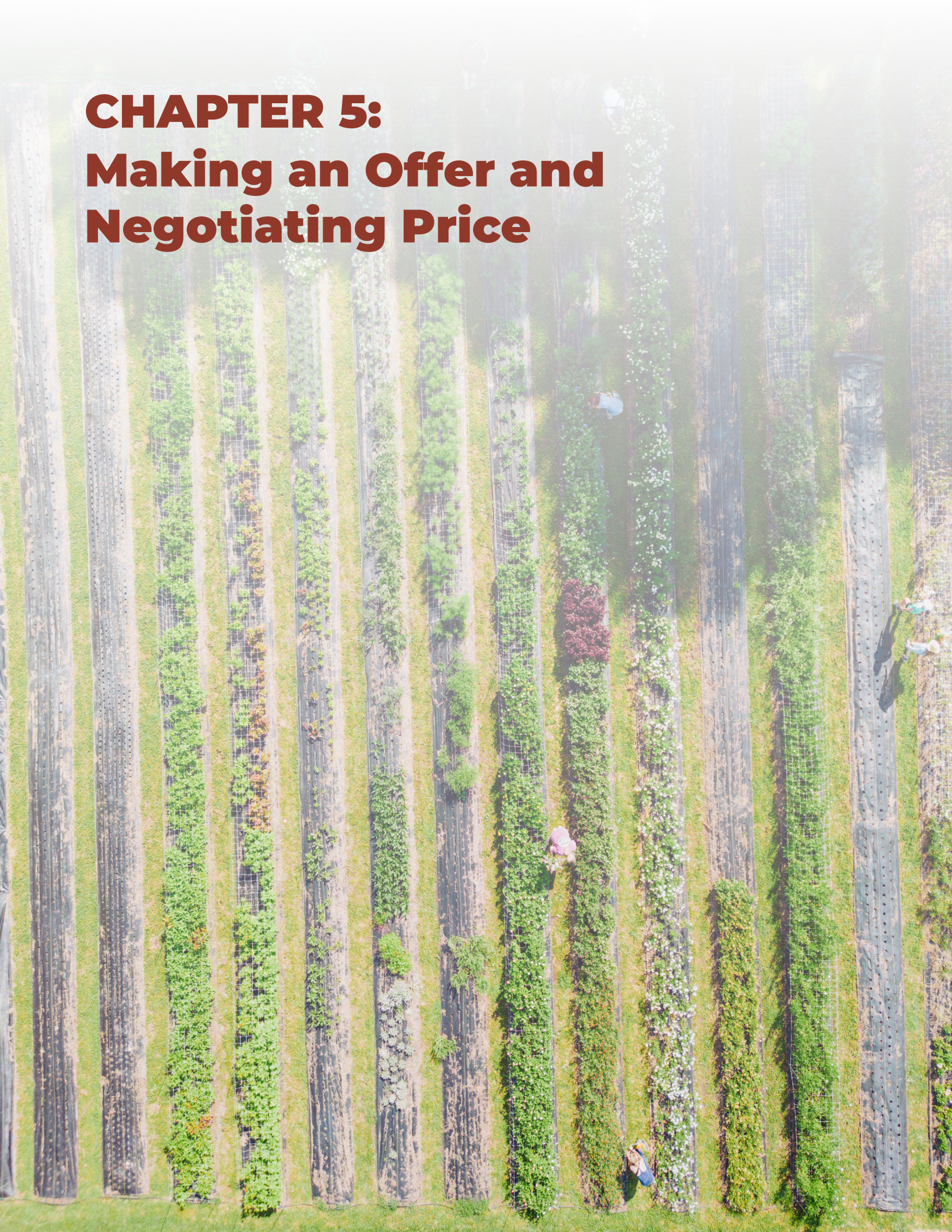
To qualify for either method, you need to have sufficient equity in your current home (usually at least 20%, but likely more to buy land), a low debt-to-income ratio, a good credit score, and sufficient income to demonstrate your capacity to make payments on these loans. Thus, you will typically need to already have a good off-farm job and a sufficiently and consistently profitable farm business. Your home will be the collateral for these loans.

This is a highly risky strategy, especially in times when interest rates are volatile and may increase dramatically. Since you will be using your home as collateral and taking on debt in addition to your current mortgage, you need to proceed extremely cautiously before pursuing this approach and should consult with your financial advisors before considering using your equity in this way.

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1. <https://www.canr.msu.edu/resources/bulletin-e-3428-farm-loans-and-credit-underwriting>
 2. https://www.fsa.usda.gov/Internet/FSA_File/fsa_br_01_web_booklet.pdf
 3. <https://agplan.umn.edu/>
 4. <https://www.farmers.gov/your-business/beginning-farmers/business-plan>
 5. <https://extension.unh.edu/sites/default/files/media/2023-10/loan-readiness-toolkit.pdf>
 6. <https://www.calculator.net/amortization-calculator.html?cloanamount=200%2C000&cloanterm=15&cloantermmonth=0&cinterestrate=6&cstartmonth=6&cstartyear=2024&cexma=0&cexmsm=6&cexmsy=2024&cexya=0&cexysm=6&cexysy=2024&cexoa=0&cexosm=6&cexosy=2024&-caot=0&xa1=0&xm1=6&xy1=2024&xa2=0&xm2=6&xy2=2024&xa3=0&xm3=6&xy3=2024&xa4=0&xm4=6&xy4=2024&xa5=0&xm5=6&xy5=2024&xa6=0&xm6=6&xy6=2024&xa7=0&xm7=6&xy7=2024&xa8=0&xm8=6&xy8=2024&xa9=0&xm9=6&xy9=2024&xa10=0&xm10=6&xy10=2024&printit=0&x=Calculate#calresult>
 7. <https://www.fsa.usda.gov/resources/programs/certified-mediation-program>
 8. <https://farmcredit.com/>
 9. <https://www.fsa.usda.gov/resources/farm-loan-programs>
 10. https://www.fsa.usda.gov/Internet/FSA_File/fsa_br_01_web_booklet.pdf
 11. <https://www.stateagfinance.org/member-states-contacts/>
 12. <https://farmlandinfo.org/programs/?search=beginning%20farmer%20loan&>
 13. <https://www.ofn.org/cdfi-locator/>
 14. <https://www.irs.gov/applicable-federal-rates>

CHAPTER 5:

Making an Offer and Negotiating Price



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You have found a promising farm. You have done your research and visited the farm to determine that the farm can meet your needs and is in suitable condition. Now it's time for you to make your offer to the seller. This can be one of the most stressful and fraught parts of any farm purchase process. You might find differences between what you can afford, the market value, the appraised value, and the asking price. The process around the offer often involves negotiations that can be challenging.

Box 5A. Who Will Be the Buyer? Choose Your Entity

Are you planning to buy the farm as an individual? As a married couple? Or a business entity, such as a limited liability company (LLC) or limited liability partnership (LLP)? If your business entity will be the buyer, then it is important to have your business entity fully set up and registered with your state prior to making an offer or pursuing financing, since all of the legal paperwork for the farm purchase and loan agreements will use the name of your business entity. Many lenders will also want to scrutinize the operating agreement for your business entity.

It is becoming increasingly common to separate how the operating farm business is owned from how the real estate is owned. For instance, a married couple or business partners may own the farm business together as an LLC but own the real estate as “tenants in common” or as a separate and distinct entity from the farm business. Note that while there are times that creating a business entity that files taxes as a corporation (generally an “S-Corp”) can sometimes make sense for your operating farm business, it is generally not recommended to put real estate into an entity taxed as a corporation due to tax issues that can come up in a future sale. You should discuss these issues with your attorney and tax accountant before setting up your entities and deciding how you will own your farm. This should be done well ahead of making an offer on a property if possible.

As discussed in previous sections, you first need to know what you can afford based on your assets, your current and anticipated income, and your business plan. Additionally, even before you look at properties, you should have made initial financing plans with farm lenders and/or investors. You may need to adjust your business plan to include relevant details about the farm you plan to purchase, including additional renovation and infrastructure costs and financing for those other costs, to determine if your business plan will work with the offer that you plan to make. Working with your team of advisors will typically be very useful in helping you determine what you can afford to offer on a specific property.

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The following sections of this chapter present key points to consider when making and negotiating an offer. Two websites with additional information on this topic can be found [here](#)¹ and [here](#).²

KNOW WHAT THE PROPERTY IS WORTH

Real estate professionals, farm business and land access advisors, and sometimes **land trust** staff can help you get an idea of the value of a farm in the real estate market. Finding out what other similar farms in the area have recently sold for will be an important guide. Sometimes recent sales can be found on multiple listing service (MLS) sites, real estate company sites, and other public websites. Real estate agents working on your behalf should also be able to obtain sales data.

Comparable sales may be found in recent appraisals of the farm or other farms in the area, or in a broader region if there have been few sales in the area that you are considering. There may be reasons that the seller has had an appraisal recently completed, and they may be willing to share that with you in some circumstances; however, they have no obligation to do so. You may also be able to obtain access to appraisal information if you know other farmers/landowners who have recently purchased a farm. Sometimes land trusts may be willing to give you some information on what they are seeing in the conservation appraisals that they are commissioning. Since not all farms are alike, you will need to consider the differences between the recently sold properties and the farm you are hoping to purchase, including soil types, acreage, field conditions, and the size and condition of housing and infrastructure, as well as environmental factors such as flood risk. It is also particularly important to know if a property has an existing conservation easement when comparing it to farms that do not have easements since a conservation easement can have a significant effect on the value of the farm. (See [Chapter 8](#) for more information on easements.) Keep in mind that in a dynamic market the market price for a property could be higher or lower than even recent sales of comparable properties would suggest.

In some cases, a seller may agree to have a property appraised ahead of an offer. But this is not common, especially in a dynamic market. Cases where this option may be available include when the property is not publicly listed, when the farmer-buyer is already leasing the property from the seller or is an employee or partner in the farm business, or when the seller is also working with a land trust on a conservation easement.

Otherwise, the appraisal is not typically done until after the offer is accepted, during the loan application and the due diligence phases of the sales contract. It is important to know that if you do have an appraisal done prior to the loan

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application process, you will still typically have to pay for another appraisal with the lender, or at least for an “appraisal update.” Also, some lenders will only use certain appraisers, particularly Farm Service Agency (FSA), which has certain requirements for qualifying appraisers. Thus, if you have an appraisal done ahead of your loan application you should look to use an appraiser who will be satisfactory to your lender, increasing the likelihood that only an appraisal update will be required during the loan process, which can sometimes reduce the additional cost.

In some cases, even when a buyer has done their best to determine the market value and negotiate the purchase price to what they believe that market value is, the property may not appraise at the accepted price, particularly when the market is subject to fluctuation. In some cases, the farm may actually appraise higher than the agreed-upon price, which is in your favor. But, in other cases, the farm may appraise less than the agreed-upon price. This can affect access to financing. See [Chapter 6](#) on remedies for what to do when the farm appraises for less than the agreed-upon purchase price.

OTHER CONSIDERATIONS THAT CAN INFLUENCE THE OFFER AND NEGOTIATIONS

Seller motivations and market dynamics

Some sellers have a good sense of the market value of their property and may be getting good advice on the valuation. Others may not. They can tend to overestimate the value of their property. Some sellers are flexible in what they need to get financially from the sale of their property. Others are locked into a price they require to support the next stage of their life. When possible, try to discover what may be influencing the seller’s thinking regarding their asking price.

Other factors may come into play during the offer phase. The seller may have other motivations affecting their decision to accept an offer. For example, they may want a quick sale. In that case, they may be influenced by cash offers with no financing or appraisal contingency and few if any other contingencies. On the other hand, if a property is on the market for a long time at a particular asking price without acceptable offers, the seller may be motivated to adjust their asking price and negotiate. The seller may also be motivated to sell their farm to a farmer rather than a developer or an estate buyer. Knowing your commitment to farming may make them more willing to negotiate and more patient in the process.

Note that there can be differences in communications and attitudes in negotiations depending on whether the seller was the long-time resident-farmer of the property or an heir or other type of property owner. This may be especially true if the owner

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lives out of town and never had any emotional ties to the land.

Who is the seller?

Is the seller an individual, spouses, or multiple family members? Is the land owned by a trust or business entity such as a partnership, LLC, LLP, or corporation? If it is owned by a business entity, are you also purchasing the business itself or just the tangible assets? Discuss these details with your lawyer, accountant, and financial advisors. Whether it is a business purchase versus an asset purchase can have different implications for you and the seller, particularly with respect to taxes, liabilities, and financing that could make a significant difference in how the offer is structured.

Purchasing a business and non-real estate assets for sale

It is not uncommon for a farmer to want to sell other farm assets in addition to the real estate. These could include tangible property, such as equipment, livestock, and inventory, as well as intangibles, such as trademarks, contracts, water rights, and customer lists, any of which may or may not have value. Is it “all or nothing”? Or can you select what you want to purchase along with the real estate? What is the value to you to purchase these assets?

Make sure you understand what is owned by the seller and what they legally have the right to sell. Many farms do not own all the tangible and/or intangible property they use. Such property could be owned by other family members, persons or businesses subject to formal leases or contracts, or sometimes just handshake deals or longstanding “understandings.” Know what the seller may be able to sell or transfer. For instance, they typically will not be able to transfer a land lease to you without the owner of the leased land agreeing to the transfer or a new lease agreement.

You will want to ask the seller for an itemized list of any livestock, equipment, supplies, inventory, and other non-real estate assets being offered, and the price for each item. You should inspect the items of interest to assess whether the asking prices are reasonable and determine if you even want to purchase any. Real estate agents typically are less knowledgeable, or have no expertise, in these matters and may be reluctant to deal with non-real estate assets at all. If you do not have a sense of the condition or value of these other assets, ask an advisor or an experienced farmer to help you. Don't feel pressured to buy someone else's junk or items you don't need. Be willing to negotiate the price and other purchase terms for these non-real estate assets.

Tangible items such as livestock and equipment will typically be financed separately from your mortgage on shorter terms (five to seven years) and at

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different interest rates than your mortgage. You will need to factor this into your business plan and demonstrate you have the capacity to finance these items. Once you apply for financing, the lender will either have these physical, non-real estate assets appraised or will do the appraisal themselves. Consider these things in making your offer.

The intangible assets such as **good will**, branding and trademarks, and business name can be difficult to value. For most farms, these intangibles have no real market value unless the business is exceptionally profitable or there are branded value-added products with very strong market loyalty. Business valuations performed by professionals specializing in this area are needed to determine the value, if any, of the intangible asset beyond the value of the physical assets and real estate. Since there is no collateral value to them, seller financing generally is the only available source of financing for intangibles.

Your mortgage lender will still consider your loans on these intangibles when evaluating your capacity to take on a mortgage. They may have concerns about you financing these intangible assets, which may make the lender less likely to give you the mortgage on the real estate. It also can be very risky for you to borrow to pay for these intangible assets since you will generally have nothing to sell to cover that debt if the business does not perform as expected. Even if you pay cash for intangible assets, there is still risk in doing so, especially if the business is not currently and consistently profitable, since there is never a guarantee that a business will perform as well after a change of ownership. You are likely to find that you could have put that cash to better use elsewhere on the farm, or by adding to your reserves. Be sure to perform careful financial analysis with the help of a professional business valuation and your business advisors before agreeing to pay for any of these intangible assets.

Potential contingencies

You may have other needs or wants in addition to price in order to go through with the purchase. In real estate, these are referred to as **contingencies**. Contingencies in real estate transactions are clauses in the **purchase and sale agreement (PSA)**, which specify requirements that must be met for a sale. For instance, you typically will need a financing contingency that allows you to back out of the contract if you cannot secure financing for the purchase. And having an appraisal contingency that the property appraises for at least as much as the agreed-upon price is also typical.

Additionally, you may want certain farm equipment to be included in the purchase price. Or you may need the seller to clean up a farm dump. Or you may want the seller to cover your real estate agent fees and/or other closing costs. Including the right set of contingencies in your offer to the seller and in the PSA is a key element

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of your negotiations. This is why doing a thorough evaluation and examination of the farm before making your offer is critical due diligence. This enables you to develop the contingencies that will protect your interests. [Chapter 6](#) describes several possible contingencies.

Be aware of when a contingency will need to be resolved and what it will take to resolve it, including the availability of third-party professionals, such as appraisers or inspectors. Make sure you build in sufficient time to evaluate and resolve any contingencies well in advance of closing (see [Chapter 6](#) for more details).

Keep in mind that too many contingencies can be a deterrent to a seller accepting your offer, especially when the farm might be in high demand. Nonetheless, know which contingencies are reasonable and necessary to protect your interests in purchasing the farm and include those in your offer and the PSA.

Condition of the property

A thorough evaluation of the property will help you determine what you may need to invest in the farm to meet your needs. This evaluation also will identify deficiencies and problems, which may influence the value of the property and help guide the amount you offer relative to the asking price. During the initial viewings of the farm, you will typically be doing your own evaluations. You might also bring other advisors or inspectors along to view the farm, though it is more typical to hold off on formal inspections until after an offer has been accepted and a contract is signed (see [Chapter 6](#)).

THE WRITTEN OFFER

After you determine what you want to offer for your chosen farm, the next step is to prepare a written offer with proposed terms. There is no one prescribed way of making an offer that fits every circumstance. How you approach this step will depend on a combination of factors, including whether the property is listed with a real estate agent, whether you are working with a buyer agent, market conditions, the complexity of the property, state law, and local custom.

Typically you have three choices for your written offer. One choice is to make the initial offer through a non-binding written offer letter in which you state your interest and set forth preliminary terms. The written offer letter may be referred to as a **letter of intent**, **letter of interest**, or **term sheet**. The offer letter may be followed by negotiations and hopefully agreement on terms in principle that will then be memorialized in a legally binding PSA.

The offer letter is conveyed to the seller in a mailed hard copy or via email. At this

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stage, the offer letter is nonbinding, meaning it is not a legal contract. Sometimes the offer letter is accompanied by a PSA, but be careful about attaching a PSA to your offer letter without having first consulted your attorney.

You may send your offer letter directly to the seller if the property is being sold by the owner without an agent. Otherwise, it will go through the seller's real estate agent. The offer letter may be sent by you or your attorney or buyer agent. Email is a commonly accepted way of sending an offer letter.

In your offer letter, try to include all the contingencies and terms that you will want in the final PSA. Additional and modified terms and contingencies may be negotiated later by attorneys (see [Chapter 6](#)).

Your written offer letter can be more than price and terms. The letter can describe you and your vision for the farm, but it should not be overly personal. The letter should be succinct and businesslike. It can state your intentions for the farm and your farming background. It is important for the letter to be positive, sincere, and complimentary to the seller and the property. Remember, many sellers have deep emotional attachments to the property they are selling and may accept or reject a particular offer based on more than just the price offered.

The offer letter is a less formal way to start negotiations. You may go back and forth over the price. You may add to or adjust your contingencies. Once you are sure about your terms—and in agreement with the seller—you can advance to the PSA. You may choose or be advised to sign your final version of your offer letter.

The second and third offer options both use a PSA as the vehicle for making the offer and beginning negotiations on a binding contract. The second option involves using a standard PSA template, usually provided by your buyer agent, in which blank fields for offer price, terms, and contingencies are filled in for your particular offer. The third option is to work with your attorney to create a custom PSA that would address the unique terms and conditions you seek.



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Working with your agent can also be beneficial—while agents can't advise you on legal matters, they can give you a sense of whether the particular terms you are including in an offer make your offer more or less competitive in the area's usual selling process. With either PSA offer option—standard or custom—a signed PSA is a legally binding contract. So if the seller signs the PSA offer you are making, you are then legally locked into the terms of that agreement.

Using a standard PSA template is a very common approach in the residential real estate market. However, buying a farm is significantly different from buying a house. Because the boilerplate language of a residential PSA may not address all the complex issues associated with a farm property, a standard PSA template used by a real estate agent for residential real estate is often not the appropriate or best way to make an offer (see [Chapter 6](#)). But if you do use this option, you should clearly understand the risks you are taking with that particular property, and you must make sure the PSA's terms and contingencies are thorough and complete. Your buyer agent (if you are using one) and your attorney can help you navigate these steps. Ideally, both would have experience with farmland real estate transactions.

As a general caution, it is important that you understand to what extent which documents are or may become binding contracts. As already mentioned, a signed PSA is a binding contract. In some cases, an offer letter signed by both parties will be considered binding. Along these lines, be careful about utilizing “bid offer forms” provided by either the seller agent or your own real estate agent without understanding the legal implications of utilizing those forms and the extent to which they are binding. Check with your attorney or your agent about the laws and

Box 5B. “Love Letters” and the Fair Housing Act

It has been a common practice among buyers making an offer to include a “love letter” with the offer documents. The “love letter” added a warm, personal touch to the potential transaction by sharing information about the buyers and why they were enthused about buying the property.

The problem is that the information provided could cause the seller to, intentionally or not, discriminate in who they sell to. The Federal Fair Housing Act prohibits discrimination based on factors like disability, race, color, national origin, religion, sex, gender identity, sexual orientation, or familial status. As a result, the National Association of Realtors discourages the use of “love letters.” It is your choice, however, whether you include one. The seller agent cannot withhold such a letter from the seller unless the seller has instructed the agent to do so.

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customs around offers and binding contracts of the location where the transaction is occurring.

If you are offering less than the asking price, it can help to transparently explain why. The reasoning should generally pertain to market conditions, other comparable sales, or deficiencies or problems with the property. When commenting on the property's deficiencies or problems, it is important to be as diplomatic as possible so as not to offend the seller. It is not necessary—or recommended—to bring up all the problems. You will be protected by your list of contingencies in your PSA.

Regardless of your offer method, the price is not the only element that will matter to you and the seller (see [Chapter 6](#)). The offer, for example, should also include a reasonable projected target closing date to complete the sale. If the target closing date is not convenient for the seller, that may be part of further negotiations or even cause another offer to be chosen instead.

Another example of an important offer term is the amount of the good faith deposit (sometimes referred to as earnest money or an escrow money deposit) you commit to put down early on. The good faith deposit shows that you are serious about the purchase. If the sale does not go through because at least one of the contingencies has not been met, the deposit will be refunded to you. However, if all contingencies are met and you still decide to withdraw from the purchase, the seller can keep the deposit. More seriously, in that situation the seller could even sue you. The deposit will also be returned to you if the contract is canceled because of a default of the seller. Examples of defaults include knowingly misrepresenting the property or failing to transfer the property in the condition specified in the contract. In most real estate markets, the average good faith deposit is between 1% and 3% of the purchase price, though some sellers may be willing to take less, and some may require more. Your buyer agent should know what the expectations are in that market. Most often, you will deliver the deposit after the PSA is signed (see [Chapter 6](#)).

NEGOTIATIONS

If your offer is accepted, great! You have cleared a hurdle and can move forward with a full PSA (see [Chapter 6](#)). If your offer is not accepted, you and the seller may choose to negotiate. If you negotiate, make sure to remain diplomatic. Don't take the rejection personally. Your advisors can help you with this.

Hopefully, the seller or their representative will respond with reasons for rejecting your initial offer. They may come back with a counteroffer. Use the information

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about why they rejected your offer to guide you when making another offer. Is the counteroffer reasonable, and can you afford to work with it? If so, you may simply agree to it. Or you may tweak some of the terms or amounts for your own counteroffer. Explain why you can't accept their counteroffer and why you think that yours can work for both parties. Keep the correspondence and conversations positive. Be patient. It may take a bit of discussion back and forth before you come to a suitable agreement. In some cases, particularly if there are sensitive issues, communication about those issues is best handled by your attorney or real estate agent.

In some cases, you will not be able to reach agreement over contingencies. You may just need to move on if a particular contingency is a “deal breaker” for you. This can be difficult when you find a farm that seems right for you. Don't be discouraged. With patience and some luck, you are likely to find a property for which you will be successful in negotiating the price and conditions that will work for both you and the seller.

Box 5C. Competing Against Full Cash Offers

The vast majority of farmers will not be able to consider making a full cash offer on a property. You might believe that a cash offer (no financing) will always beat out an offer that requires financing. While that is often the case, it is not always true. Some farm sellers may reject a cash offer from someone who is not a farmer—or not a farmer in harmony with the seller's vision for the future of the farm. They may prefer a farmer who, despite needing financing, is more aligned with the seller's values and needs. Or they may favor a buyer who is a neighbor or in the same producer cooperative. Cash offers can be difficult to beat, but if you are able to “sell yourself” as a favored buyer, you may be able to increase the seller's patience while you obtain needed financing.

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1. <https://buildingadvisor.com/buying-land/making-an-offer/>
 2. <https://themarcelinoteam.com/buyers/the-basics-of-making-an-offer/>

CHAPTER 6: From Offer Acceptance to Closing



CHAPTER 6

Your offer has been accepted! This is just the beginning of the purchase process. The next steps to get you from the offer to the **closing**—the completion of the purchase—typically take two to five months, sometimes longer. The length of time is most often dictated by the appraisal and loan processes or if there are any difficult contingencies to be fulfilled, such as environmental remediation. During this time, you will be working with your attorney, lender, and other advisers to complete the required steps to finalize the sale. The following are the typical steps taken during the purchase process.

THE PURCHASE AND SALE AGREEMENT

As previously stated, a **purchase and sale agreement (PSA)** is a legally binding contract. The PSA usually should be prepared by your attorney or the attorney of the seller. If the contract originates from the seller's attorney or real estate agent, your attorney should review it with you prior to signing. It is wise to retain an attorney early in this process and to keep them informed so they are ready to assist when needed.

Even if the PSA is preceded by an offer letter and preliminary negotiations, it is not uncommon for the PSA draft to bounce back and forth between buyer and seller and their respective attorneys with proposed changes. This process could take a few weeks. In a competitive real estate market, some sellers may not have patience for a drawn-out contract negotiation. If you have already negotiated and agreed upon the key terms in principle through the offer process, that may shorten the time and cost for preparing the PSA. But sometimes your attorney or other advisors will identify issues when preparing the PSA that may not have been considered during the offer process. Even in a hot market, it will still be important to balance the need to be quick with the need to be thorough to protect your legal and financial interests.

As described to some degree in Chapter 5, the PSA dictates the terms and conditions of the sale of the property. It should clearly state the offering price and all the requirements or contingencies for the purchase, including financing and appraisal contingencies. While very similar to the contracts used in purchasing residential real estate, PSAs for farms often have some unique elements. This is especially seen in the contingencies for the sale. As explained above, contingencies in real estate transactions are clauses in the purchase and sale contract that specify requirements that must be met for the sale to go through to completion. Contingencies typically are addressed by certain dates or within time frames during what is called the **due diligence** period of the contract. If you, as the buyer, fail to complete the inspections and other due diligence during the time periods in the contract, you can lose your deposit.

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If the seller contingencies are not met, you do not need to proceed with the purchase and can attempt to renegotiate the deal, or you can walk away from the transaction and get your deposit returned to you. If you want to get out of a sale for reasons not specified in the contingencies in the contract, the seller will not be obligated to return your deposit. So, in order to protect your deposit, you need to work with your attorney and other advisors to think about what contingencies you absolutely need in the purchase contract.

The seller and their attorney will review the contingencies and may choose to alter or reject them. The seller may have contingencies important to them that become a part of the agreement as well. You, as the buyer, in consultation with your attorney and other advisors, will determine how to proceed. If the parties can negotiate agreements to satisfy the contract, then the sale can go forward.

PSA ELEMENTS AND CONTINGENCIES

This section presents the basic elements of a PSA along with potential contingencies that might be in the contract. Some of the contingencies are standard and typical, such as those addressing the financing and appraisals. Others will only appear based on the particular farm and circumstances in question. Not all elements and contingencies will appear in every agreement.

Box 6A. What to Know About Contingencies

Too many contingencies can make your offer less attractive to the seller, especially when the farm might be in high demand. Generally, the fewer contingencies the better. Nonetheless, in consultation with your attorney and other advisors, you should consider which contingencies are reasonable and necessary to protect your interests in purchasing the farm and should not hesitate to include those in your offer and the PSA. Note that a PSA typically states that the buyer bears the risks of any problem or issue with the property not addressed in the contingencies or by “representations” or “warranties” expressly made by the seller. (It is wise to discuss these nuances with your attorney.)

The costs of professionals such as appraisers, inspectors, and surveyors to clear contingencies are generally borne by the buyer unless other arrangements are made with the seller and included in the agreement. The buyer generally is responsible for these costs even if the sale does not go

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through. These are considered part of the closing costs, even those that occur before a closing. Too often, first-time buyers fail to budget for closing costs up front.

Sometimes the seller agrees to be responsible for some contingencies, such as cleaning up a dump site, doing specific repairs to buildings, paying for conservation easement transaction costs, covering real estate agent fees, or paying some or all of any transfer taxes.

For each contingency it is important that the writing is clear with respect to: (1) what is required to fulfill it; (2) when it has to be fulfilled; (3) what a party must disclose with respect to how they fulfilled (or attempted to fulfill) their obligation; and (4) if it is not met (for example, when and how a deposit is return or retained, who is able to cancel the PSA under what conditions, etc.

Purchase price and good faith deposit

The contract will specify the agreed-upon sales price. It will also specify the amount of the good faith deposit or earnest money and who will be holding this deposit. As described in “The Written Offer” section in [Chapter 5](#), in most real estate markets, the average good faith deposit is between 1% and 3% of the purchase price, though some sellers may be willing to take less and some may require more. The deposit is held in **escrow** and should be held by an **escrow agent**, not the seller. The escrow agent typically will be the seller’s real estate brokerage, a mortgage lender, a title company, or the office of the attorney for one of the parties. The money will be released from escrow back to the buyer if the contract fails and the sale does not go through because the buyer’s contingencies are not met or the seller has represented something about the property that is not true. It is worth repeating that if the sale does not go through because the buyer backs out for reasons not addressed in the contract contingencies, the money will be disbursed to the seller. If the sale does go through, the deposit is released from escrow at the closing and becomes part of the buyer’s payment toward the purchase price and the closing costs. It is important to clearly state the conditions under which the escrow will be released and what each party may need to show to establish that the escrow should be released.

Equipment and appliances

It cannot be assumed that the seller intends to pass along any or all equipment associated with the property in the sale or at the agreed-upon sale price. What is included and excluded should be specified in writing in the PSA. This also applies to other nonfixed and intangible parts of the farm business that are for sale. Other documents may need to be prepared to transfer these other tangible and

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intangible assets, such as bills of sale, transfers, and assignments of interest. There also may be tax filings or paperwork associated with the property. The PSA should clearly state who is responsible for those and when drafts will be circulated for review and approval prior to closing.

Closing date

This is the proposed date to complete the sale. The closing date should be realistic and based on your lender's opinion about how long it will likely take to complete the appraisal and loan application process. Since farm loans typically are not pre-approved and are more complicated than residential loans, this process often takes longer than the 30 to 60 days that most residential loans take to close. USDA-FSA loans can take even longer. It is not unusual for it to take four to five months from loan application submission to closing. It is also not uncommon for this date to be pushed back as issues arise in the purchase process. But this can only be done with the written agreement of both buyer and seller. In general, it's critical to meet all deadlines in a PSA.

Distribution of closing costs

The contract should specify what transaction costs will be the responsibility of the seller, what will be the responsibility of the buyer, and which, if any, will be shared, including real estate agent fees and commissions if applicable.

Allocation of taxes and utilities

A standard real estate agreement will detail the process for transition of payment responsibility for taxes, utilities, and other operating expenses. Most often, these items are prorated at closing, with the seller responsible for all of these expenses up to the closing date, and the buyer being responsible beginning at closing.

Property boundaries and survey

If there is any question about the property boundaries or acreage, or location of easements or other features, the buyer may require additional clarification and assurance. A full survey is the most definitive way of gaining that assurance, especially if a survey has not been done in the past. Depending on the state you are in, the seller or buyer may be responsible for that cost. Where there is no state law in play, you might, however, negotiate sharing the cost with the seller. Surveys can be very expensive. Because surveys can take a significant amount of time to complete, the process can delay the closing as well. In some cases, a lender or a conservation organization involved in the transaction may require a survey. Sometimes conservation organizations may have the funds to cover or offset the costs of the survey.

Title search/examination

This provides that the buyer, at their expense, will have the title for the property examined. This search typically is executed by your attorney's office or a title

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company, depending on local custom. The purpose of the search is to determine if there are any defects or **encumbrances** in the title/deed of the property. Encumbrances may include **liens** on the property that may need to be discharged in order to clear the title. The search may also identify, for example, undisclosed mineral, gas, and oil rights encumbrances; leases; rights-of-way; permit issues; or problems with water rights on the property. The buyer's attorney will notify the seller's attorney of any encumbrances or defects that affect the legality of a title transfer. If found, the seller will be given a period of time, typically 30 days, to remedy these problems so that a title can be transferred "free and clear" to the buyer.

Financing (institutional lender)

This typically provides that the buyer's obligations are contingent upon the buyer obtaining financing from a lender or lenders of the buyer's choosing prior to closing. Some sellers may look for specific terms for greater assurance that the buyer has a reasonable chance of achieving financing. It is best to keep this contingency as open as possible to give you the greatest flexibility. If you also need to finance the purchase of livestock and/or equipment in order to operate the farm, this should also be included in the contingency.

Financing (seller)

If the seller is providing some or all of the financing for the purchase, there should be a contingency that a financing agreement between buyer and seller will be fully in place by the closing. The contingency should at least specify the important terms of the financing, including the total amount that the seller is financing, the length of the loan term, and the interest rate. If the seller is only offering partial seller financing, there should also be a requirement that the other lenders approve of the seller financing arrangement.

Appraisal

This provides that the buyer's obligations are contingent upon

Box 6B. Heirs' Property

When ownership of land is shared among heirs without a will or deed, all kinds of complications and shady dealings can result. This problematic ownership pattern occurs at higher rates among Black and Indigenous communities. Heirs in these situations can possess the property, but they lack the clear title necessary to make a sale, obtain financing, or protect themselves from unscrupulous creditors. Making matters worse is the fact that as generations pass, more descendants can be added to the list of heirs. These factors, along with other issues that go along with having multiple stakeholders (heirs), make buying land under these circumstances especially challenging. Learn more about heirs' property assistance [here](#).¹

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receiving a property appraisal confirming that the property appraises for at least the amount of the total purchase price. It will also typically state that the appraiser will be selected by the buyer's lender. Consider making it clear in the PSA whether or not the appraisal will be shared with the seller.

Inspections

Most buyers choose to hire a building inspector to, at minimum, inspect the house(s) on the property. The inspection might also address agricultural buildings and other infrastructure. Building inspectors who are experts in residential inspections may also be familiar with basic farm buildings. But they may not know how to inspect specialized structures or equipment. Some inspections may be required by the lender or state law. Note that you will need access to the property for yourself and the inspectors you hire during the contract period.

Right-of-way

It may be necessary to cross property belonging to others (or other property belonging to the seller) to access some or all of the farm to be purchased. In that case you will want to have a **right-of-way** (ROW) in place—a type of easement that provides you legal rights to cross those properties as needed. This contingency makes clear that the sale can't close unless any needed ROW is locked in place. You may need to clarify the extent to which you can improve or use the ROW. For instance, you may want to put power lines across the ROW, which you would need to make sure is explicitly permitted. Conversely, other parties may have ROWs to cross your property. You will want to review those with your attorney for potential problems during the **due diligence** period. In some cases, the seller may also want new ROWs established. For instance, if they are only selling part of their property, they may want an ROW to access the portion that they are keeping.

Water rights and water/well tests

In some states, it may be necessary to verify the legal water rights for groundwater on the property and/or surface water withdrawals. Most buyers will want to test the wells and other water sources for overall quality and specifically for contaminants such as lead, nitrates, pesticides, and so-called **forever chemicals** (PFAS/PFOA). In some cases, buyers may also want to have any wells tested for yield, particularly if there are no records of a yield test, or out of concern that the well may not have sufficient yield to supply the needs of the farm.

Farm dumps, hazardous waste, and soil contamination

The contract will typically require the seller to disclose any “farm dumps” and otherwise provide that the buyer be permitted to perform any tests and inspections necessary to confirm that there is no hazardous waste on the property. That may include testing soils for heavy metals or PFAS/PFOA contamination. You may also request disclosure of the application of materials such as sludge/biosolids. In some circumstances, you may even request a **Phase I Environmental Site Assessment**

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if there are significant concerns. If contamination is found, it would nullify the contract, unless the seller is willing and able to clean up the contamination in full compliance with the law and to the satisfaction of the buyer before closing. You may also want to make sure that the seller removes all junk, garbage, and personal effects from the property prior to closing.

You could also choose to overlook the contamination, or agree to clean it up yourself, especially if minor, and allow the sale to go through. However, you should carefully weigh the health and liability risks as well as the potential future cost of cleanup before going forward with the sale without requiring the seller to clean up the contamination. Further, be aware that the lender may have greater concerns about the contamination and may not be comfortable with you cleaning up the contamination on your own. If contamination is found, it is essential to disclose the contamination to the lenders and discuss with them about how to proceed. Lenders will often also have their own due diligence requirements in terms of environmental reviews. Getting professional advice from environmental consultants is often warranted.

Conservation easements

If the farm has an existing conservation easement on the entire property or part of it, this fact must be presented to the buyer. (See more on conservation easements in [Chapter 8](#).) In some cases, the easement may require the easement holder, such as a land trust, to approve the buyer or otherwise approve the sale. Such approval will be required in a contingency. If a new conservation easement or additional conservation restrictions (such as wetland protection, riparian buffers, and river corridor easements) will be placed on the property as a part of the sale, this should be included as a contingency for sale.

In some cases, the easement will not be fully in place by the closing. Instead,

Box 6C. Septic System Inspections

You most likely will also want to hire an inspector specifically for the septic system(s). Most rural properties are not connected to a municipal sewer system. Instead, they utilize a private septic system that pipes wastewater and human waste to an underground tank and then into a drain field where the soil microorganisms digest the waste. If you haven't had experience with these systems, it is worth your time to learn more about them and how they are maintained. This [video](#)² provides a good overview. It also notes signs that might indicate a property's septic system is not functioning well. You should also make a septic inspection a contingency in your PSA (see Section VI).

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the contingency may require some intermediary steps to be completed, such as a formal commitment from a conservation organization or state agency to protect the property from development. Or the contingency may require that a conservation appraisal be completed ahead of the closing to determine if the value of the protected land (after the easement has removed development rights) will be affordable to the buyer.

Repairs and alterations

Even prior to formal inspections, it is not uncommon for a buyer to identify repairs or alterations they want the seller to fix prior to closing. This may be a part of the negotiation. Or a seller may recognize from the outset that certain repairs should be made ahead of completion of the sale. These repairs (usually required to be carried out by a professional) should be specified in the PSA. In some cases, the seller may, instead of carrying out the repair, offer “cash credit” for the estimated repair cost, which will be deducted from the purchase price at the closing.

Compliance with USDA programs, regulations, and permits

You may need the seller to maintain compliance with USDA program requirements, contracts, or other permits during the contract period so you can continue in compliance after making the purchase. For instance, this may include maintaining existing organic certification or at least maintaining the farm in compliance with



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organic certification requirements during the contract period so you can get your own certification after the purchase.

Market access

In some cases, you may need to confirm that you will have access to specific markets from the farm location that will make your planned farm business financially viable. This might include securing approval to join a growers' cooperative or assurance that a milk buyer will pick up from that location. If you cannot get a contract with a milk buyer to pick up at that specific location, the contingency will not be met, and you can be released from the contract.

Obtaining new permits

In some cases, you may need approval for permits for new enterprises in order to know that you will be able to carry out your business plan. These can be permits related to agritourism, value-added facilities, or a retail farmstand. You may want to get approval for these permits before closing as a contingency for sale. If the permitting process is complicated and/or the seller is not patient, this contingency may not always be practical. If not, you need to have a Plan B if you are ultimately unsuccessful in obtaining the necessary permits after having already purchased the property.

Farm leases

In this contingency, if all or any portions of the farm being purchased are currently leased to other farmers, you need to know the status of those leases—for example, whether terminating those leases (if you desire) would be legal. If the seller leases land from others and that land will be necessary for you to achieve your business plan, you might want a contingency stipulating that you would, during the contract period, obtain leases from those other landowners. Additionally, the seller might be retaining some property, which might include land, housing, or farm infrastructure that they intend to lease to you, and the contingency would include a requirement for those leases to be in place by the closing. You may also need to lease additional land in the area. The PSA could include a contingency that you are able to secure additional land to lease ahead of the closing.

Leases for wind power, solar power, or cell towers

If the seller has existing leases on the farm for windmills, solar operations, cell towers, or other such enterprises, you will need a contingency that clarifies what happens when the property changes hands and any other pertinent conditions.

Life estate (or life lease agreement)

Life estate is an agreement that allows a seller to remain in their home on the property after the sale. This contingency will require legal agreements for a life estate situation, and also approval of the lender to which the buyer is applying for these agreements. (See more about life estate [Chapter 8](#).)

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Business and intellectual property transfer

If you are buying an existing business with assets such as access to existing markets and marketing materials, contracts, intellectual property, inventory, and current employees, it will be important to address the transfer of these in a contingency.

Other contingencies

Each farm and each farm sale will have its own nuances and needs. It is not possible to produce a complete list of possible contingencies. You should consider the farm and the situation, and consult your attorney and other advisors to determine what needs to go into your contract.

SIGNING THE CONTRACT AND PAYING THE DEPOSIT

Both the buyer and seller must sign the PSA for the purchase process to proceed. In some states, you may need witnesses to the signatures. Once you have signed the PSA, you will be expected to immediately pay your good faith deposit/earnest money to the **escrow agent**. Additional deposit(s) may come due after certain contingencies are fulfilled in some agreements.

Once the contract is signed, the seller cannot engage in any negotiations or contracts with any other potential buyer. In some states, however, the property may still be shown to other potential buyers who in some cases will be able to put in “backup offers” in case your purchase does not go through. If the property is publicly listed, the listing can remain up, but its status will be described as “under contract,” “active under contract,” or “contingent” rather than simply “active” (see [Box 2A](#)).

APPLYING FOR THE LOAN

Once you have your PSA completed and signed, you are ready to start your formal loan application. Most lenders will require you to provide a copy of the signed PSA before you can formally apply for financing. Or, they will not consider your application complete until they have a copy of the signed PSA. Remember, even if you have been pre-approved for a certain loan amount, you may still need to complete an application that includes the PSA before the lender will officially decide whether or not to lend you money. The pre-approval is not a guarantee that the lender will approve your loan.

As described in [Chapter 4](#), it is to your benefit to have met with the lenders you will be applying to at the beginning of your search, long before you have a contract on

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a property. It is important that you learn what will be required to have a complete and strong loan application. It is also important to have all the necessary materials together so that you are completely prepared when the time comes to actually submit your application. Not having these materials ready to go in a format that your lender will accept can significantly delay the processing of the loan and may delay the closing on the property or even put the sale at risk.

You may also need to make revisions to your business and financial plans when you know exactly what the sale price will be, what capital investments and renovations will be required, and how your farm business will be shaped by the characteristics of the farm you are purchasing. To the best of your ability, you should make these revisions before making your offer so that you know that you have a viable business after the purchase and a reasonable chance of getting financing. At the very least, you should start to make these revisions between the time your offer is accepted and when the contract is completed and signed. You want to be ready to go so that your loan application can be processed right away.

In some cases, you may also be applying for a loan for equipment and/or livestock as well as for new or renovated infrastructure and operating capital. Since your ability to buy and profitably run the farm will likely depend on financing these other aspects of your farming endeavors, these loans will be considered together with the mortgage. *Be prepared to apply for all of your loans all at once.*

Once your application is considered complete by the lender, they will perform a **credit check** and review your **credit score**. There are relatively small fees associated with these actions, which will typically be paid by you regardless of whether you are able to close on the property.

During the loan process, if you have a temporarily or permanently fixed interest rate, your lender will usually give you the option to lock in your interest rate. Otherwise, your lender will lock in the interest rate when they give full loan approval. Since the loan process may take several months, when your interest rate is locked in can be important during times of interest rate volatility. Thus, when you apply, be sure to ask your lender about the process and timetable for locking in your interest rate and whether it is advisable in your circumstance.

Your lender may require you to escrow your property taxes and insurance and sometimes other fixed costs with the mortgage. This means that the monthly payment to the lender will include a portion of your annual property tax and insurance costs each month. In turn, your lender will pay the taxes and insurance on your behalf. When you get the final approval of the loan with your interest rate determined, you will be given the total cost of what your monthly escrowed mortgage payments will be for the first year. Your escrow payments will be adjusted annually based on changes in property taxes and insurance.

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Once the lender has fully reviewed your completed loan application, they may give you a preliminary decision. If everything does not line up with their requirements, they may turn down your application. In some cases, they may only conditionally approve it based on conditions that may require you to adjust your business plan, bring more cash to the table, or get the seller to agree to special conditions. Ideally, when you have a great application, the farm is in good condition, and you meet the lender's requirements, the lender will give you approval pending the appraisal and other contingencies being met.

At that point, the lender will order an appraisal from a real estate appraiser of their choosing. Getting an appraisal done can take a few months due to the specialized nature of farm appraisals and a shortage of farm appraisers in many parts of the country. Thus, delays in completing your application will also delay the appraisal, which could drag out the whole process. The cost of the appraisal, which can be substantial, will also typically be paid by you regardless of whether you close on the property.

While the appraisal is underway, your loan officer will finish evaluating your application. Even if they have already determined that your application is complete, they may still request additional materials, information, or clarifications from you. For instance, they may want more verification on your markets, to inspect your current operation, and/or to inspect the property that you are purchasing. Assisting the lender in a timely fashion helps the process move along, demonstrates your character, and also gives you the best chance to get your loan approval. Once all of their conditions are met, the lender will give you final approval and clear the sale to go through to closing.

CLEARING CONTINGENCIES

Simultaneous with the loan application and appraisal process, you will be responsible for clearing the other contingencies you are responsible for in time to meet the dates in the contract. That will include hiring inspectors and other consultants to follow through with assigned tasks. You will be expected to pay these professionals for completing the tasks regardless of whether the purchase goes through.

If you are unfamiliar with the requirements of the tasks in the contingencies or don't know whom to hire to address them, your attorney, real estate agent, or other business advisors can assist you with information and referrals. Your attorney's office will typically perform or secure a title company for the required title review.

It is important to know if your contract requires you to passively or actively clear

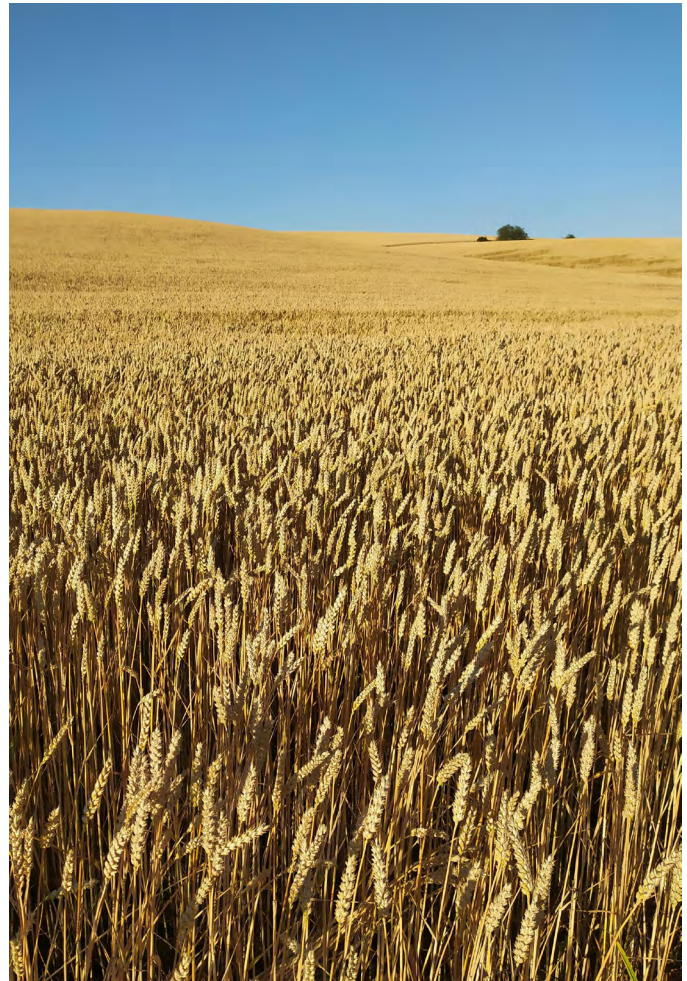
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contingencies. If you are clearing the contingencies passively, they are automatically considered cleared by the deadline in the contract if you do not provide written notification otherwise. If you are clearing contingencies actively, it means that you need to provide written notice that you have cleared each individual contingency by their respective dates in the contract. In either case, it is important that you have clear language in the PSA stating how contingencies are to be fulfilled and to follow that language.

It would be ideal if all real estate transactions would go smoothly to closing. But this is not always the case. There may be hiccups after you sign the contract. In some cases, these issues may prevent the sale from going through. In other cases, you may be able to remedy the situation. Your advisors can help you decide how to proceed. The worst-case scenarios are that you and the seller cannot come up with a remedy to any problems discovered, or you decide that the defects in the property make it infeasible or imprudent for you to purchase. In this case, you can usually withdraw from the contract and cancel the sale. If you do so, be sure to review the terms of the contract carefully and seek advice from your attorney to make certain you comply with any explicit conditions for canceling the contract. Your deposit will be returned to you if permitted under the terms of the PSA.

Common problems and possible remedies

Defects/failures found in the inspections. If inspections have identified defects or failures, you may have several remedies. If the issues identified are relatively insignificant and also not a concern for your lender, you may choose to ignore them and let the sale proceed. If the problems are more significant, you may go back to the seller and request that they remedy the problem, preferably prior to the closing. This may delay the closing, but at least the sale may still go through. Or you may ask the seller to reduce the price to reflect the diminished value of the property or to help cover the cost to you of the remedies. Alternatively, the seller may agree to give



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you back some cash at the closing in order to cover the cost of remedies. You might need approval from your lender for these last two options. In some cases, the PSA may define certain types of deficiencies that are considered “material” and require the seller to address them.

Title defects. Common issues with the title could include recording errors, mortgage deeds not discharged, or necessary permits not in place. If issues in the title are found, your attorney’s office will work with the seller’s attorney and the seller to make sure that a clean title can be conveyed to you at closing.

The farm appraises below the contract price. If the farm appraises below the contracted price, the sale may not conform to the **loan-to-value ratio** that your lender requires. This could prevent you from securing financing. Or you may just not want to pay over the appraised market value, even if financing is not an issue.

Before deciding anything, read the appraisal to determine if there are any errors that may have materially influenced the appraised value. Report such errors to your lender and ask them to address the errors with the appraiser. Also, if the appraiser overlooked any relevant comparable farm sales of which you are aware, also bring this to the attention of your lender and the appraiser. In some cases, there may also be opportunities and justification to ask for another appraisal from a different appraiser, although this is not commonly done. This generally will require approval by both the lender and the seller. This would have to be done at your expense and can push back the closing date significantly.

The more common approach is to go back to the seller and try to renegotiate the sale price. They may be willing to do so. In some cases, they may offer you seller financing on the difference between the appraised value and the contract price. Your lender will still consider this in their decision, since they need to be comfortable that you have enough capacity to cover both loans. Otherwise, if the seller will not reduce the price or offer seller financing and the low appraised value does not meet your lender’s criteria to lend you the full amount requested, you will likely need to bring the difference between the appraised price and the contract price to the transaction. This would typically be from your cash on hand, unless you can get it from another source such as family.

Financing turned down by your lender(s). If you are turned down for financing, get the reasons in writing from the lender. Regulated lenders have to follow very specific procedures and must provide reasons for denial in writing. Make sure that there were no errors made by the lender in their determination. If you feel that the lender has made errors in evaluating your application, make an attempt to discuss this with the lender. The borrower has the right to appeal adverse loan decisions made by USDA-FSA and lenders in the Farm Credit System. If a lender is unwilling to talk through the issues or seems discriminatory, you may choose to pursue

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adverse loan decision mediation through **agricultural mediation**. If USDA-FSA made the adverse loan decision, they are required to participate in mediation, but other lenders may not be or may have their own mediation requirements. If the problem is with your application or the conditions of your business or the farm itself, talk to your advisors about the decision and what may be behind it. They may have ideas on how to solve any problems and otherwise salvage the deal so that you do not lose the property.

If you are unable to remedy the problems that led to your loan denial, getting a denial letter in writing may be important since you will often need to share the denial letter with the seller to demonstrate that you were denied financing. It will be helpful if you can get the lender to include information in the letter showing that you applied for financing in a manner that would have met the terms of the financing contingency.

WHEN TO WALK AWAY

In some cases, it might be best for you to walk away from a purchase negotiation even after completing a PSA if the contingencies are not met. It can be difficult—even heartbreaking—but you need to be mentally prepared to do so.

One reason for walking away is if you and the seller cannot agree on how to resolve a key contingency. For example, a contingency might specify that the farm structures are in sound condition, but the inspection reveals serious structural issues with the barn. Addressing the issue might take tens of thousands of dollars, but the seller is not willing to adjust the price or fix the issue. As much as you might love everything about the whole farm property, you may not be able to make the numbers work with that new and unexpected expense.

In this scenario, avoid falling prey to the “sunk cost fallacy” in which someone won’t turn away from what has become a bad choice because they have “sunk” a lot of time and resources into their choice and don’t want to see all that go to waste. Your team of advisors can help you see things objectively and support you to make the call that is right for you. Be sure you clearly understand the impact of pulling out of the PSA before making your final decision.

If your reasons for pulling out can be justified by the terms of the PSA, you will not sacrifice your earnest money, but if your reasons can’t be justified, you may well have to give it up. However, be sure to understand and follow any explicit requirements in the PSA for terminating the contract. For example, it may contain specific requirements regarding the form and timing of any notice or documents you need to provide. If your reason isn’t justified as an unmet contingency under

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the terms of the agreement, your earnest money will not be returned, which can be a big financial hit. Be sure to explore all possible options for overcoming the issues that have emerged since signing the PSA. If the farm property is still an excellent fit in every other way, there may be creative ways to solve the situation.

But after all factors have been considered, the best decision may be to walk away. This can be a painful part of the emotional rollercoaster. But remember: the only thing worse than the disappointment of pulling out of a farm purchase is facing deep financial and family difficulties because of problems with the farm you bought.

THE CLOSING AND CLOSING COSTS

Hooray! You have secured the necessary financing and cleared all of the contingencies in the PSA. Next, you should do one final walkthrough of the property to make sure that nothing has changed. Then you can close on the property. If things went smoothly, you are closing on the date originally agreed upon in the contract. But it is not uncommon for this date to have been pushed back by mutual consent of both parties to allow more time to clear remaining contingencies.

The closing may be handled by your attorney, your attorney's paralegal, your title company, or your lender. During the closing, you will sign many documents. Make sure you review each document and understand what you are signing. In particular, make sure that the term length and interest rate for each loan are correct. Once all of the documents have been signed and your closing costs are paid, you will be given the documentation including your all loan agreements, applicable amortization schedules, and the deed to your new farm.

Prior to closing, you will receive a settlement statement showing all debits and credits on both the seller's and your side of the transaction. The statement will also tell you how much cash you need to bring to closing. This will be in addition to the other due diligence and transaction costs that you may have already paid up to that point.

At the closing, you will be expected to pay all remaining closing costs—those directly associated with the purchase transaction. You must have the cash to pay all of these costs at that time, unless you have previously arranged for some or all of the closing costs to be rolled into your mortgage. This is occasionally an option with some lenders. As mentioned above, in some cases, the seller will agree in the PSA to share or cover some of the closing costs.

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The total closing costs frequently range between 2% and 6% of the purchase price. However, there are several factors that can lead to the closing costs being out of that range. While the total closing costs can often be in the \$5,000 to \$10,000 range (as of 2025), there are many cases where closing costs for a farm can be substantially higher, with \$10,000 to \$20,000 not out of the question, and even higher for larger, more expensive properties. Certain factors can generate higher closing costs. These include property transfer taxes that some states impose on the buyer, the addition of a conservation easement to the property, a property survey, and other elements that make the sale more complicated. It is important to have the potential closing costs in your budget from the time you start looking for a farm and planning your business and purchase. Your lender, attorney, real estate agent or business advisor may give you an estimate of closing costs at the beginning of the loan process.

The following are the typical and possible closing costs, and other transaction costs that may be due at closing, associated with a farm purchase:

- Appraisal
- Credit report and credit score fee
- Inspections
- Loan fees and other lender fees
- Title insurance and other title company fees
- Attorney fees for your attorney and associated legal costs
- Property transfer sales tax
- Property survey (if required)
- Conservation easement stewardship fees (if applicable)
- Commission for real estate agents (depending on the agreement)
- Property taxes and utilities prorated to the closing date
- Recording fees to record the deed

Be sure you know how you will pay closing costs before you go to the closing and then be prepared to make the payment at the closing. Bring that payment method with you.

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1. <https://www.farmers.gov/working-with-us/heirs-property-eligibility/reloading>
 2. <https://privatewellclass.org/videos/cid/67?Category=webinar-recordings>

CHAPTER 7:

For Sale By Owner



Photo Credit: Dallas Glazik

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While many properties will be listed with a real estate agent, some farm owners want to sell their property directly to a buyer without a seller agent. While the main fundamentals of a **for sale by owner (FSBO)** transaction will be the same as the process described earlier, there are some important differences to take into account. This chapter will outline some of those differences and how to approach them.

FINDING THE FARM

There are a number of ways to find FSBO opportunities. As described in more detail in [Chapter 2](#), a farm owner may still post their property to popular real estate websites where real estate agents post properties as well as to websites that specifically cater to FSBO. FSBO sellers can pay a flat fee to post the property on a multiple listing service (MLS). They can also post a property to farm link websites. They may post the farm for sale through farm organizations with newsletters and websites with classifieds as well as on online farmer discussion groups. They may even use social media and traditional media, such as local newspapers. They might simply put a sign in their yard. In many cases, however, FSBO farms may not be advertised or go on the open market at all.

Box 7A. Other Situations Where FSBO Can Come into Play

As a tenant: You may be renting a farm that at some point the owner offers to sell to you directly. Or, a lease-to-own arrangement may be a part of your agreement from the beginning.

As a successor in a farm transfer: Many farmers facing retirement don't have an identified successor. As a part of a farm's succession process, you may acquire equity in a farm business and, at the same time or later, the land as well. You could already be on the farm as an employee or tenant, find the opportunity through public advertisements, or be recruited by the exiting farmer. There are various ways to develop these kinds of arrangements, some of which can unfold over several years.

As a neighbor: Many farm sales happen between farmers who neighbor each other or whose farms are in close vicinity. Sales also happen through community connections with nonfarming landowners and retired farmers. If you are already farming in a community, you may find opportunities to talk directly about a farm purchase with farm owners who are thinking of selling

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but haven't wanted to put their farm on the open market.

A farm not listed on the open market may be found through networking in the community or approaching farm owners who you might think may be ready to sell for reasons such as their age and not having a successor to take over the farm. In some cases, if a farm owner hears that you are looking, they may approach you.

BUYER AGENTS AND FSBO

If you are working with a buyer agent who is willing to work with FSBO scenarios, the agent may have their own networks to tap to find FSBO farms. The agent may also be willing to cold-call farm owners who they think might be interested in selling their farm, though many farm owners who have not publicly put up their property for sale will not be receptive to unsolicited sale inquiries from real estate agents. Alternatively, you may also choose to approach the owners directly yourself.

Some buyer agents may be resistant to searching for and pursuing FSBO properties out of concern for how they will be paid. As described in [Chapter 1](#), until recently, buyer agents have typically been paid by splitting a sale commission with the seller agent. At the outset of your relationship with your buyer agent, you will want to be clear on their willingness to look for and assist you with the purchase of FSBO properties and how to address compensation. Determine if signing a contract with the buyer agent will in any way interfere with your ability to pursue FSBO properties on your own.

If you are working with a buyer agent and have located an FSBO property, often the first approach to deal with compensation will be to see if the seller will agree to compensate your agent. This is usually through a commission on the sale, though it could be through fees instead. Either you or your agent may approach the seller about this, depending on how receptive you believe that seller might be to being approached by you versus a real estate agent and how comfortable you are personally with approaching a seller with such a request. Alternatively, you may request that the seller agree to provide you with a "credit" to be applied to the purchase price to cover the buyer real estate commission or fees. But this is basically the same as the seller paying the commission and may still be rejected by the seller. You may be able to negotiate a fee with your agent for FSBO situations in which the seller is unwilling to pay your agent a commission or other fees.

If your buyer agent is not willing to work for fees or is otherwise not willing to work

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with FSBO, you will need to rely even more heavily on other members of your team of advisors to help you through the transaction. You must count on your attorney to be certain that proper seller disclosures have been made, that the formal offer and the purchase and sales contract are sound, that contingencies have been addressed, and all the closing details are in order.

NEGOTIATIONS AND COMMUNICATIONS THROUGHOUT THE PROCESS

In FSBO situations, communications are typically directly between the parties unless you are using a buyer agent. There can be other exceptions. For instance, you could also use your attorney and the seller's attorney. Direct communication between buyer and seller can be beneficial. It is an efficient way for you to learn farm-related information from the seller. It can also feel more natural and authentic when the seller knows you, or gets to know you, and becomes invested in making the sale happen because of your shared goals for the future of the farm. Direct communication and negotiation between the buyer and seller are the standard approach in the case of a sale to a partner, employee, or tenant. It can also be the norm between neighbors in rural areas.

But that doesn't mean that communications are smooth, especially around such an emotional and weighty matter. There are potential pitfalls to having communications and negotiations without third parties involved to buffer emotions and mediate differences. As mentioned in the previous sections, negotiations around pricing can be prone to disagreement and friction, especially if both sides are not working off of objective real estate data and analyses. It can also be more difficult to get disclosure information from the seller when there aren't real estate agents or brokers involved. Additionally, real estate transactions can be fraught with emotion. Both buyers and sellers have financial and personal interests to consider. It can be hard for each party to understand the other's position, even in the cases where the buyer is a partner, tenant, or employee.

Communicating through a third party can help mediate emotions. A third party might have ideas, too, on how to best word requests, proposals, and the offer so that communications and negotiations have the best chance of being received in a positive way. Having third-party professionals involved also can sometimes help remind everyone that these are business transactions, and the requests of one party are not meant to be personal affronts to the other party. Therefore, in an FSBO transaction, the parties may at points find it best to send requests back and forth between their respective attorneys rather than directly. Farm succession advisors or agricultural mediators can be very helpful as communication channels in cases where the buyer is a partner, tenant, or employee.

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DESCRIPTION OF THE PROPERTY AND PROPER DISCLOSURE

When a property is listed with a real estate agent, the agent pulls together a packet of information to present to each buyer. This packet will include a full description of the property, maps, photos, deeds, easements, and a **property disclosure report** (described in [Chapter 3](#)). When a property is sold by the owner, however, the property owner may not have prepared a property disclosure report or assembled all of the other documentation you would normally get from a real estate agent. It may be on you to request this information, so it is important to know what information to request. This is where having a buyer agent may be helpful. Or you may also seek the help of your attorney or farm advisors to get that information. If the farm is protected from development via a conservation easement, or will be conserved in that way, the farm conservation organization may also help with gathering some of the needed information.

You should not be shy about gathering the information you need, as long as your requests are customary and reasonable, even if an owner is reluctant to answer questions or share information. In some cases, you could assist them by providing the property disclosure form for your state, often available online. You might point them to where they can get some of the information such as specific websites, county/municipal records, USDA, or land trusts. You may suggest that they talk to their attorney or other advisors about gathering the information.

If the seller is unwilling or unable to gather needed information, it could make the transaction difficult, if not highly risky for you. You won't have the knowledge you need to negotiate a price and other terms of a purchase contract. You may be less likely to get financing since your lenders may want the missing information. It can be helpful to let the seller know that your lender or attorney is requesting the information and documentation so it is clear that these are customary requests and are not just coming from you. If a seller is not fully forthcoming, you may need to consider walking away from the farm and looking for other opportunities.

Even if you are already on the farm as a tenant, partner, or employee, it is still important to know what is needed in a customary real estate transaction and to work with the seller on gathering necessary information. You may feel that you already know everything there is to know about the farm in order to go forward with the purchase. But often that is not the case. For instance, you may not have full access to all of the houses on the property or know everything about the structural aspects or the conditions of things like septic systems or wells. You may not know the legal property boundaries or whether a survey has been done. If there is a conservation easement on the property, you may know nothing about it and what it allows or prohibits. You may not know the costs of property taxes or insurance.

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As much as you may be familiar with the property already, it's important to get the complete picture prior to negotiating a sale price and other aspects of the PSA.

VIEWING THE PROPERTY

When a property is listed with a real estate agent, the seller often is not present when a property is shown. This can add communication challenges since farm-related questions have to go through the real estate agent, who may not be familiar with farm terms and issues. It can become the classic case of “playing telephone.” An advantage of FSBO transactions is that you are likely to be shown the property by the owner, allowing you to ask the owner questions directly. And if the owner is also the person farming the land, they can be a wealth of information, helping you evaluate if the farm will meet your needs and also what investments the farm may need.

Another advantage of meeting directly with the seller is that you can personally convey your interest in farming the land. Many farm owners want to see their farms stay in active agriculture. It may be helpful in the negotiations for them to know how you intend to steward the land.

At the same time, when viewing a farm with the seller, it's important to remember that you are engaging in a business transaction. You need to ask the important questions. You need to “get under the hood” and evaluate things carefully. If you are concerned about a problem or defect, you should candidly yet diplomatically discuss it with the owner. Offending the owner with carelessly critical and undiplomatic wording will not help you in the negotiations going forward. And while you will want to reciprocate and be open and honest with the seller, you should nonetheless also be cautious about immediately disclosing too much about your situation or finances, which could put you at a disadvantage when it comes to negotiations. It's a delicate balance.

DETERMINING AND NEGOTIATING THE PRICE

The asking price for a property is always determined by the seller, whether through a real estate agency or FSBO. When a property is listed with a real estate agent, the agent advises the seller on pricing the property using a combination of the characteristics and conditions of the property compared to other similar properties that have recently been sold in the market in the area, as well as general market conditions and trends. When a property is sold FSBO, however, it is up to the seller to do the research to develop the price. Some property owners are more diligent

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and realistic than others in this research.

Sellers using FSBO have a number of options to gather information toward valuing their property. They can hire a real estate agent to provide an **assessment of value** (also known as an **opinion of value**), which is generally much less expensive than an appraisal but also generally less thorough. This can be problematic with properties as complex as some farms. This is particularly true for a farm where a conservation easement is already in place, since many real estate agents have limited experience with easements and how they affect the value of the farm. Nonetheless, these assessments can be useful if done well.

Alternatively, a professional appraiser can conduct a full appraisal. Ideally, this would be someone who is also qualified to do appraisals for USDA–Farm Service Agency (FSA) or other agricultural lenders so that the appraisal (or an update of an appraisal) might be used for the financing application. This is a common approach when the seller is selling to a partner, employee, or tenant as it sets a more objective value than the seller’s subjective opinion. It’s important to remember that appraisals are not perfect and not without some variability. They are always looking backwards at what the market has done, not necessarily where it’s going. Even with an appraisal, there may still be room to negotiate the price.

These days there are plenty of places online for sellers and buyers to see what other properties are selling for. However, it is important to remember that the “asking price” is not the same as the “closed price”—the actual price for which a property sells. You need to know if you are looking at the closed price on an actual sale or the asking price. Also, each farm has many complex and unique characteristics, which, as a whole, shape the price of one farm versus another. If someone is trying to come up with a price by looking at other sales, they need to take into account the differences in the characteristics of the farm for sale from those which sold and make adjustments to the price with the same nuanced judgment that a real estate agent or an appraiser would.

Unfortunately, many FSBO sellers don’t do that kind of homework and research in determining their asking price. For instance, it is not uncommon for farm owners to only take into account asking prices and not actual closed sale prices. They may not be looking at completely comparable properties or otherwise sufficiently adjusting their expectations to differences between their farm and the other properties that sold. A property owner may base their asking price not on the actual realities of the market but rather on factors in their own lives, such as what they need to clear debts and pay taxes, cover their retirement, or go toward a new home. They may also base the price on how much they invested in the place. Or they may justify the asking price because “that is what I feel it’s worth.” In these cases, it is not uncommon for the farm owner to have an inflated idea of the asking price. It is rare for landowners to underestimate the value of their farm.

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As described above, this can make negotiations a challenge. A difference of opinion about the right price can quickly become personal, particularly if there is not a third party such as a real estate agent or attorney assisting with the negotiations. The seller, if not aware of the subtleties of determining a property's value, can become convinced that you are critical of the farm or trying to take advantage of them. You might look at them as being unreasonable. It can be easy for either party to get emotional and lose their cool or take an unproductive approach to the negotiations.

To get negotiations unstuck, you can try to tap the more objective options already mentioned—an assessment of value or a professional appraisal. Appraisals will be more thorough but also will take longer and will be more costly. You might offer to pay for it or to share the cost. If you do this, make certain that the seller agrees contractually to take the property off the market during the time it takes for the appraisal to be completed. Ask your attorney or agent to make sure this is done properly.

A more informal approach to getting objective data for the negotiations would be for you to do the work of bringing sales data or, if available, appraisals for similar properties to the negotiating table. A real estate agent or other advisors may be able to help you with assembling this information. Alternatively, you can make a formal offer based on what you believe the market value to be and provide justification for your offer.

We know of FSBO sellers and buyers who have had quick negotiations with



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very round numbers and have agreed on a price over a handshake in just one conversation. Is this always a successful and wise approach? No. The price arrived at through those negotiations could be higher (or lower) than what a careful research process would have made clear. We encourage you to follow the systematic approach we have laid out here whenever possible.

The reality, however, is that some FSBO sellers, especially in rural areas, may get turned off by formal and complicated price negotiations, and there may be another buyer willing to jump in and accept the risks of an informal price negotiation process. If you encounter such a seller for a farm property that is a good fit for your needs, you may need to decide which is a greater risk—agreeing to a price that is not as exact and precise as a more deliberate negotiation process would produce or losing the opportunity to buy that specific property. In cases where you have had your eyes on a unique property for years that will likely come on the market as an FSBO, you can mitigate some of your risk. You can do that by doing your research in advance of the property actually becoming available so you know what a fair price would be and how to justify that price in case you suddenly have to have that conversation with the landowner.

One potential advantage in an FSBO scenario is that there is no real estate commission for the seller to pay. Not having to pay that commission makes many sellers willing to drop the price below their asking price. One caveat is that if you are using a buyer agent, as described above, you will need to have established how the agent will be compensated if not through a commission from the seller. Additionally, in an FSBO, it may be easier to have discussions with the seller about seller financing. In the case where seller financing is considered, you can suggest a lower sale price and demonstrate where the seller can make back the difference through collecting interest on the financing note. They may also save on capital gains taxes, which would be another (and sometimes major) incentive. This is not without risk to the seller because you could default. But in the right circumstances and with the right due diligence and legal documentation, this can be a win-win for both parties.

WHEN THE SALE INCLUDES NON-REAL ESTATE FARM BUSINESS ASSETS

In some cases, the seller is selling equipment, livestock, inventory, and/or other business assets with the real estate. A common mistake that FSBO sellers make is to list one price for everything without differentiating among the components. In those cases, it can be difficult to determine what portion of the price is for real estate and what portion is for the other components. Even if the non-real estate assets are valued separately, it may not be clear how the values were determined,

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especially if you are not provided an itemized inventory with pricing. You may need to press the seller on getting a detailed inventory and price breakdown. One tactic is to inform the seller that you need the breakdown because it will be a requirement of your lender, and because the seller will need the breakdown of the sale for filing capital gains tax returns.

THE PURCHASE AND SALE AGREEMENT THROUGH CLOSING

When a property is sold FSBO, it is up to the seller to handle all legal aspects of their end of the transaction, from accepting the offer to negotiating the contract to closing. While many property owners have enough knowledge and experience to handle most aspects of these real estate transactions, most sellers are not fully equipped to do all of what is required. It is also advisable for them to use a real estate attorney, a title company, or perhaps at least a “fee-only” real estate broker, for their portion of the transaction and to prepare the proper documentation.

Due to the potential for your attorney and/or real estate agent to need to take on more of the tasks typically handled by a seller agent, it will be important for you to discuss any additional costs with your attorney and buyer agent so that you can adequately budget for them at closing. You might also attempt to get the seller to cover some of these costs.

Many sellers who have seller agents are willing to hire a professional such as an attorney or title company to assist them. Unfortunately, some FSBO sellers will resist bringing in and paying for these advisors. This will mean that more of the work might fall on your shoulders or the shoulders of your attorney or buyer agent. With an FSBO deal, it is especially important to have your own professional advisors scrutinizing the transaction and making sure that all of the legal requirements are followed from beginning to end and that your closing costs are properly calculated.

Your attorney or real estate agent can help you prepare your offer, as described in [Chapter 5](#). Typically, you will send your offer directly to the seller unless they have instructed you to have it sent to their attorney. Unless you are using a buyer agent or your lawyer to assist you, the negotiations will be directly between you and the seller.

If the offer is accepted, the seller or their attorney may draft the PSA or present you with a generic agreement that the seller has obtained online. But it may be up to you to develop the agreement with your attorney. While this will add to your costs, it does mean that you will work with your attorney to get all of your contingencies (see [Chapter 6](#)) into the first draft. If you use a buyer agent and hope that the seller will pay your agent a commission or fees or provide you with a credit on the

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sale price to do so, this must be included as a contingency. Or, if your attorney is going to be doing more work than normal, you may also attempt to negotiate a contingency that the seller will pay a portion of your attorney fees. Your attorney may also directly suggest or request that the seller have legal representation.

When the contract is signed, you will need to make your deposit. As with any sale, do not give the deposit directly to the seller. Your attorney or real estate agent will arrange for an **escrow agent** to hold the deposit.

As described in [Chapter 6](#), issues may come up during the contract period with clearing contingencies. The main difference in FSBO is that the seller may not receive professional advice about how to address issues that come up with the contingencies. If difficulties arise, you might diplomatically suggest that the seller consult their attorney or another advisor.

The contingency that the farm appraisal comes in at or above the agreed-upon price in the purchase and sale contract might become an issue. If an appraisal was not used to set the asking price, or if the seller did not do sufficient research when setting the price or get adequate advice during price negotiations, the appraisal done as a part of the contract and financing process may come back below the agreed-upon price. As a result, you may not be able to get adequate financing to complete the sale. The appraisal done as a part of the contract might convince the seller to renegotiate the price. But, as with any other sale, this will depend on a variety of factors. The only difference with FSBO is whether the seller is getting input from other advisors on how to arrive at the asking price. As described in [Chapter 6](#), you may have to consider other approaches if the seller is unwilling to negotiate price, including potentially walking away from the transaction.

Hopefully, you will be able to clear all the contingencies, including securing your financing. If seller financing is involved, the seller's attorney will likely have prepared the appropriate documentation, which should be reviewed by your attorney. But, again, don't be surprised if this task falls on your attorney.

The closing will likely be handled by your attorney, a paralegal from their office, your buyer agent, or the title company—depending on local rules or customs. The seller is required to have the closing documents drawn up, including the deed. If the seller does not have adequate assistance, your attorney and/or real estate agent may direct or assist them through the closing. This will add to your expense, so it's better to persuade the seller to get professional guidance earlier in the process. The seller is responsible for making certain the closing documents are properly prepared for the closing. But, again, make sure that your own attorney has scrutinized the documents and closing cost calculations.

With patience and some good luck, you will be able to purchase an FSBO farm that

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you would not have been able to access otherwise, possibly at a lower price and with lower total costs.

CHAPTER 8: **Other Purchase Methods** **and Tools**



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Farmers often think outside the box—jury-rigging a piece of equipment or testing a new market. Similar creativity can be applied to buying a farm, although the stakes are considerably higher.

Each farm-purchasing strategy described below has its own unique set of advantages, cautions, and risks. They are not new inventions. While they are not in the conventional farm purchase basket, each is legally sound and tested in the real world. It is important to completely understand the risks and opportunities each presents before proceeding.

PURCHASE WITH OTHERS

Some farmers and communities are attracted to the idea of farming as a group. This is sometimes referred to as “cooperative farming” or “collaborative farming.” Sharing resources, expertise, labor, and risk seems appealing, especially to younger, beginning, and limited-resource farmers as well as to communities with a cohesive cultural identity (like immigrant farmers from a particular country). Purchasing farm real estate with other farmers can have advantages. That said, special care must be taken to avoid pitfalls and problems along the way.

First, what is the vision? *Why* do you want to buy a farm with other producers? Who are they? Fellow farmers with their own businesses? Members of an association? What will be the legal entity that holds the title? How will the purchase be financed? How can a co-owner get out of the arrangement? Keep in mind that co-ownership of a farm *business* is different from co-owning real estate.

It is possible for several farmers to purchase a farm property as a group of individuals. Traditionally, the property would be held as **tenants in common** or **joint tenancy** with right of survivorship. These are simple ways to own land together that do not require extensive legal work to set up. But the challenge and potential downsides of owning land this way can be that there are no operating agreements among the group of people who own the land that describe how they will manage the land together, and what they will do in the cases of dispute or disagreement, or when married members get divorced, or what happens in the case of the death of an owner (except joint tenancy with right of survivorship, which transfers all of the ownership to the last person standing). Owning land this way also doesn't track the equity of membership (except joint tenancy, which usually requires ownership to be divided equally among the owners) or provide for how an owner will be bought out and their interest valued at the time of a sale or when they no longer desire to be a co-owner.

Another option is to form an entity such as a real estate **limited liability company**

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(LLC) or a **limited liability partnership (LLP)** that holds the title to the farm real estate. The LLC or LLP operating agreement spells out how the assets and the carrying costs will be paid for and apportioned, along with responsibilities and an exit strategy should a member choose to leave. The LLC or LLP members could have their own farm businesses or farm together as one operation. Another type of entity to buy and hold real estate is a cooperative, in which the cooperative bylaws address the issues raised above.

Co-owning real estate requires trust, responsible management, and good communication. Decisions about uses and maintenance, for example, can take time and energy. What if one owner doesn't pay their share? Or an owner wants to put up a structure? Group farm ownership can spread the cost and responsibility, but it can also increase risk and effort. As a farmer, it is also possible to co-own land with people who are not farmers, such as part of an intentional community that includes farming. See "[Accessing Farmland Together](#),"¹ a resource about cooperative land access options developed by Land for Good, for more information.

LAND CONTRACT

A land contract, also known as an installment sale, is a type of **purchase and sale agreement (PSA)** between seller and buyer and also a form of seller financing (see [Chapter 4](#)). With a land contract, the buyer obtains possession of the property, but the seller retains title until payment is complete with a longer performance term. (By comparison, seller financing is where the seller holds a mortgage and title passes to the buyer.) A land contract may require a small down payment and also may have a longer performance term. This method avoids conventional mortgage financing. It also allows time for the buyer to qualify for a conventional mortgage.

One significant disadvantage of land contracts is that if the buyer misses a payment, the agreement can be terminated, and any payments made can be lost. The contract must be written carefully. There is a sad history in the US of land contracts being used in a predatory way to extract wealth and resources from people who are not able to access conventional credit due to discrimination.

LEASE-TO-OWN

With ownership as your ultimate goal, leasing the desired property first may be a wise strategy. "Lease-to-own" is not a legal term or specific method. It's a concept that refers to strategies to own a particular property in the future via legal agreements between a landlord and a farmer-tenant while operating under a

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lease arrangement until that point. There are three basic lease-to-own methods: purchase options, right of first refusal, and right of first offer. These stipulations can be included in the lease, but they could also be separate legal documents.

In a *purchase option*, the parties (landowner and tenant) agree that the leased property will be sold to the tenant within a specific timetable and at a certain price or via a procedure for determining the price at the time of sale. The timing could be several years away, during which time the tenant pays rent. Depending on how the agreement is written, the amount the tenant pays that goes toward the purchase may not be rent, but rather equity, and would therefore may be handled differently in tax reporting. You will want to consult your attorney and your tax advisor about this while developing your contract.

The advantages for you, the current tenant and future buyer, are several. You have a commitment to acquire the property in the future and time to build your business and capital to make the purchase. You have no initial down payment, so any current capital can go to the business.

In a *right of first refusal*, the tenant has the right to purchase the leased property if and when the landowner puts it on the market, generally by matching a purchase offer by a third party. To be clear, the farmer-tenant is not obligated to make a matching offer. They just have the right to do so. In a *right of first offer*, the tenant has the option to make an offer before the landlord puts the property on the market, instead of waiting for a third party. Again, there is no obligation on the farmer-tenant's part, just the opportunity.

Lease-to-own is an attractive path to ownership. These methods allow time to build capacity and financial assets. If you are certain about purchasing a specific property, the purchase option makes sense. If you want to test out the property (and farming) before you commit to a purchase, the first rights options could work well.

That said, most of the procedures and cautions surrounding a farm purchase still pertain, and due diligence is still required. You will be familiar with the property, but that doesn't mean you should skip inspections. Depending on your agreement, you may need to obtain an appraisal or may want to in order to be more confident that you are paying an appropriate amount. You will still have closing costs, and you will likely need financing from conventional or alternative sources. You will definitely need an attorney to draft your agreements, from the initial option to all the closing documents.

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GROUND LEASE

The concept of shared equity in farms is of increasing interest. Shared equity—essentially shared ownership—is not a new idea. Examples in agriculture include equity investors in farm property and group ownership. In those models, ownership of the whole property is shared. In a **ground lease**, equity is divided between the land and the buildings. The farmer rents the land from the landowner. The farmer buys (or builds) and owns the infrastructure on that land, which often includes a residence. Ground leases are common in the commercial sector, but less so in agriculture. But they are gaining traction. Community **land trusts** (different from conservation land trusts) use ground leases to create access to affordable housing. Some land trusts are acquiring farm properties and then executing ground leases with one or more farmers. Land trusts also keep the land off the speculative market and involve the community in property oversight and stewardship.

One major advantage to a ground lease is that the farmer doesn't have to pay for the land—only the buildings. Most ground leases are very long term, up to 99 years, which provides tenure security. Upon termination, the farmer sells the infrastructure to the next tenant or back to the landowner. You should be aware that lenders unfamiliar with such arrangements may be cautious about lending to build a house on leased ground.

FORECLOSURES AND TAX SALES

When a farmer defaults on a loan and the farm goes through **foreclosure**, the lender takes possession of the farm and then works to resell the property to recoup what they are owed, plus their other costs and losses. In some cases, the lender will then post the property for sale, either directly or through a real estate professional. They may sell the property at a discount from the current fair market value, provided that they can recoup all of their losses and costs. Otherwise, they will put the property up for auction. For the auction, they will have a reserve price, which is the minimum amount that they are willing to accept. USDA-FSA has a [website](#)² where it posts properties on which they have foreclosed and have available for direct sale and auction. See more about buying properties at auction in the next section. After a foreclosure sale, some states offer a “redemption period” in which the former property owner can reclaim their property by paying off the outstanding debt and costs, but this period's length and availability vary significantly by state. If you are not experienced with foreclosure sales, it is important to get legal and financial advice prior to bidding/making an offer.

Similarly, if someone fails to pay their property tax and doesn't come up with a

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payment plan with the taxing jurisdiction (town, city, or county), the taxing jurisdiction can put the property up for a **tax sale**. Tax sale laws vary greatly from state to state. In some cases, you will be bidding on the property, and in other cases, you will only be bidding on a tax lien, which will not guarantee that you will ever actually own the property. Typically, tax sales are conducted in a manner similar to an auction. State law will dictate how public notice is made for such sales. The jurisdiction will have a reserve price that includes the back taxes, penalties, interest, and fees along with their legal and transaction costs. The property will sell to the highest bidder, which could be for more than the amount of the reserve price.

Buying a farm at a tax sale is not a common approach and comes with added risks and complications. This generally makes it an option that should only be considered by the most sophisticated real estate buyer with sufficient capital that they are able to have tied up for a substantial period of time before they *might* be able to take title to the property. To attempt to purchase a property at tax sale, you will need to have the cash available to make the purchase immediately or within a very short time period. In some cases, the state allows for the owner to request that only a portion of their property be sold to cover the debt, so you may not be able to buy the entire farm. The state may allow for a redemption period in which the delinquent taxpayer can get their property back if they pay the purchase price paid at the tax sale plus a defined amount of interest to the tax sale buyer within a certain time period after the tax sale. The redemption period varies by state but can be as long as a year. In many cases, the title does not transfer to you until after the redemption period is over. Thus, you might have money tied up in the property for a significant amount of the time, plus carrying costs, only to be required to return the property back to the original owner. Even if you are successful in your purchase, you may have to evict the previous owner if they do not leave voluntarily and clean up whatever they leave behind.

AUCTIONS

Auctions are common ways for the owners of farms and farmland to sell their properties, particularly in the Midwest and Great Plains States of the US, where a large portion of the farmland is sold by auction. Farmers may choose to sell the farm at auction to avoid foreclosure; as a part of a bankruptcy or estate settlement; or simply because they want to leave farming, downsize, or farm elsewhere. By selling the farm through an auction, the seller generally hopes to simplify the selling process while also potentially getting a higher price by having several highly interested and motivated buyers bidding against each other. A property owner may auction the farm as a whole or in separate parcels or tracts.

Auction companies have mailing lists for their auctions, and they advertise widely.

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They will post information about the property on their website, often with pictures, maps, and legal documents. For auctions voluntarily commissioned by the seller, the auctioneer may have one or more open house events prior to the auction. The auctioneer also may offer property visits by appointment ahead of the auction. Unfortunately, if an auction is due to a foreclosure or tax sale, opportunities to view the farm may be limited or nonexistent, except from a public road or space adjacent to the property.

Like a real estate agent working for the seller, the auctioneer acts on behalf of the seller. The auctioneer will be available to answer questions from the potential bidders to the best of their ability ahead of the auction, but cannot act on behalf of a potential bidder.



The auction may be an “absolute auction,” where the seller is required to accept the highest bid and is prevented from being involved in bidding on the property. More typical with farmland is a “reserve auction,” where the seller has a reserve price and can bid against the bidders to achieve the reserve amount. During a reserve auction, the seller may withdraw the property at any time and is not under obligation to sell. Exactly how reserve and absolute auctions are conducted depends on the laws of the state where the farm is located.

Auctions may be live and in-person, either at the farm or at another public venue off site. The auction will be conducted by an auctioneer on a single day, typically in a very rapid and high-pressure manner. Alternatively, for an online auction, bidding may take place over multiple days or weeks. The last hours of a strictly online auction can be as intense as an in-person auction. There are also hybrids between

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in-person and online auctions, where bids are submitted both in person and online.

It is important to have your attorney or real estate agent and other advisors review the documentation provided by the auctioneer. Your advisors should assist you to do the same due diligence that you would with any other farm purchase method. You and your advisors should carefully review the terms and conditions of the auction itself. Generally, you will be buying the property “as is,” and there will be no opportunity for you to have contingencies in the purchase as you would with a standard PSA. You may have to provide the auctioneer with a deposit ahead of the auction, which will be nonrefundable if you are the successful bidder. Otherwise, you will likely be required to provide a significant deposit the day of the auction if you have the winning bid (typically 15% to 20% of your successful bid). Further, the balance of your successful bid price will be due within a relatively short period of time, sometimes immediately, but more commonly 30 to 90 days. Many auctions require the balance to be paid in full in cash from the buyer. Some auctions allow for mortgages, but, when allowed, the short turnaround time (and sometimes the auction rules) will mean that you must be preapproved for the financing by your lender ahead of the auction. Additionally, some auctions will make the successful buyer pay the auctioneer’s fees. This is sometimes referred to as a “buyer’s premium” and will be added to your bid.

Auctions can add pressure to the already stress-filled farm purchase process. Make sure that you do not feel pressured to overbid either beyond the market value of the farm or, most importantly, your ability to afford the farm.

NONTRADITIONAL SELLERS

Entities such as land trusts and other conservation organizations as well as educational, religious, and community nonprofits own agricultural land. Sometimes that land goes up for sale. The purpose of such a real estate sale may be purely financial or practical. For example, an organization may not have the capacity or desire to continue to own a property. Some organizational owners of farms and farmland have missions that seek to sustain or promote farming. Religious entities such as churches and convents may be looking to transfer land they own or that has been donated. In many cases such sales are treated as any other in terms of PSAs, inspections, mortgages, and the like.

But there may be significant differences. The terms of sale may include additional requirements or restrictions. The price may be discounted. There may be an easement on the property or one to be placed at time of sale. Often purchases that involve such organizations are more complex and may take more time. There may not be any real estate agents involved. Often there is a selection process, more

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rigorous and nuanced than the “highest offer.”

Some land trusts specialize in farmland. Some employ a “buy-protect-sell” strategy in which they acquire a farm property, remove the development rights through an agricultural conservation easement, and sell the protected property at a reduced agricultural value to a farmer, usually through an application process. It’s important to know as much as possible about the seller as well as the particular property. If there’s no seller agent, you’ll be dealing with the owning entity. Who are they? What is their knowledge, expertise, and history regarding the property? What are their decision-making procedures? Will “process” drag out the sale? What are the exact details of the terms under which they are selling?

EQUITY FINANCING

All of the discussion above is about debt financing. In equity financing, which is less common, people contribute capital in exchange for ownership stakes in an asset—in this case, a farm or farmland. They become equity partners (not lenders) and often have a claim on a portion of the property’s potential appreciation depending on the details of the arrangement. Because they own a percentage of the value of the property (proportional to their investment), equity partners share some of the risks. They also have a say in decisions, unless they are “silent partners,” in which case their involvement is limited to supplying capital. Equity financing can be combined with debt financing or your own funds.

These kinds of arrangements require careful planning and management. You will need to establish how and when an equity partner can be bought out of their share of the ownership and at what value. The legal and governance structures can be complex. You should not enter into such arrangements without guidance from your own financial and legal advisors.

Box 8A. Financing Without Interest

For Muslims, Islamic law prohibits the making of money on a loan and therefore the charging of interest is prohibited. There are alternative approaches to financing without interest, which are described [here](#).³ These approaches are sometimes utilized by non-Muslims as well.

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FARMLAND INVESTORS

In recent years, millions of acres of farmland have been bought by investors as a “portfolio diversifier.” Over \$26 billion of farmland is owned by institutional investors such as pension plans and insurance companies. Globally, large tracts of land are being bought by private entities, some with ties to governmental entities. Approximately 43 million acres of US farmland are owned by foreign investors. These owner entities typically rent out their farmland, and like any investment property, rent generates returns to the investor pool. Investors also get a return from land appreciation. This model is not without its critics. Large investment entities drive up land prices and exacerbate land access challenges, especially for farmers from marginalized communities.

That said, in the US, a growing number of farmland investment companies are mission-driven. These mission-driven companies forego maximum return to their portfolios in favor of promoting sustainable, regenerative, or organic agriculture; beginning and marginalized farmers; and/or tenure security. Some of these firms only offer leases on land they own. Others offer the option for the farmer to buy the land when they are able through a lease-to-own arrangement. Some provide mortgages as well. The scenarios vary. [This report](#)⁴ from Land for Good examines several examples and how they could work for farmers. If you are exploring a potential financial relationship with a farmland investment company, be sure to understand its financial position through a review of its financial statements that you or one of your team members can analyze.

EASEMENTS, BUY-PROTECT-SELL, AND LAND TRUSTS

Most people think of an easement as a legal instrument whereby the property owner gives rights to a third party to use or cross their property. With another type of easement, mentioned in several sections above, a landowner promises not to exercise certain rights on their real estate. A conservation easement (also known as a conservation restriction) limits uses on land to protect conservation values such as habitat, water quality, or scenic amenity. This is accomplished by the landowner’s voluntary relinquishment of the right to develop the property for residential, commercial, industrial, and sometimes agricultural uses. The landowner retains title to the property while a government agency or other qualifying entity, such as a land trust organization, holds the development rights. Conservation easements can be donated or sold for value.

An *agricultural* conservation easement (ACE) protects subject properties from development because of their agricultural value. They specifically allow farming

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and ranching. The purpose is to protect good agricultural soils and to keep land available for production. Thousands of US landowners—farmers and nonfarmers—have chosen to preserve their farmland using this tool. These development rights have a monetary value. Sometimes they are sold by the landowner; sometimes they are donated to a qualified entity such as a land trust or public agency. Easements must comply with relevant laws, but they can vary quite a bit in how they are written and what they allow or prohibit.

ACEs can be important for prospective farm buyers for several reasons. A property with a conservation easement or ACE should have a lower purchase price than without the easement on it. But that isn't always the case. Sometimes placing an ACE at the time of purchase is possible and similarly can result in a more affordable deal for you, the buyer, because the easement removes development potential from a property. This reduces the property's value from the speculative development value to its agricultural value. These transactions are complicated and, while attractive, are not always possible.

Easements come with conditions in addition to the development prohibition. Those conditions can range from informal annual reviews to restrictions on or requirements for farming practices. Some are inconsequential, but others could be potentially impactful for a farmer-buyer. Easement holders vary in how familiar they are with agriculture and how they carry out their responsibilities. Typically, land trusts are diligent; many will conduct annual inspections and monitor activities on the protected property. But that doesn't mean someone will be looking over your shoulder. It does mean that developing positive and mutually informed relationships is important.

Not all land trusts hold easements, and even fewer protect agricultural properties. But more and more land trusts are including or focusing on farmland. These organizations understand, support, and advocate for farming. Many care about the last farm in town or a farming area with important soils. They can be good partners.

A recent twist on easements is the buy-protect-sell (BPS) approach. In BPS, an organization or agency acquires an agricultural property, removes the development rights with an agricultural conservation easement, and then sells the property with the easement on it to a qualified farmer for the lower agricultural value. As with other easement projects, BPS takes time and commitment from multiple partners.

Another factor to consider is that nearly all such easements are permanent. They cannot be reversed, and any future sale will reflect that reality. Some ACEs further require that any resale be at agricultural value and to a farmer. The restricted property value means less equity and less borrowing power than with unrestricted real estate. A well-written ACE will support farming, including the erection of structures such as barns and sheds. Residences (and sometimes whole farmsteads)

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are usually left outside of the easement boundary, and therefore not subject to the easement terms. Many easements do not allow subdivision into smaller parcels or separating ownership of the buildings from the land.

Buying a farm with an easement doesn't suit everyone. But if your values align and the details don't feel onerous to you, it may be a good option. Due diligence is essential. Read the entire easement document; you can obtain it through your real estate agent or at the deed registry. Learn about the entity that holds the easement. Discuss its history with the grantor (the landowner who sold or donated the easement) if possible. Talk with other farmers who farm on conserved land.

LIFE ESTATES AND LIFE LEASES

Life estate and life leases are two ways that a seller can remain living on the farm. The buyer who accepts such arrangements will typically benefit financially.

A life estate is a form of property ownership that confers the right of occupancy on the property (typically the residence) to the seller until they die or move, while the buyer holds title to the property. The purchase price is typically discounted under the life estate because full ownership rights have not been passed along to the buyer. Under a life estate arrangement, the seller-now-occupant may pay rent and is typically responsible for maintenance of the dwelling, utilities, and home insurance. The buyer, now the "remainder owner," retains all other rights of ownership. Upon the move or death of the occupant, all rights to the life estate revert to the remainder owner.

There are advantages and disadvantages to life estate for the buyer. If you don't need the home, then a discounted farm price could be attractive. In scenarios where the seller farmed the land you might also benefit from the "in-house" knowledge and mentoring that might be available. On the other hand, if you need the home for your own family, such an arrangement might not be practical. And if the seller and their family are not a good fit with you and your family, a life estate arrangement could be more trouble than benefit.

A variation on life estate is a life lease in which the property is sold and the seller remains in the residence as a tenant for their lifespan or until they move. The terms and conditions of tenancy are set forth in a lease that is separate from the purchase process. Whether you are going to work out a life estate or a life lease, the arrangement must be carefully thought through and executed with legal guidance.

A potential major disadvantage of either arrangement is that many institutional lenders will not finance a property with a life estate or a life lease. Or they may

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require the life tenant's rights to be subordinate (lower priority) to the loan agreement, which could essentially void these agreements and evict the life tenant in foreclosure. Before purchasing a property where a life estate or life lease could be part of the deal, you should find out if your lender would approve a loan under these circumstances, and what they would require.

GRANTS, FINANCIAL ASSISTANCE, AND INCENTIVES

A common question from farm seekers is, “Are there grants to help me purchase a farm?” Grants to buy farm real estate are uncommon, but there are a few creative examples. The state of Minnesota’s [Down Payment Assistance Program](#)⁵ offers qualifying farmers buying their first farm a \$15,000 grant for their down payment. Connecticut’s Department of Agriculture is starting a \$100K down payment grant program as well. American Farmland Trust’s New England office’s Bright Futures Fund offers grants up to \$5,000 toward legal and associated costs of a farm purchase. To support local food production, some cities (like Chicago) offer grant programs to assist farmers in buying properties. Checking with local farmer groups and carrying out online research can uncover grant programs.

Several states and nonprofit organizations offer financial assistance and no-cost and/or grant programs for business planning and land access technical assistance, especially for new and beginning farmers. Some states (such as Nebraska, Kentucky, Pennsylvania, and Iowa) offer tax credits to landowners who sell or lease land to beginning farmers.



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SOCIALLY MINDED LAND TRANSFERS

Some landowners, whether families or institutions, are motivated by compassion and fairness to consciously choose to transfer their farm property in ways that will create wider social wellbeing in light of our country's history of unfair treatment of non-white people and theft of their property.⁶ Land can be transferred in ways that give access to farmland ownership to a wider diversity of people than strictly profit-based decision-making would make possible. As Land for Good's guide (*[Toward Land Justice: Actions White Farmland Owners Can Take](#)*)⁷ on this topic details, a landowner can engage in reparations via a "land return" to Indigenous communities or descendants of enslaved people. Below-market pricing, favorable owner financing, sharing or absorbing transaction costs, and choosing a buyer from a community that has generally lacked resources are ways to use the freedom land ownership offers to advance social justice.

While these sellers' motivations are honorable, they don't guarantee that the process will be straightforward. Trust is more critical in these transactions than in more traditional, arms-length negotiations. Trust needs to be built, communication must be honest, and values and agendas must be transparent. Most of the elements and considerations of the purchase process explained in the guide still pertain—due diligence, negotiation, legal details, and the like. But because the landowner and the farm buyer may be coming from different cultural backgrounds, it can be helpful to have a third-party facilitator with whom both parties feel comfortable to foster better communication and understanding over time.

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1. <https://landforgood.org/wp-content/uploads/LFG-Accessing-Farmland-Together-Decision-Tool.pdf>
 2. <https://properties.sc.egov.usda.gov/resales/public/home>
 3. <https://academy.musaffa.com/3-halal-mortgage-options-for-muslims-in-the-us/#:~:text=In%20a%20Murabaha%20arrangement%2C%20the,there%20is%20no%20interest%20involved>
 4. <https://landforgood.org/wp-content/uploads/LFG-Farmland-Investment-Report-Summary.pdf>
 5. <https://www.mda.state.mn.us/business-dev-loans-grants/down-payment-assistance-grant>
 6. See, for example, USDA Equity Commission (2023). Interim Report 2023: Recommendations made to the U.S. Department of Agriculture to advance equity for all and US Department of the Interior (2023). Ten Years of Restoring Land and Building Trust 2012-2022: Land Buy-Back Program for Tribal Nations.
 7. <https://landforgood.org/wp-content/uploads/2024/03/LFG-OEFFA-Toward-Land-Justice-guide.pdf>

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Concluding Thoughts



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Perhaps reading through this guide has excited and energized you. Perhaps you feel overwhelmed. Perhaps you are not sure that you, your family, and your community can overcome all of the complexity and obstacles.

Recall that we described the farm-buying process as a roller coaster ride. From the emotional highs of falling in love with a farm property to the anxieties of making so many decisions and borrowing a lot of money, buying a farm is rarely a smooth and predictable journey. In fact, your emotional roller coaster experience may not be over even after you buy your farm. You may be hit with the sudden reality of all that responsibility. You may experience second thoughts. Was there something better out there or a better deal? You might experience self-reproach as you second-guess yourself for what you did or didn't do during your negotiations. You might uncover an issue that your careful due diligence didn't turn up. Maybe there is a neighbor who seems unwelcoming. You may feel overwhelmed by what you will need to do to manage your new farm property.

This is all normal. Buying farm property is a big and complex undertaking and a major life event. Expect to feel a wide range of emotions and to encounter surprises all along the way. Turn to your friends, advisor team, and larger community for reassurance and perhaps even a celebratory gathering to mark the occasion.

Here are the main take-away messages: Yes, buying a farm is complicated. Proactively educate yourself and be prepared for each phase. Take it step by step. Be patient and realistic. Persevere and also be willing to compromise. Be creative and energetic in your search. Build and rely on your advisors and support team. Advocate for yourself and your interests.

Above all, keep your eye on the prize: a farm or farmland that you will own. A place where you will start or build your farm business and steward the land, where you will thrive and pursue your farm vision.

GLOSSARY

Adjustable-rate mortgage (ARM): A loan that has an initial, lower fixed interest rate for a period of time, often several years. After that, for the remainder of the loan term, the interest rate resets at regular intervals. This means that the monthly payments can go up or down.

Agricultural conservation easement: A legal agreement between a landowner and a qualified third party, such as a land trust or public agency, that is placed on agricultural land to protect agricultural uses and activities and remove its nonagricultural development potential. Most agricultural conservation easements (except term easements) are in perpetuity, no matter who owns the property.

Agricultural mediation: A voluntary process—in this case focused on farm-related matters—in which a neutral mediator assists participants in discussing their conflicts and reaching a mutually agreeable decision. Many states have USDA-sponsored ag mediation programs, usually free of charge.

Amortization schedule/calculator: The amortization schedule shows how much of each payment over the course of the loan's term will go toward the principal (the original amount of the loan) and how much will go to paying interest. If a lender doesn't provide such a schedule, online amortization calculators can do so.

Applicable federal rate: The minimum interest rate that the IRS allows for private loans such as between family members. The interest rate charged must be equal to or higher than the minimum applicable federal rate to avoid tax consequences.

Appraisal: A professional analysis that generates an estimated fair market value of a property based on a comprehensive evaluation that is explained in the appraisal document.

Assessment or opinion of value: An informed estimate of a property's fair market value that considers location, general condition, comparable sales, zoning, and market conditions. It is typically provided by a broker and is much less detailed than an appraisal.

Auction: A public sale in which goods or property are sold to the highest bidder.

Balloon payment: A larger one-time payment, typically at the end of a loan term.

Buy-protect-sell: A land transaction in which a buyer (often an organization) acquires a property, removes the development rights, and then sells the protected property at a lower price.

Carrying costs: Any and all expenses an owner must pay on a property over the course of owning it.

GLOSSARY

Closing: The event that concludes a real estate transaction, including signing legal documents and the disbursement of funds.

Closing costs: Various fees required to complete the transaction.

Collateral: Property or other asset pledged to a lender as a guarantee of repayment.

Conservation easement: A voluntary legal agreement that permanently places conditions on the use of a property to protect specific conservation values such as habitat or water quality. The agreement remains in effect no matter who owns the property over time. The holder of the easement monitors for compliance with the easement terms.

Conservation Reserve Program (CRP): This program of the USDA's Natural Resources Conservation Service pays farmland owners yearly rental payments to convert (and then maintain) environmentally sensitive land into some other kind of vegetation that achieves conservation goals. Typical contracts are between 10 and 15 years.

Contingencies: Actions or requirements that must be satisfied for a contract to be legally binding.

Credit check: An action performed by a lender in which they look into the person's financial history with help of credit reporting agencies to determine creditworthiness.

Credit report: A report that shows an individual's borrowing and repayment history.

Credit score: A numerical score (between 300 and 850) that reflects an assessment of creditworthiness based on a person's outstanding debt, credit card and loan repayment history, and similar information.

Deed: A legal document that conveys or confirms ownership of a property.

Default: Failure to meet the obligations of a loan, specifically not making required payments.

Down payment: An initial up-front partial payment for the purchase of expensive items such as a car or a house. It is usually paid in cash or equivalent at the time of finalizing the transaction. A loan of some sort is then required to finance the remainder of the payment.

GLOSSARY

Due diligence: An investigation to acquire or verify information, particularly before entering into an agreement. The due diligence period is a defined time period between an accepted offer and closing. It gives the buyer time to complete the due diligence.

Earnest money: A deposit made toward a down payment as evidence of good faith.

Encumbrance: Any sort of claim—financial or other—against a property by a party that is not the owner.

Equity: The difference between what is owed on a mortgage and what the property is currently worth. In other words, the value of the portion of the property that is owned free and clear of any mortgage against it.

Escrow: A separate account managed by a third party to ensure there are sufficient funds to cover certain expenses. Escrow accounts are used to hold a down payment deposit. They are also used when a lender collects and pays the borrower's tax and insurance payments instead of the borrower paying these.

Escrow agent: A person or entity that holds property (or money) in trust for third parties until obligations or agreements are met.

Farm link: A program or service, usually run by a nonprofit, that connects farm seekers with landowners.

Fee simple purchase: Full and irrevocable ownership of real estate. Fee simple is the most secure form of ownership. The property is owned outright.

Finance/Refinance: Financing is simply lending money to people to buy something—in this case, property. Refinancing means changing the terms of a loan (technically creating a new one to replace the existing one), typically to obtain a lower interest rate.

Five Cs of Credit: The “5 Cs of Credit” are five key factors lenders use to evaluate a borrower's creditworthiness: Character, Capacity, Capital, Collateral, and Conditions. They provide a comprehensive view of the borrower's reputation, financial history, their ability to repay a loan, their own financial stake in the venture, the security provided to the lender, and the external economic factors that might impact the loan.

For Sale by Owner (FSBO): When a landowner offers property for sale without the assistance of a seller agent, often with the purpose of not having to pay an agent for their services.

GLOSSARY

Foreclosure: A legal process by which a lender seeks to recover the unpaid balance of a loan by forcing the sale of the asset used as collateral for the loan.

Forever chemicals: A class of widely used manmade chemicals (perfluoroalkyl and polyfluoroalkyl, aka PFAS) that are toxic and highly persistent in the environment.

Geographic information system (GIS): A GIS system allows you, usually through a computer program, to view various layers of data relating to a particular place separately or altogether. This data can include property ownership, topography, wetlands, soil types, and even aerial photography from different time periods.

Good faith deposit: See **Earnest money**.

Good will: An intangible asset representing the value of a company's established reputation, customer base, brand recognition, and other factors that contribute to its success, beyond the value of its physical assets.

Ground lease: A legal arrangement in which a tenant rents the land (ground) and owns the improvements (infrastructure) upon it.

Interest: The fee lenders charge to borrow money for a specified length of time, calculated as a percentage (interest rate).

Joint financing: A financing arrangement where two or more lenders finance a project together.

Joint tenancy: a method of owning property with others in which ownership is equal. Upon the death of one owner, the property automatically passes to the surviving owners.

Land trust (organization): A nonprofit organization that works to conserve land with certain natural or public value. A *community land trust* focuses on affordable housing.

Letter of intent (also known as letter of interest): A form of communicating a purchase offer that is not binding in itself as a purchase and sale agreement (PSA), but, if accepted, begins the process for developing a binding PSA.

Lien: A monetary claim against a property. A lien is a type of encumbrance.

Limited liability corporation (LLC): A business structure that offers limited liability protection to its owners. The business is legally separate from its owners, protecting their personal assets from business debts and liabilities.

GLOSSARY

Limited liability partnership (LLP): A business structure that combines features of a partnership and a corporation. It provides partners with a degree of liability protection by limiting their personal responsibility for the debts and liabilities of the partnership.

Loan guarantee: A promise by a third party to assume a borrower's debt obligation if the borrower defaults.

Loan-to-value ratio: The loan amount divided by the property's value expressed as a percentage. Lenders use this ratio to assess their risk, based on the market value of the purchase, before approving a mortgage.

Mortgage: A loan to purchase residential or commercial real estate.

Mortgage insurance: An insurance policy that protects a lender or titleholder if the borrower defaults on payments, passes away, or is otherwise unable to meet the contractual obligations of the mortgage. Mortgage insurance can refer to private mortgage insurance (PMI), qualified mortgage insurance premium (MIP) insurance, or mortgage title insurance.

Multiple listing services (MLS): Private databases created, maintained, and paid for by real estate professionals to help their clients buy and sell property. They are typically accessible free of charge.

Phase I Environmental Site Assessment: A preliminary professional investigation to determine where there might be some kind of environmental contamination of the site that would need further study and, potentially, remediation.

Principal: The actual, original amount borrowed from a lender, or the amount remaining to be paid as payments are applied against the original amount borrowed.

Promissory note: A legal instrument in which one party promises to pay a specific amount of money to another under specific terms and conditions.

Property disclosure report: A legal document (also called a seller disclosure report) in which a seller provides details, including previously undisclosed information, about a property's condition.

Purchase and sale agreement (PSA): A binding legal contract stating the terms and conditions of a sale to which both parties have agreed. It is also called a *purchase and sale contract*, *purchase and sale*, or simply *sales contract*.

GLOSSARY

Right-of-way (ROW): The legal right, established by usage or grant or easement, to pass along a specific route through grounds or property belonging to another.

Sales contract: Another name for the binding legal contract stating the terms and conditions of a sale that both parties have agreed to. We use *purchase and sale agreement* instead in this guide.

Tax sale: The forced sale of property, or an interest in property such as a lien, by a government entity because the owner has not paid property taxes for some time.

Tenants in common: A legal method to hold property with others whereby ownership can be unequal, and, upon the death of one owner, their share passes to their heirs.

Term sheet: Like a letter of intent or letter of interest, the term sheet is a nonbinding document that lays out the key terms and conditions of a property purchase offer.

Title: A legal right to ownership of a property. Title is a concept, whereas a deed is a legal document that proves you own a property.

Title insurance: An insurance policy that protects buyers (and lenders) against potential losses due to problems with a property's title that may become evident after the property is sold.

Title search: The examination of public records, usually by a title company or real estate attorney, relating to the ownership and legal status of a property, including any legal restrictions on the property, to be sure that the title will be free and clear of any claims or liens on it.

Uniform Commercial Code (UCC) security interest agreement: An agreement establishing a collateral interest for a lender in goods and personal property, including crops, livestock, and farm equipment that provides security for payment or performance of a loan obligation. It does not apply to real estate loans, which are governed by state real property laws.

NORTH SKY FARM

Travis & Mariah Hurt

Land Purchased: 60 acres

Harvard, Illinois



APPENDIX: Farmland Search and Purchase Stories

Between 2017 and 2021, Travis and Mariah Hurt ran a grass-fed livestock farm on a big, beautiful farm they leased in Charlottesville, Virginia. When the property was listed for sale well above their budget at \$9 million, Travis and Mariah decided they needed to purchase land so they would have the long-term security to invest in buildings and dairy infrastructure for their growing farm business.

Because of the rising prices and scarcity of suitable properties in the seller's market that characterized 2021, Travis and Mariah knew they had to be flexible in their search. They temporarily shut down their farming operations and sold their livestock in early 2021 to allow them to be more mobile.

Mariah continued to work remotely while they explored properties in three main areas: Virginia and North Carolina, where Travis's family is from, and Illinois, where Mariah's family is from. Their essential criteria were good water, significant land for pasture, and access to a significant market to sell their farm products. They were ready to consider both raw land and land that already included a home. They spent eight months living in Airbnbs and staying with family while searching for and securing the right farm.

"When we were looking at farms in Illinois, there were just a lot of really big, flat squares of commercial grain cropping. We looked at some, but it's like you're buying a 20-acre square in the middle of glyphosate spray land. It's just not appealing," Mariah said.

Then, Travis found a property in the Harvard area of McHenry County, Illinois. Many aspects of the farm were a good fit. It had 60 acres of pasture, several outbuildings (including some dairy infrastructure), and a fixer-upper house. Unlike many other Illinois farmland parcels, this was hilly and shaded by ancient oaks.

Travis and Mariah put in an offer on the property, but the seller was reluctant to negotiate on price and contingencies. When the seller received another offer complete with a pre-approval letter, they counted the property out as an option.

They spent the next several months exploring possibilities in Virginia and North Carolina. The market was moving quickly, and their offer on one central Virginia property was passed over in favor of a cash buyer. They spent a month working on a deal for another Virginia property, coming to an agreement on price, working to understand exactly what access easements were at play, and trying to get help determining the exact boundary lines (deciphering some very old, unclear deeds). Through due diligence, they discovered that the well on the property had extremely low flow that would not be adequate for their operation.

In the fall of 2021, the other family's offer on the 60-acre property in the Harvard area had fallen through, and Travis and Mariah decided to make another offer on

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the farm. The seller accepted their offer but was committed to selling the property “as is.” No contingencies would be accepted. In fact, at first the landowner would not even accept an inspection of any kind. Independent of the PSA, Mariah and Travis did get permission to have a home inspection just to get an idea of what they were getting into. They decided to buy the property, knowing there was a strong possibility the well, septic, and other things on the property would need to be replaced in the near future.

On one hand, the Harvard farm was the best option they had come across for their farm goals. It had some dairy infrastructure already in place and offered proximity to Chicago markets. They also had family connections and support less than an hour away. However, the farm and house did have their share of problems that would need to be addressed, and it was also the most expensive farm they looked at. Taking all of these factors into consideration, though, they felt the farm was their best option and closed their purchase of it in February of 2022.

To finance the purchase, they explored several options and ultimately decided the best option would be a 30-year mortgage through Compeer Financial, a Farm Credit institution. At the time, this type of loan required a minimum down payment of 20% and had an interest rate of 4.5%.

As of February 2025, their farm will have completed the three years required to transition to organic production. “When we took over,” says Mariah, “it had been farmed conventionally for decades and was a moonscape of dirt and rocks.” Now there is green pasture, and their cows have already begun to graze on it. These days, the farm is sporting an onsite creamery and milking parlor, and Mariah and Travis have plans to continue growing their farm and dairy herd.

Lessons Learned

1. Prepare for the unexpected: Travis and Mariah could have put down more cash for the down payment, but they decided to reserve cash on hand for the many farm projects they anticipated. This was a good decision, as after the purchase they had to replace the septic system, make numerous improvements to the home, and update the well.

2. Understand a seller’s market: Travis and Mariah would have preferred to be able to have contingencies in their PSA (especially for inspections), but in the seller’s market, they could either accept the seller’s conditions or not have the opportunity to buy the farm at all.

3. Be flexible: If you are on a budget, know what concessions you are willing to make. Mariah and Travis knew they were willing to accept a farm that needed some repair and renovation, in part because Travis has an extensive background in

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construction.

4. Many professionals in the real estate world haven't dealt with farms: Travis and Mariah initially hired a very well-regarded real estate attorney from the Chicago suburbs, but they ended up switching to an attorney who could handle the agricultural issues they were encountering. Similarly, the home inspector didn't know how to assess the condition of the 100-year-old timber-framed barn on the property. Travis ultimately ended up researching and repairing the barn himself.

PINK TIGER FARM

Brian Elias & Kyle McAdams
Land Purchased: 10 acres
Goreville, Illinois



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Brian Elias and Kyle McAdams decided to shift from dreaming about farming to action in 2020 when COVID's ripple effects caused both of them to lose their Chicago-area jobs and made clear that the food system was unstable.

After initially searching in several states, Brian and Kyle decided to zero in on southern Illinois. One of their challenges was the frenzy of competition for homestead-like properties in the 5- to 10-acre range. Another was the fact that southern Illinois is a big place, and so their search initially didn't have focus.

In the summer of 2020, after camping and hiking in the Cypress Creek National Wildlife Refuge in Johnson County, they decided that Johnson County was where they wanted to be. They loved the natural beauty of the area and appreciated its central location— within 30 minutes of Carbondale and with convenient access to two interstate highways.

At first, Brian took the lead in visiting properties in the area over weekends, regularly making the 5.5-hour drive from Chicago to see properties and representing himself and Kyle in discussions with the selling agents. Eventually, Brian and Kyle agreed they needed “boots on the ground” in the form of a real estate agent. Initially, however, it was hard to find a real estate agent they felt comfortable with and who felt comfortable with them as a gay married couple. But when Brian's aunt and uncle suggested several realtors they knew, one of them stood out. She gave off a good vibe towards them, knew all the players in the area, was no-nonsense in her assessment of properties and prices, and was all about driving hard to get the best possible deal.

Even with their new real estate agent on the job, Brian continued to look at listings every day. On a Tuesday in December 2020, Brian noticed a listing with only exterior photos of a 10-acre rural property. It had a farmhouse with unique character and was perfectly located in Johnson County. The listing, with an asking price of \$150,000, intrigued Brian and Kyle. The property felt right. They also felt some desperation.

The next day, their real estate agent did a virtual walkthrough with Brian and Kyle via FaceTime. “It was a disaster,” says Brian. “On top of all kinds of plumbing and electricity issues, it had been used as a drug den. There were even dead rats in the oven.” Despite all that, the seller's agent told their agent that there were 11 families ready to make a bid by the deadline of Sunday afternoon.

Brian and Kyle's agent counseled them to wait until the deadline was almost at hand before making a bid. She called the seller's agent almost at the last minute, and the seller's agent revealed that every one of the other potential bidders had ultimately declined to submit anything after they had done their walkthroughs of the property. Brian and Kyle had planned to submit a bid of around \$120,000,

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but with no other competition and countless repairs needed, their agent recommended a lower bid for the property. The seller (who lived in Seattle and just wanted to get rid of the property) accepted their bid of \$110,000, and the PSA was drawn up.

They weren't out of the woods yet. Brian and Kyle still had to sell their bungalow on the northwest side of Chicago, have the Johnson County property inspected, and arrange financing.

As expected, the inspectors found all kinds of problems and issues, including a septic tank that needed to be replaced and a driveway that needed to be trenched. Because of what they found during the inspection process, they requested that the closing price be dropped to \$92,000. But the seller offered no response for two weeks. Worried that the whole deal might fall through, Brian called their agent and directed her to contact the seller's agent and offer \$100,000. The seller immediately agreed.

There was also the question of financing. One of their major concerns was whether the property would appraise at a level that the bank would feel comfortable financing. The good news was that the farm appraised at the right price for financing to proceed. The bad news was that, based on the appraisal, the bank wanted Brian and Kyle to repair the electrical and septic systems before the closing because those systems were not up to code. Brian and Kyle declined to do that because doing so before they owned it was risky. Instead, an electrician and plumber both wrote rebuttal letters, explaining that the current systems were far from ideal but were nonetheless functional for residency. This was ultimately enough for the bank. The closing went through on April 12, 2021.

(Please note that the bank provided a pre-approval letter to Brian and Kyle as they launched into the farm search process. The bank ultimately gave them a residential mortgage despite the size of the property and their intentions of starting a business that would be their main source of income. Evidently, in that area of the state, there are people who buy larger properties like that for just personal use, so the bank was comfortable with a consumer mortgage.)

But even the closing had a hiccup. At the closing, Kyle inspected the documents carefully and saw that, despite his instructions, the type of ownership was slated to be joint tenancy instead of tenants in entirety. When Kyle pressed this, the title company employee asked to see a marriage license. Kyle asked in turn when was the last time they had asked for a license from a heterosexual husband and wife. The document was changed.

Since securing the land and the house, Brian and Kyle have launched Pink Tiger Farm. Their farm business focuses on farm-to-jar chili powders, spice blends,

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infused vinegars, smoked garlic, and other culinary treats. They've discovered that the unique topography of their property seems to cause severe storms to go around their farm and to keep their farm fields from flooding, even when neighbors' fields are inundated. "I can't imagine," says Brian, "any other place that would have worked as well. It's just been clear over time it was the right place."

Lessons Learned

1. Be your own advocate: You need to take your destiny into your own hands. Don't expect people to go the extra mile to figure out creative solutions for you.

2. Don't be surprised by "country time" and rural ways: Brian had been used to a very fast-paced, legally strict real estate field in the Chicago area. Everyone, from agents to title companies to attorneys, worked at a rapid clip, and documents were scrutinized carefully. The process in rural southern Illinois was much slower. There was also less reliance on contracts and agreements and more understandings based on winks, nods, and handshakes. Nevertheless, Brian felt that for the protection of their interests, he had to follow the principle of "trust but verify" and used an attorney.

3. Surveys are useful: Brian and Kyle ultimately found there was no survey on file for the property they were buying. Two of the neighbors were willing to show Brian and Kyle the surveys they had had done for their respective properties. This still left questions about the other two sides. A year after buying the land, Brian and Kyle had a survey done. It ultimately determined that the property line on one side was 60-70 feet closer to the neighbor's pole barn than the neighbor had been confidently claiming.

MULTIPLE HARVESTS FARM

Beatrice Kamau

Land Purchased: 6 acres

Beecher, Illinois



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Beatrice Kamau immigrated to the United States from Kenya in 1999. Early on, she began to try to grow the African vegetables she knew around her family's garage in Chicago. To her surprise and delight, she found that those vegetables could grow well here as long as she did not plant them until the soil temperature had risen high enough.

Then, in 2017, during her divorce, she and her daughter moved to an apartment in Oak Park, a western suburb of Chicago. She had no growing space there, so she joined the community garden at a local public school's property and Urban Growers Collective (UGC) farm incubator program on the South Side of Chicago. By now, Beatrice recognized that there was a market in the larger Chicago area among African immigrants for fresh vegetables they knew from their home countries. She tapped into that community by selling her produce through word of mouth, social media, and one local grocery store. But she couldn't grow enough to meet demand, and she didn't want to keep doing the 45-minute commute between her apartment and the UGC land.

In 2019, she began looking in earnest for land she could buy. She briefly considered buying an empty urban lot or two in Chicago but ultimately decided a more rural property would make more sense. With help and services from a variety of nonprofits, she began gathering information and exploring options.

Early on, McHenry County, located northwest of Chicago, stood out as a promising place because of good soil quality and proximity to African immigrant communities. She scoured online listings and made a connection with a real estate agent familiar with farmland who helped her in her search.

But she wasn't finding properties that fit her needs and her budget. When she learned how to set up ongoing searches through real estate websites like Zillow and Realtor.com, she noticed that properties similar to the ones she had been looking at in McHenry County were much less expensive in the counties south of Chicago. Attending a field day at a farm in one of those counties (Will County) convinced her that she needed to shift her search to that area. With the help of her McHenry County real estate agent, she connected with an agent who knew the more southern counties.

In late 2022, Beatrice found a six-acre property in Will County with a solid three-bedroom home but without any existing farm infrastructure. The asking price was \$260K, far less than what a comparable property would have been in McHenry County. It was, to her relief, zoned for agriculture and only an hour's drive from Chicago.

She and her agent were able to negotiate the price down from \$260K to \$253K. Then, when the inspection revealed some issues, the landowner gave her a \$5K

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credit, so the closing price was set for \$248K. All looked promising for wrapping things up, until Beatrice hit two big snags.

From early on, her new real estate agent had been encouraging Beatrice to use the attorney and mortgage broker she had long experience with. Beatrice hired the attorney but thought her own credit union would be easier to work with, which led to some challenges. The credit union insisted that Beatrice provide a letter from her landlord in Chicago stating that Beatrice did not owe the landlord any money. The landlord refused to provide such a letter until Beatrice either completed the lease term or paid the rent for the remainder of the lease term (approximately \$8,000) for breaking the lease. Those options were not realistic for Beatrice. These issues threw a wrench into the process that had been set to close on November 16, 2022. Beatrice and the real estate agent feared the seller would back out of the deal.

But then solutions appeared. First, Beatrice decided to go with the mortgage company her real estate agent had initially recommended. Unlike the credit union, the mortgage company did not require a letter from her landlord. The lender also helped her qualify for a first-time home buyer assistance grant that lowered her closing costs substantially. And because she shifted at the beginning of 2023 from being an independent contractor to a full-time employee, the mortgage company saw her as a more solid credit risk and consequently required much less of a down payment than the credit union. On January 11, 2023, Beatrice was able to close on the property, her first-ever real estate purchase. She is now turning the six-acre parcel into a productive farm.

Lessons Learned

1. The first-time farm buyer should equip themselves with as much knowledge as possible: Not only should you research the areas where you might buy (through online and in-person information sources), you should also understand all you can about the purchase process, contingencies, and closing proceedings before you actually get into them. Even with that research, though, be prepared for the unexpected. Quickly adapting and problem solving is key.

2. Be flexible: Even though Beatrice had her heart set on moving to McHenry County, she ultimately recognized that the counties south of Chicago would work better for her in terms of farmland prices.

3. Be ready for the ups and downs: Beatrice experienced it all during her search and purchase process. There was excitement when properties looked promising. There were doubts, frustrations, and disheartening moments when she sensed she was not being treated fairly by people and a lender she encountered. Finally, at the end, she was overwhelmed by the speed and complexity of the process with large amounts of money hanging in the balance. Having a good real estate agent made a huge difference for her in navigating the roller coaster of land access.



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