

LP7 Purchasing Land Student Learning Plan

Workshop Description

In this workshop you will describe the basic concepts of property ownership, the basic elements of a land contract and the steps in closing a deal. You also will learn about tax considerations and lender requirements.

What you should bring to this workshop

- Well-defined personal and business goals
- LP2 Financial Self-Assessment Worksheet
- LP3 Land Requirements Worksheet

What you will learn

1. Prepare to secure land by buying it
 - 1.a. Describe the basic concepts of property rights
 - 1.b. Describe factors that affect affordability including land prices and tax considerations
 - 1.c. Identify key lenders and lender requirements
 - 1.d. Recognize elements of a basic land contract and apply vocabulary used in contracts and real property
 - 1.e. Identify the steps in closing a deal including key legal and inspection issues for purchasing land

Important Assignments

- 1.1. LP6/LP7 Land Acquisition Action Plan

Workshop Activities

1. LEARNING PLAN OVERVIEW
Participate in introductory activities. Review information detailed in the LP7 Student Learning Plan.
2. MOTIVATION ACTIVITY
Participate in a brainstorming activity to identify the main issues involved with purchasing land.
3. COMPREHENSION ACTIVITY
View the slide presentation and participate in a class discussion about rights and responsibilities of land ownership and the steps to take to get ready to purchase land.

4. PRACTICE ACTIVITY

Participate in a small group discussion about where you are in developing a team and share experiences you have had identifying and working with different kinds of advisors.

5. COMPREHENSION ACTIVITY

View the Part 2 of the slide presentation and participate in a class discussion about financing and lender requirements.

6. PRACTICE ACTIVITY

Use the LP7 Lender Documents Checklist *to* make sure you are prepared to seek financing. Share your results with the class.

7. COMPREHENSION ACTIVITY

View Part 3 of the slide presentation and participate in a class discussion about what is involved in closing a deal, including inspections and signing legal agreements.

8. PRACTICE ACTIVITY

Work with a partner or in a small group to review a contract. Use the LP7 Contract Components Activity Sheet to record what you found. List any questions you have about vocabulary or legal concepts. Participate in a class discussion about different types of contracts.

9. APPLICATION ACTIVITY

Complete your LP6/LP7 Land Acquisition Action Plan. Share with a partner.

Next Steps

- Register for the next workshop!
- Finalize your LP6/LP7 Land Acquisition Action Plan

LP 7 Lender Documents Checklist

Name _____

Directions: As you prepare to meet with a lender, you will need to compile key financial documents. Use this checklist to help you record the documents that you have already assembled.

- Business Plan
- Income Statement for any business you own
- Cash Flow Budget
- Tax Returns
 - Obtain your federal tax returns for the past 3 years.
- Credit Reports
 - Obtain your current credit report from one of the major credit bureaus or from www.annualcreditreport.com or www.creditkarma.com (which gives it for free.)
- Balance Sheet
- Statement of Personal Assets and Debts
- Production Histories – often 3 years

LP6/LP7 Land Acquisition Action Plan Worksheet

Name _____

Directions:

Use this worksheet to develop your plan to acquire land through lease and/or purchase.

Part 1: Property Description

Identify the features you are looking for in a property.

Total number of acres _____

- Acres of cropland _____
- Acres of pasture _____
- Acres of range, woodland or other resources _____
- Access to water _____

Infrastructure

- Barns and other buildings/structures
- Fencing
- Storage
- Irrigation
- Facilities for processing/marketing
- Other, please specify: _____

Housing

- Housing for farm household
- Farm labor housing

Part 2: Land Acquisition through Leasing

1. Financing

Summarize the typical rental rates in the area where you wish to farm/ranch:

Based on your Financial Self-Assessment, how much money can you devote toward a cash lease?

2. Leasing Options

Based on your Financial Self-Assessment and Personal and Business Goals Worksheet, what kind of leasing arrangement do you hope to secure?

- Cash
- Crop
- Flex
- Ground

3. Contracts/Agreements

Summarize the key factors that you need to consider when finalizing a lease agreement based on your personal and business goals (e.g., support organic farming, maintain cash flow, reduce risk):

Identify key items that must be included/considered/avoided in a leasing contract to support your personal and business goals.

Length of lease term

- Year to year
- 1–3 years
- 3–5 years
- 5–10 years
- More than 10 years

Conservation provisions

- Organic agriculture
- Low or no till
- Conservation plan

Property maintenance - who is responsible?

- Land management
- Maintenance of barns/structures
- Maintenance of fencing
- Maintenance of field edges, buffers or waterways

Property improvements

- Barns and other buildings/structures
- Fencing
- Irrigation
- Other

Part 3: Land Acquisition through Purchase**4. Financing**

Summarize the typical land costs in the area where you wish to farm/ranch:

Based on your Financial Self-Assessment, how much money can you devote toward a mortgage or loan payment?

5. Purchase Options

Based on my Financial Self-Assessment and my Personal and Business Goals Worksheet, I seek the following kind of purchasing arrangement:

- Fee simple
- Lease to own
- Land contract
- Other:

6. Contracts/Agreements

Summarize the key factors that you need to consider when finalizing a purchasing agreement based on your personal and business goals (e.g., support organic farming, maintain cash flow, reduce risk):

Identify key items that must be included/considered/avoided in a purchasing contract to support your personal and business goals.

Length of mortgage

- 15 years
- 30 years
- More than 30 years

Conservation provisions

- Organic agriculture
- Low or no till
- Conservation plan

Property improvements

- Barns and other buildings/structures
- Fencing
- Irrigation
- Other

Part 4: Support Team for Land Acquisition

Identify the organizations and individuals that you hope to recruit to help you with your plan for land acquisition.

- Legal advisor
- Realtor
- Agricultural expert
- Inspector
- State/federal agricultural program
- Financial advisor
- Other:

List individuals, organizations and contact information here:

Name	Contact Information	Support Provided

Part 5: Next Steps

Prioritize your next steps:

- Locate a land parcel
- Obtain financing
- Contact landowner
- Establish support team
- Other:
- Other:
- Other:

LP7 Purchasing Land Resource List

BACKGROUND INFORMATION

Agricultural Conservation Easements, American Farmland Trust, 2016

<http://www.farmlandinfo.org/agricultural-conservation-easements>

This fact sheet describes what agricultural conservation easements are and how landowners can use them to keep agricultural land available for farming and ranching.

Farm Service Agency Loans: The Ins and Outs of Growing a Farm with Federal Loans, National Young Farmers Coalition

<https://www.youngfarmers.org/resource/fsa-loans-guidebook>

This guide helps young farmers and ranchers navigate low interest federal credit options, including the popular microloan, offered by the Farm Service Agency (FSA).

Finding Good Farmland: How to Evaluate and Acquire Land for Raising Crops and Animals, Ann Larkin Hansen, 2013

<http://www.storey.com/books/finding-good-farmland/>

This practical guide contains information you need to have before purchasing farmland, covering everything from the characteristics of the land (soil type, slope, water sources, drainage) and the surrounding area to permits, codes, taxes, roads, loans, mortgages, government assistance programs and more. Checklists and questionnaires are included.

Publication 225, Farmer's Tax Guide, Internal Revenue Service.

<https://www.irs.gov/forms-pubs/about-publication-225> and <https://www.irs.gov/pub/irs-pdf/p225.pdf>

This publication explains how the federal tax laws apply to farming.

What You Need to Know about Heir Property, USDA Farm Service Agency.

https://www.fsa.usda.gov/Internet/FSA_File/whatyouneedtoknowheirproperty.pdf

This fact sheet identifies some key issues and lists resources for the 10 states most affected by heirs' property loss.

DATA SOURCES

2017 Census of Agriculture, USDA National Agricultural Statistics Service, 2019

https://www.nass.usda.gov/Publications/AgCensus/2017/Full_Report/Volume_1,_Chapter_1_US/usv1.pdf

The Census of Agriculture provides a comprehensive summary of agricultural activity nationwide. It is the only source of uniform, comprehensive data about U.S. farms and ranches at the state and county level, including information about the value of land and buildings by county.

Land Values 2020 Summary, USDA National Agricultural Statistics Service, 2020

https://www.nass.usda.gov/Publications/Todays_Reports/reports/land0820.pdf

This report summarizes information from the annual June Area Survey, which collects data on crop acreage, land use, grain stocks, farms, rents, and the value of land and sales. NASS estimates national and state agricultural land values and rental rates paid by producers (cash rents) from that survey. Here are land values in chart and map format: https://www.nass.usda.gov/Charts_and_Maps/Land_Values/.

ONLINE TOOLS

Farm Credit Calculators

The Farm Credit System (FCS, see below) is a nationwide network of borrower-owned lending institutions and specialized service organizations. Branch office websites typically offer loan payment calculators. To locate a branch office website visit: <https://farmcredit.com/locations>.

Land Affordability Calculator, National Young Farmer Coalition

The calculator enables farmers to create different scenarios to help inform land purchases. The site also provides case studies that describe how farmers made land purchases.

<https://findingfarmland.youngfarmers.org/calculator>

OTHER RESOURCES

County and Municipal Offices

County and municipal offices house a wealth of information on local land use policy as well as individual parcels. They also have experts, such as an assessor, who can talk to land seekers about community conditions or site-specific issues. Many have information available online, but it is also a good idea to visit in person. Here is a list of information land seekers can collect from a county or municipal office:

- Ownership
- Property taxes paid and property valuations
- Easements, liens and other restrictions
- Local comprehensive/master plan and other community plans
- Ordinances, zoning and other local policies that affect agriculture

Farm Credit System

In 1916 Congress enacted a law to establish the Farm Credit System (FCS) to provide a reliable source of financing for farmers. FCS is a nationwide network of borrower-owned lending institutions and specialized service organizations that provide loans and other services to agricultural producers, rural homeowners, aquatic producers, timber harvesters, agri-businesses, and agricultural and rural utility cooperatives. To locate a Farm Credit institution near you, visit: <https://farmcredit.com/locations>.

Real Estate Agents

Real estate agents are licensed to help customers buy, sell and rent properties. They can provide parcel specific information and data about sale prices, local tax rates and community amenities.

Real Estate Listing Services

There are many online real estate listing services under the umbrella of the National Multiple Listing Service (MLS). These services provide a listing of homes, farms and land available for sale or rent plus information on demographics, average sale prices, trends, tax rates and community services.

- Lands of America: <https://www.landsofamerica.com/>
- National Multiple Listing Service: <http://www.mls.com/>
- Realtor.com: <https://www.realtor.com/>
- Trulia: <https://www.trulia.com/>
- Zillow: <https://www.zillow.com/>

Rural Tax Education Website

<https://www.ruraltax.org/index>

A website overseen by The National Farm Income Tax Extension Committee that provides farmers and ranchers, other agricultural producers, and Extension educators with crucial tax information, including their publication, *Tax Guide for Owners and Operators of Small and Medium Size Farms*:

<http://www.ruraltax.org/small-farm-tax-guide>

Society of Rural Appraisers and Farm Managers

<http://www.asfmra.org/directory/find-experts2>

This link provides a directory of members of the American Society of Farm Managers and Rural Appraisers is a professional association for rural property land experts, with more than 2,100 members nationwide. Members can help beginning farmers and ranchers evaluate land, develop a management plan and determine if the price is reasonable.

State Departments of Agriculture

State departments of agriculture sometimes provide classifieds online or in their newsletters that include real estate listings. In addition, some states operate state-owned farmland leasing and licensing programs that make publicly owned agricultural land available to farmers.

- National Association of State Department of Agriculture's Directory:
<http://www.nasda.org/states/state-directory>

State Loan Programs

<http://www.stateagfinance.org/>

State finance programs provide low interest loans, loan guarantees, and loan participation programs to help producers buy land, buildings, equipment and breeding livestock. Some programs, including "Aggie Bond" programs, are targeted specifically to beginning farmers. The National Council of State Agricultural Finance Programs tracks available programs and produces a comprehensive directory of state-level programs available to beginning and established producers.

USDA Farm Service Agency

The USDA Farm Service Agency (FSA) provides direct and guaranteed loans to farmers and ranchers unable to obtain financing from other lenders for operating expenses and land purchases. Microloans are direct farm operating loans with a shortened application process and reduced paperwork designed to meet the needs of smaller, non-traditional, and niche type operations. To find out more, contact FSA, typically located in your local USDA service center: <https://offices.sc.egov.usda.gov/locator/app>

The USDA Farm Service Agency (FSA) also administers the Transition Incentives Program (TIP), which encourages landowners with expiring Conservation Reserve Program (CRP) contracts to sell or lease their land to beginning or socially disadvantaged farmers. The USDA Rural Development (RD) and USDA FSA advertise an inventory of property for sale to socially disadvantaged applicants as well as beginning farmers and ranchers before it is available to the public.

- USDA FSA Transition Incentives Program: <https://www.fsa.usda.gov/programs-and-services/conservation-programs/transition-incentives/index>
- USDA RD/FSA Inventory of Property for Sale:
<https://www.resales.usda.gov/resales/public/home>

LP7 Glossary of Agricultural Real Estate Terms

Abstract of title: An abstract of title is a written history of all the recorded documents and proceedings related to a specific property. It should show everything that has been legally recorded relevant to the property and a certification by the abstractor that the history is complete and accurate. In the United States, the abstract of title furnishes the raw data for the preparation of a policy of title insurance for the parcel of land in question.

Affidavit: A sworn statement.

Appurtenance: An appurtenance is real property that is immovable or fixed to the land, such as a shed or swimming pool, and passed along with the sale of a property.

Assessed value: The value upon which property taxes are calculated. Tax-assessed values are updated every few years, but they may not reflect actual market values, especially in times of market flux.

Certificate of title: An opinion, usually by the buyer's attorney, about the title's condition (whether it is free and clear or if it has encumbrances) as of the date the certificate is issued.

Comparative market analysis: A comparative market analysis is conducted by a realtor to estimate the probable sales price of a property. It reviews various factors including recent sales of comparable properties, pending sales and listings that have similar features to the subject property.

Conservation easement: A deed restriction a landowner voluntarily places on a property to limit development and to conserve natural resources such as productive farmland, habitat, historic sites or scenic views. An agricultural conservation easement is specifically designed to protect agricultural land for agriculture.

Conservation Reserve Program (CRP): A USDA land conservation program administered by the Farm Service Agency (FSA). In exchange for an annual rental payment, farmers enrolled in CRP agree to remove environmentally sensitive land from production and plant species that will improve environmental health and quality. Contracts are 10-15 years in length. The program's long-term goal is to re-establish land cover to improve water quality, prevent soil erosion and reduce loss of wildlife habitat.

Contingency: Contingencies are specific criteria that are included in a purchase and sale agreement. They protect the buyer in the event the criteria are not met. The criteria are usually related to major categories such as: appraisal, home inspection and mortgage approval.

Covenant: Used in legal documents to signify an agreement or promise to carry out the terms in the contract, deed or other document.

Covenant against encumbrance: A seller's promise that his deed at the time he/she gives title to the buyer is free of all liens and encumbrances, except those set forth in the deed.

Covenant of further assurance: A seller's promise that he/she will get whatever legal instrument—deed, release, waiver, etc.—that is needed to make the title good.

Covenant of quiet enjoyment: A seller's promise that the title he/she gives to the buyer is superior to any claim of ownership by a third party.

Covenant of Seisin: A seller's promise to the buyer that he/she owns the property.

Covenant of the right to convey: A seller's promise that he/she has the legal right to convey the property that he/she owns.

Covenant of warranty forever (general warranty): A seller's promise to defend the title he/she gives to the buyer against "lawful claims" and compensate the buyer for any loss arising from the title's failure.

Deed: A legal document that conveys title (ownership) to real property.

Easement: An easement is usually described as a right to use and/or enter onto the property of another without possessing it. A conservation easement is a voluntary legal agreement between a landowner and a conservation organization (like a land trust) or government agency that permanently limits uses of the land in to protect its conservation values. An agricultural conservation easement specifically protects the land for agricultural purposes.

Encumbrance: An encumbrance is a claim or liability against real estate that is held by someone other than the fee owner of the property. It affects the title to the property and therefore its value. An encumbrance may transfer with the property. Encumbrances include property liens, deed restrictions, easements and encroachments.

Escrow: Escrow usually refers to money held by an impartial third-party on behalf of the people involved in a real estate transaction. Lenders may also hold certain funds in escrow to make payments for insurance and property taxes.

Fair market value (FMV): A fair market value is often an estimate of what a willing buyer would pay to a willing seller, both in a free market, for an asset or any piece of property. If such a transaction actually occurs, then the actual transaction price is usually the fair market value.

Fee simple absolute title: The most complete form of ownership, which includes the land and any improvements to the land in perpetuity.

General warranty deed: The most common deed is called a "General Warranty" deed. Such a deed contains "warranties" or guarantees from the grantor (commonly the "seller") to the grantee (commonly the "buyer") that the seller is the owner of the property and that no one else has any interest in the property, other than those exceptions stated in the deed.

Grantee: Someone to whom the title of property is transferred (buyer).

Grantor: A person who makes a grant in legal form; "conveyed from grantor to grantee" (seller).

Indemnify and hold harmless: A phrase relating to an agreement between parties in which one assumes the potential liability for injury or loss that may arise from a situation and thus relieves the other of liability. A purchase agreement generally provides that a party will indemnify the other party against losses resulting from breaches of representations and warranties. In a financing context, a bank

commitment letter and loan agreement often provide that the borrower will indemnify the agent banks and lenders for losses, liabilities and related expenses they incur from litigation or other claims related to the loan or the borrower.

Land locked: Referring to a parcel of real property that has no access or egress (entry or exit) to a public street and cannot be reached except by crossing another's property.

Land trust: A land trust is a nonprofit organization that protects land for various public purposes.

- A conservation land trust protects natural resources like open space or wildlife habitat by purchasing or accepting donations of conservation easements.
- An agricultural land trust specifically protects land for farming and ranching.
- A community land trust uses a different model. Originally used as an affordable housing tool, community land trusts own the land and lease it, usually using a 99-year renewable lease.

Legal description: A legal description is used to describe the location of your land in legal documents (for example, the deed to your land). The Public Land Survey System (PLSS) is used in legal descriptions. It employs a grid system based on township, range and section numbers.

Lien: A lien is a form of security interest—basically a hold on your property—granted to secure the payment of a debt, or performance of some other kind of obligation.

Life estate: An interest held only for the duration of a specified person's life, usually the possessor's. This may also be referred to as an estate for life or a life tenancy.

Limited warranty deed: A less common form of deed that warrants the state of title while the seller owned the property. A "Limited Warranty" deed's warranty is limited to the time the grantor owned the property, while a "General Warranty" deed's warranties also cover all the time the property was owned by prior owners.

Marketable title: Interpreted a bit differently from state to state, but, in general, it means that the evidence shows that the title is "good" or "clean," and reasonably free of defects that would give rise to litigation.

Perk test: A test to determine the absorption rate of soil for a septic drain field or "leach field." The results of a percolation test are required to properly design a septic system. In general, sandy soil will absorb more water than soil with a high concentration of clay or where the water table is close to the surface.

Prime rate: The prime rate is the interest rate charged by banks to their most creditworthy customers (usually the most prominent and stable business customers). The rate is almost always the same among major banks. Adjustments to the prime lending rate are made by banks at the same time; although, the prime rate does not adjust on any regular basis.

Quitclaim deed: Conveys to a buyer only what the seller actually owns, if anything, and provides no guarantee from the seller to the buyer that the seller has any interest in the property to convey. The rule to follow for a person accepting a quit claim deed is "buyer beware." If it later turns out that the

seller's rights to use the property are encumbered by another person's interest in the property, the buyer is out of luck, and has no recourse against the seller.

Rent roll: A list of tenants, usually with the terms of their leases.

Representations and warranties: A representation is an assertion as to a fact, true on the date the representation is made, that is given to induce another party to enter into a contract or take some other action. A warranty is a promise of indemnity if the assertion is false.

Right of way: A type of easement that allows a person to pass through another's land, usually through a path, driveway or road.

Special warranty deed: A seller's promise to the buyer limited to the seller's period of ownership.

Survey: To determine the exact form, boundaries, position, extent, etc., of (a tract of land, section of a country, etc.) by linear and angular measurements and the application of the principles of geometry and trigonometry.

Title insurance: Protects against losses that emerge during ownership from title defects.

Topography map (aka topo map): A map showing topographic features, usually by means of contour lines.

1031 Exchange: Also known as a like-kind, Starker or tax-deferred exchange, a 1031 Exchange enables commercial property owners to sell a property and defer tax payments by reinvesting the proceeds into a "like-kind" property or properties. A 1031 Exchange is enabled by Section 1031 in the Internal Revenue Code.

This *Glossary of Agricultural Real Estate Terms* has been informed in part by definitions in *Black's Law Dictionary* <https://thelawdictionary.org>, LANDTHINK's Land Lingo <https://www.landthink.com/land-lingo/> and *Merriam-Webster's Law Dictionary* <https://www.merriam-webster.com/legal>.

6. How do the Seller's Covenants protect your interests?

7. What kinds of expenses are identified in Apportionments and Closing Expenses?

8. List the required Closing Documents.

9. Is Title Insurance required?
 Yes
 No

10. How much time is allowed between the date of the agreement and when it needs to be fully executed?

Please list any terms that you did not understand.