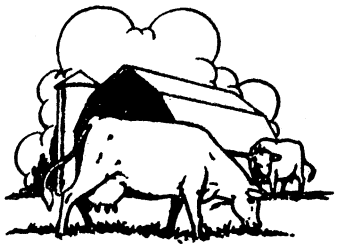

MINNESOTA farm business NOTES

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BUYING FARMS WITH LAND CONTRACTS

Philip M. Raup

About one-third of the sales of farm land in Minnesota involve a contract for deed or a "land contract."

Under a sale by contract for deed, formal legal title to the land remains with the seller. The buyer agrees to make periodic payments for a number of years, at the conclusion of which he receives full title to the property.

In a sale that involves a mortgage, title to the land usually passes directly to the new buyer. He in turn gives a mortgage to his creditors to cover the remainder of the purchase price above his down payment.

The contract for deed method of land sale has much to recommend it, when it is used properly. For one thing, the amount of down payment is usually smaller than is required for a more conventional mortgage-type purchase.

Undertake Land Contract Study

However, there are some limitations and some points of possible danger. To discover these, the Department of Agricultural Economics, in cooperation with the Law School, has undertaken a study of the use of land contracts by Minnesota farmers. This is a progress report on that study.

To date interviews have been held with 53 buyers or sellers who have used a contract for deed. They have been located in seven counties—Benton Mille Lacs, Sherburne, Traverse, Big Stone, Nobles, and Cottonwood.

In these sales the average down payment has been 24 per cent of the total purchase price. This is substantially below the down payment that would have been required had a conventional mortgage been used.

Rate of Interest

From the buyer's standpoint, a potentially undesirable feature of the use of the land contract is the possibility that the rate of interest may be higher than with a mortgage loan. The study to date has not disclosed this.

The most frequent rate of interest charged on these land contracts has been 4 per cent, the lowest rate 3 per cent, and the highest rate 5 per cent. This compares favorably with the range of variation in rates of interest on conventional mortgage loans in these counties.

The average size of farm purchased by land contract has been slightly smaller than the average size of all farms in the counties involved. For the seven counties studied, the average size of all farms in 1950 was 200 acres, with 136 acres of crop land.

The farms purchased by land contract averaged 171 acres in size, with 128 acres in crop land; this is 15 per cent below the county averages in total area and 6 per cent below the county averages in acres of crop land.

The average age of the purchasers under land contract has been 36 years. Of the 32 buyers for which data are available, 11 were under 28 years of age at the time of sale. Only 7 were 40 years of age or over.

It is apparent that this method of land purchase is used predominantly by younger men who are getting established in farming, or who have been active in farming for a few years and are now seeking to consolidate their gains and to acquire ownership of land.

About 40 per cent of the buyers had had less than two years of previous farm experience. Twenty per cent of the buyers had had no previous experience as independent farm operators. This emphasizes the important role that the use of contracts for deed is playing in aiding young farmers to get started in agriculture.

Defaulted Payment Danger

One of the principal features of the use of contracts for deed is that a defaulted payment, if not made good within 30 days after notice of default, can be the basis for eviction of the buyer and repossession of the land by the seller.

This 30-day notice provision could be a source of considerable difficulty for buyers under land contract. In the conventional mortgage, an extended period of redemption is allowed, usually involving more than a year of actual time. No similar extended period of time is given the purchaser under a land contract.

If the seller wished to enforce to the letter the provisions of the law in this regard, he could evict the purchaser one month after he had missed a payment on the contract, provided all legal notices had been promptly and formally filed.

The study has disclosed that very few of the farmers who bought land by this means were aware of the existence of this 30-day notice provision. While the potential danger of loss of all that the seller had put into the farm is a real one, the actual danger is considerably less. Alternative means of financing are usually available, and community pressure and publicity tend to prevent the abuse of this type of sales arrangement by an unprincipled seller.

This study disclosed that it was typically the sellers who suggested the use of the land contract as a method of financing the sale. Buyers in general are uninformed regarding the nature of this type of sales contract.

Value of Legal Counsel

In almost all of the cases studied to date the buyers had had no legal advice prior to completing the sale. There are several features that might have been suggested by legal counsel had it been available. These are:

1. The insertion in the contract for deed of a clause that would permit the

(Continued on page 2)

What Are the Tax Trends on Farm Lands?

Harold C. Pederson and Fred L. Olson

The general property tax continues its historical role as a major source of revenue for local units of government.

Real estate is still the most significant part of general property in most rural areas.

In order that the system of taxes levied upon real property may operate equitably as between owners of various types of propetry, the assessments upon which real property is based must be made with some degree of uniformity.

The assessor has little trouble locating real property so his main problem is to determine its taxable value. Factors he must consider are many. The more important ones are quality of land, access to markets, value of crops grown, and the extent and repair of building improvements.

Even though farm land may be assessed equitably, the taxes levied besome a fixed cost for the farmer while his annual income tends to be unstable. Then, too, farm land values are becoming a smaller part of the nation's total economy.

This trend is taking place at a time when all units of government are assuming more financial responsibility for general welfare. The question then —what are present tax trends on farm land?

Long-Time Trend

The long-time trend in tax levies has been upward (table 1). But like farm income that trend has had both ups and downs.

Table 1. Tax Levies on Farm Real Estate, United States, 1910-1950

Year	Taxes per acre		Taxes per $100 of value
	Amount	Index (1909-1913=100)	
1910	$0.19	91	$0.47
1915	0.26	128	0.57
1920	0.51	244	0.79
1925	0.56	270	1.07
1930	0.57	277	1.30
1935	0.37	180	1.15
1940	0.38	183	1.22
1945	0.41	199	0.90
1950	0.64	311	1.01

Obligations incurred by local units of government prior to and shortly after 1920 increased taxes from 1920 to 1930. Some reduction followed in the first part of the next decade, then leveled off, or increased slightly up to 1950.

Table 2. Comparative Land Value and Taxes Levied in Selected Counties—Minnesota 1940 and 1950

County	Land value per acre*		Assessed value per acre†		Taxes levied per acre†		Taxes per $100 of value	
	1940	1950	1940	1950	1940	1950	1940	1950
Crow Wing	$ 23.07	$ 37.66	$ 8.09	$ 9.11	$1.01	$1.46	$4.38	$3.88
Hennepin	132.62	228.03	40.90	34.11	3.97	4.86	2.99	2.13
Lac qui Parle	44.85	92.73	16.90	16.33	.94	1.57	2.10	1.69
Martin	88.41	176.56	22.64	24.41	1.20	2.35	1.36	1.33
Meeker	53.60	96.10	17.95	17.36	1.05	1.82	1.96	1.89
Murray	60.67	124.95	17.26	18.90	.89	1.74	1.47	1.39
Renville	60.83	118.03	17.53	19.35	1.04	1.82	1.71	1.54
Traverse	28.97	58.67	10.78	10.80	.59	1.17	2.04	1.99
Wabasha	40.47	72.76	13.64	14.44	1.00	1.84	2.47	2.53
Waseca	74.13	133.68	21.25	21.34	1.25	2.36	1.69	1.77

* United States Farm Census.

† Abstract of tax lists of counties in Minnesota for 1940-50, State Auditor's Office, St. Paul, Minn.

To the extent real property is assessed accurately, that is valuation related to income derived from it, the farm real estate tax belongs in the ability-to-pay class. Current aids as soil maps, crop yield data, etc. are contributing to more equitable assessments, a much desired trend.

At times other than local units of government have attempted to encroach more heavily upon the general property tax field. Local resistance to those efforts have usually developed quickly. Local units of government may be expected to maintain that attitude, and they may also look for new sources of revenue so as to relieve real property from assuming more responsibility for public services.

Counties Show Trends

A few selected counties (table 2) show some recent tax trends in farm land in Minnesota. When these data are supplemented with the longer time information shown in table 1, the following observations are noted:

1. Assessed values do not adjust as quickly as prices of land—either up or down.

2. The lag in raising assessed values means that the burden of taxes on real property in recent years has been less pronounced than during some earlier periods.

3. Changes in the amount of taxes levied on farm land from year to year are less responsive to changes in the general price level than the price of land and farm income.

4. The desire for public services has very little relationship to the farm land's capacity to support them.

5. A continuing effort to find new sources of tax revenue may be expected.

BUYING FARMS . . .

(Continued from page 1)

buyer to make payments in advance of the usual schedule of repayment.

2. A possible provision of a sliding scale of repayment that would permit the buyer to pay more heavily in good years and reduce his payment in poor years.

3. A provision (included in some contracts) whereby the buyer can convert the contract for deed to a more conventional type of mortgage after he has paid enough on the contract to raise his equity to approximately half of the value of the farm.

One of the preliminary conclusions of this study is that buyers have not been seeking competent advice in completing their purchases. In many cases they might have saved themselves the possibility of future trouble if they had consulted their own lawyer prior to concluding the sale.

A more intangible problem related to the use of contracts for deeds is the possibility that the lower down payment, and the easier entry into the land market which this makes possible, can lead to a bidding up of the price of farm land.

No evidence has been disclosed to date that this is now occurring in Minnesota, or that those who have used contracts for deed have paid unreasonably high prices for the land.

On the whole, the purchasers under contract for deed have been paying interest rates that are comparable with those paid by purchasers under mortgages, they have purchased farms that on the average were almost as large as the average size of farm in the counties in which they were located, and there

has been no evidence that they have overpaid for their land.

They have been responsible purchasers, who have contributed a substantial portion of the purchase price in their down payment. The evidence to date is that they are making progress in payment of the contracts and in consolidating their position as future land owners.

It may be important to point out here that the larger the original down payment, the easier is the burden of achieving ultimate ownership.

There is an interesting parallel between the use of contracts for deed in the purchase of land and the increasing use of similar time payment methods of long term purchase in other branches of our economy. With the increasing need for large capital outlays in agriculture, there is a strong possibility that the further development of the land contract method of purchase is one solution to the problem faced by the beginning farmer.

If this method can be developed and perfected, it will help make it possible for a promising young man with a small down payment to achieve ownership status and to spread his payments on the land over a period of time long enough to enable him to finance them without undue burden on his family's level of living.

MINNESOTA
farm business
NOTES

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Minnesota Farm Land Prices Rise

Philip M. Raup

An average increase of $8 per acre is shown in the Minnesota 1954 farm real estate survey conducted by the Department of Agricultural Economics, University of Minnesota. This is an increase in the statewide average price of land from $105 to $113 per acre or 7 per cent over 1953.

These estimates are based on answers to an annual questionnaire sent to farm real estate dealers each June. In addition to estimating changes in land prices, they reported acreage and sales prices on 755 farm sales which occurred between January 1 and June 30, 1954. These sales were about one-third of all bona fide sales in that period.

The land price increase in 1954 might be regarded as the first "bounce" from the most recent decline in land prices that began in 1952. The Korean War gave a new push to postwar land prices in 1950-51 and by March of 1952 they had reached their highest postwar level, almost equal to the 1920 peak level when the Minnesota index of land prices stood at 213 (1912-14 = 100). Through the remainder of 1952 and 1953 Minnesota farm land prices dropped, apparently reaching their low point in the fall of 1953.

The recovery of Minnesota farm land prices in 1954 has come about in the face of a continuing downward trend in the ratio of prices received for farm products to prices paid by farmers for production goods. As reported in the January 1955 issue of *Farm Business Notes*, this ratio for Minnesota in 1954 was 8 per cent below its 1953 level.

This improvement in land prices in the face of a tightening cost-price squeeze deserves some close attention. Although it is impossible to give firm reasons that acocunt for this phenomenon, it is worthwhile to look at some of the facts that may explain it.

In the first place, the ratio of prices paid to prices received by farmers does not tell the full story.

In any given year an equally important fact is the amount farmers had to sell. Minnesota farmers, on the whole, fared better in 1953 and 1954 than the parity price index would indicate. Their total receipts in 1954 from farm marketings were slightly above 1951 and 1952 and only a fraction of a per cent below 1953.

Higher production helped offset lower prices so that the ratio of total cash receipts to prices paid was 173 in 1954, or only one point below the 174 index of 1953 and above the levels of 1951 and 1952.

The effects of these movements in prices and production on land prices were important in the south central and southwestern counties, which account for a large fraction of the total value of Minnesota farm real estate. In this area corn, hogs, and soybeans are important products.

The 1953 corn crop was the second largest in the history of the state to that date, and this meant an abundance of feed for the 1953-54 season. In addition, during the first half of 1954 hog prices were quite favorable. The 1954 Minnesota soybean crop set an all-time record and was 53 per cent larger than the 1953 crop.

The continued low supply of farms for sale is another reason that may account for higher land prices. The most recent estimates indicate that only about 4 farms out of 100 were sold annually in 1953-54.

Added to this is the activity in the market of farmers who want to expand their acreage. For the state as a whole, one out of every four sales in 1954 was for the purpose of adding to an existing farm. In the Northwestern Red River Valley area half of all the sales reported were for this purpose.

A third possibility that may help explain higher land prices in 1954 could be a changed attitude on the part of farmers toward general economic prospects in the near future. In 1952 and 1953, when some farm prices were falling rapidly, it is possible that many farmers regarded the future with great uncertainty, and reflected this in their attitude toward land prices. In recent months this uncertainty may have subsided, and in some areas even given way to a cautious sense of relative stability.

Land prices have lagged behind farm product price increases in the postwar years. A part of the recent increase might be explained as a continuation of the process of land prices "catching up" to existing levels of farm income, even though these are somewhat below their recent high levels.

Regionally, the highest percentage increase in land prices in 1954 occurred in the Red River Valley area. In percentage terms the increases were lower but comparatively uniform over the southern counties and those in the east central area. As the table shows, these increases were still lower in the west central counties, and no increase occurred in northeastern Minnesota.

Minnesota Changes in Land Price per Acre by Districts, 1953-54

District	Average price per acre 1954	Increase over 1953	
		In dollars	In per cent
Southeast	$139	$ 9	6.5
Southwest	187	12	6.5
West Central	99	4	4.0
East Central	66	4	6.0
Northwest	72	8	11.0
Northeast	40	0	0

Minnesota Farm Prices, January-February '55

Prepared by Harlan C. Lampe

Average Farm Prices for Minnesota, January and February 1955*

	Jan. 1955	Jan. 1954	Feb. 1955	Feb. 1954
Wheat	$ 2.25	$ 2.15	$ 2.26	$ 2.17
Corn	1.24	1.28	1.23	1.29
Oats	.68	.70	.67	.71
Barley	1.07	1.10	1.06	1.11
Rye	1.16	1.03	1.12	1.03
Flax	3.05	3.70	3.04	3.52
Potatoes	.80	.75	.80	.75
Hay	17.00	15.70	16.90	15.90
Soybeans†	2.47	2.72	2.50	2.86
Hogs	16.50	24.80	16.00	25.50
Cattle	15.80	15.00	16.50	15.40
Calves	17.30	20.00	17.80	20.00
Sheep-lambs	17.72	17.37	18.54	18.50
Chickens	.147	.226	.178	.217
Eggs	.23	.38	.350	.395
Butterfat	.62	.71	.62	.71
Milk	3.10	3.40	3.00	3.35
Wool†	.48	.48	.49	.47

* As reported by USDA.

† Not included in Minnesota Farm Price Indexes below.

Purchasing power of Minnesota farm products declined in February to the lowest level since 1939. The decline in purchasing power since 1951 is mostly due to the fall in farm prices. The Minnesota farm price index in February 1951 was 276.6—about 88 points higher than the present index. Costs, however, have remained fairly steady during the past four years.

Hog prices were down a little in February on the steady decline from the recent high of $25.50 in February a year ago. Egg prices recovered somewhat from lows of $.22 in October and December 1954.

Indexes and Ratios for Minnesota Agriculture*

	Jan. 1955	Average Jan. 1935-39	Feb. 1955	Average Feb. 1935-39
U. S. farm price index	224.7	100	224.4	100
Minnesota farm price index	199.3	100	187.9	100
Minnesota crop price index	176.2	100	178.3	100
Minnesota livestock price index	224.1	100	222.4	100
Minnesota livestock products price index	172.9	100	151.6	100
Purchasing power of farm products				
United States	99.4	100	99.3	100
Minnesota	88.2	100	83.1	100
U. S. hog-corn ratio	12.14	12.7	11.71	13.1
Minnesota hog-corn ratio	13.31	14.9	13.00	15.5
Minnesota beef-corn ratio	12.74	11.7	13.41	12.1
Minnesota egg-grain ratio	8.16	15.0	12.45	14.4
Minnesota butterfat-farm grain ratio	28.53	40.6	28.86	36.4

* Minnesota index weights are the average of sales of the five corresponding months of 1935-39. U. S. index weights are the average sales for 60 months of 1935-39.

The Outlook Corner — The Family Farm

Hired Workers on Farm and Related Data, Southeast Minnesota Farm Management Service

Five-year average	Average of all farms: Acres	Total value machinery and equipment	No. workers: Family	Hired	Average of most profitable 20 per cent: Acres	Total value machinery and equipment	No. workers: Family	Hired
1934-38	214	$2,082	1.5	.9	274	$3,038	1.5	1.6
1939-43	226	2,810	1.4	.8	291	3,649	1.5	1.2
1944-49	225	3,439	1.4	.7	279	4,263	1.5	.9
1949-53	224	6,870	1.3	.6	284	8,175	1.3	.8

Is the family farm likely to be displaced by some other type of farm operation? This in turn raises the question, can farming be done more profitably by hired labor than by the labor of the operator and his family?

An examination of this aspect was made by tracing the labor patterns of the members of the Southeast Minnesota Farm Management Service for the 20-year period, 1934-53.

Although the more profitable farms were larger than the average, they used only slightly more labor, as shown in the table. Better management enabled these farmers to use their labor more economically.

The more profitable farms had more machinery than the average, indicating that profitable farming is associated with ability to obtain the necessary capital and to operate and manage effectively.

However, the more profitable farms did not show a tendency to increase the workers to operate more machines, but instead decreased them over the years.

The data presented in table 1 seem to support the comment frequently made by farmers—they will buy machinery that they can operate themselves or that they can supervise closely, as can be done with one hired man, but they do not feel it is profitable to expand much farther.

For the types of farming represented in most of Minnesota, it does not seem that the family farm needs to fear competition from any type of farming that is based on employed labor. It does mean, however, that the farmer must use adequate machinery and more labor-saving methods as he has less labor at his command.

It also means that farmers must increase their capacity to manage the large and complex farm businesses of today. The family farm operator will continue to be the dominant type of farmer. But each such operator faces increasing competition from better operators of his own type.

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