

Safeguards in Financing the Purchase of a Farm

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The war and its probable after-effects are factors that farmers must consider in deciding on future financial commitments. This circular deals with financial arrangements that are needed to safeguard a farm purchase. Its sole purpose is to encourage a more complete analysis by farmer buyers of the considerations necessary for safeguarding an investment in farm land.

The purchase of a farm is a major, if not the major, financial event and undertaking in the lives of most farmers. Most farmers plan on undertaking such a purchase at some time or other as the normal procedure for building up earning power and for providing a home and security for the period after 65 years of age.

In buying a farm the purchaser enters into a bargain in the making of which there are the two major considerations of (1) price and (2) terms. Some purchasers think of the bargain as having been concluded when the price is settled, only later to find themselves shouldered with a contract that is wrong in about every respect except the price. Paying for a farm often takes a major portion of one's lifetime, and a close consideration of all aspects of the bargain that is to be concluded with the purchase is likely to be repaid many fold.

The Bargaining Process

Adequate consideration of how to determine the price that should be paid for the farm cannot be given here. To buy right the prospective purchaser must know values and to know values he must know how to judge the quality of the land and farm he wishes to purchase. Care will be needed to avoid being stampeded into making a superficial appraisal and a too hasty purchase particularly in times when land prices are rising. One can bargain shrewdly only when one has a knowledge of all material details that affect the value of the farm. What specific things should the prospective borrower look for as items that might be overlooked even after he

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has made a general appraisal of the productive capacity of the farm?

1. What is the condition of the buildings particularly of the foundations, sills, and roof?

2. How much are the buildings worth and what percentage of the farm value do they represent?

3. What is the condition of the fences and what are the fences worth?

4. If there are tile drains or open ditches, what is their condition and what do they contribute to the value of the farm?

5. What of the water supply? Is it adequate and dependable?

6. Has there been much disease among the livestock on the farm and is there evidences of disease producing conditions with which it will be necessary to cope?

7. What about the weed situation?

8. What is the condition of the soil? Has there been considerable sheet erosion? Are there gullies?

9. What is the exact acreage in the farm and are the boundaries clearly established and uncontested?

10. Are there certain right-of-way or borrow pit easements to which the property is subject and which would affect the value?

11. Is the land being sold subject to the reservation of all or part of the minerals, gas, coal, or oil? The buyer need not feel unduly prejudiced by such reservation but will need to know about the matter before he completes his bargain since any such reservation will and should affect the price that is to be paid.

12. Are there any special tax levies against the farm that may affect its value? It is easy to overlook heavy special benefit assessments for drainage, levies, and the like outstanding against the property. Sometimes also special school and road district levies make a difference that should be taken into account.

Terms of the Purchase Contract

After the buyer has satisfied himself regarding these more or less concrete matters, he still has the task of deciding what exact provisions he wishes to be written into the purchase contract.* Here too, a whole list of considerations arises but there are two general matters that overshadow all the rest. First, the purchaser has no bargaining power left after he has made the earnest money payment and inscribed his signature on the contract. It is imperative, therefore, that an agreement be reached on all material items before the contract is signed. Second, all provisions of the agreement must be included in the contract and be in writing.

Why must there be a contract at all and why must such great care be used to get all points into the contract and in writing? A lawyer has answered this question with the statement: "Contracts

*A copy of real estate sale contract used by the Federal Land Bank of St. Louis is included in the appendix and may be consulted in connection with the consideration of the terms of purchase given herein. The fact that this contract has been designed from a seller's viewpoint should only emphasize the advisability of the use of equal care on the part of the buyer.

for the sale of real estate must be in writing, signed by the party against whom the contract is to be enforced. This requirement of Missouri law means that all provisions of the contract must be in writing, and rules of evidence make it impossible to prove any oral stipulations, agreements, or understandings with respect to the sale. Any oral side agreements between the parties are, therefore, unenforceable." Indeed for these same reasons sellers need and usually want written contracts as much as the buyers.

The purchaser has no remaining bargaining power and will find that he is governed from beginning to end by the terms of the written contract after he has signed it. He should, therefore, employ an attorney to help him prepare the contract in the interests of both completeness and accuracy. For the contract to be accurate and complete there will need to be a meeting of minds of the buyer and seller upon every significant point that needs to be settled. A list of the more important of such points is given below.

1. Have arrangements been made to insure the purchaser possession of the property upon such date as he stipulates? A tenant may have a contract that still has some time to run. A son of the seller living upon a farm at the time of purchase may have certain rights that he can press. Even outright squatters can sometimes be ousted only by lawsuit and no purchaser wishes to buy a lawsuit. Any such difficulties of providing peaceful possession should be upon the seller and the contract should specifically provide that the earnest money is to be returned if possession is not delivered as agreed.

2. The "cut-off" date for the assumption of taxes or of special benefit assessments should be settled beforehand and entered into the contract. If the buyer does not make specific arrangements and have a written agreement, he is liable for all outstanding and unpaid taxes against the real estate.

3. Similar arrangements should be concluded with respect to rents and soil conservation benefit payments if the land has been leased.

4. The buyer must be sure that insurance is maintained upon the property during the interval between the time when he makes his bargain and when he gains possession. The risk of loss is upon the buyer from the date of the contract. He is liable for the full purchase price although the buildings burn prior to the execution of the deed, and should therefore, carry his own insurance from the date of the contract.

5. The purchaser should insert (and his attorney should check) the description of the land as entered upon the contract. The legal description as entered upon the written contract governing the sale will prevail over any statement of acreage when these two are in conflict. If the transaction is being made upon a price-per-acre basis and the buyer is in doubt about the acreage, he should satisfy

himself regarding the exact area of the farm and may even find it wise to demand a survey before he signs the contract.

6. For complete safety the contract will need to contain an agreement of the rights of parties involved with respect to fixtures. Sellers or tenants sometimes attempt to remove light plants, out-houses, pumps, hay carriers, windmills, loose lumber or wire, gates and other items that the purchaser expected to obtain. If, therefore, there is any doubt as to whether any such particular item is attached to and constitutes a part of the realty, the contract should cover the point specifically.

7. Not only should the date the buyer is to have possession of the property be stipulated in the contract, but as noted above, the date upon which the seller is to deliver the deed to the buyer should also be specifically stated. Perhaps it will help the buyer also to know that ordinarily the fee for recording the deed is paid by the purchaser, and the recording fee on the purchase money mortgage* by the seller. Any change in regard to such points should be agreed upon and covered in the contract. The contract should also specify whether the revenue or documentary stamps that must be affixed to the papers are to be paid for by the seller or the purchaser.

8. If the farm is sold subject to an existing mortgage that the buyer is to assume, he should, before signing the contract, obtain from the holder of the mortgage a statement in writing giving the amount of the unpaid balance of the mortgage and the manner in which this balance is to be repaid.

9. The contract should state definitely the manner in which the purchase price is to be paid. If a purchase money mortgage is to be executed back to the seller, the amount of the mortgage, the manner of its payment, the interest rate, prepayment privilege, and all other material terms should be set forth in the contract in detail.

10. If under the contract, the purchaser is to take possession of the property before he obtains the deed to the property, the contract should specifically cover his right to make improvements during that period and to remove any improvements constructed at his expense in event he fails to acquire title.

11. The contract should require the seller, within a certain specified number of days, to deliver an abstract of title covering the real estate, certified to date. The contract should also recite the date on or before which the purchaser shall notify the seller of his objection to the title. From the date of delivery of such statement of objections the seller should have a certain period in which to rectify the defects or, in lieu thereof, to furnish the purchaser with a title insurance policy issued by a responsible company. The contract should also provide that if the seller is unable to cure the title defects, or to furnish title insurance, the contract for purchase shall

*A purchase money mortgage is different from the ordinary mortgage only in the fact that it is made or drawn up at the time of purchase to constitute a part of the purchase price.

be void and the purchasers' earnest money (if it has been paid) returned to him.

12. If the buyer expects to pay part of the price by giving a purchase money mortgage he should have a prepayment clause written into the mortgage contract. Ordinarily the purchaser will have no difficulty in getting the seller to insert into the contract the clause: "Full prepayment privilege of any amount on any day is granted without penalty." In some cases the seller will limit prepayments to one-fifth or one-tenth of the amount of the loan and stipulate that such payments may be made only on interest or principal payment dates. Without the prepayment privilege, the buyer may pay only at the rate provided for in the contract unless the mortgage holder gives his consent. When prices for farm products are favorable the buyer may wish to pay off his mortgage at a faster rate and obtaining the prepayment privilege insures the purchaser that right.

13. Interest and principal payment dates need to be stipulated and made convenient to the purchaser. Ordinarily, September 1 and March 1 are convenient dates but that need not always be the case.

14. Finally, the place of payment, though ordinarily of no great importance, should be stipulated so that there will be no possible controversy or misunderstanding about the matter.

The Type of Deed

Because of its importance, one other matter in regard to the contract for purchase deserves special treatment. The contract should be for a deed that insures to the purchaser the peaceful enjoyment of the property (as far as that is possible) with the responsibility of defending it against prior claims assumed by the seller. The deed that most satisfies these requirements is, in Missouri, the so-called warranty deed. The word "warranty" used in this connection means merely that the seller in effect agrees to defend against any third party the right of the purchaser to enjoy the full rights of ownership and possession of the particular land involved.

Perhaps the nature of the warranty* deed is better understood if it is contrasted with the "quitclaim" deed which places less rigorous burdens upon the shoulders of the seller. The quitclaim deed is exactly such a deed as one would expect from its name. That is, the grantor (or seller) under the terms of such a deed merely agrees to "quit" any and all claims he may have on the property in question, but he does not in any way make himself responsible to defend the grantee (or buyer) against the claims of others. Grantors would, therefore, other things being equal, prefer to give a quitclaim rather than a warranty deed, but the grantee ordinarily is safer under the terms of the latter.

*Copies of warranty and quit claim deeds actually in use are contained in the appendix. See Exhibits II and III.

Accepting a quitclaim in lieu of a general warranty deed is never wholly desirable from the buyer's viewpoint. It may be necessary if the seller refuses to give any other kind of deed. Sometimes companies in receivership and in some instances those not in receivership because of certain established policies that they refuse to break will grant only quitclaim or special warranty deeds. In such circumstances the buyer may wish to accede to the use of the quitclaim or special warranty but in doing so he should be on his guard, insist upon a more than usually thorough examination of the abstract and make his final decision only after consulting an attorney.

For two reasons however, there may be little difference in safety as between a quitclaim and a general warranty deed. First, the buyer will and should buy only after a competent attorney has declared that the abstract of title shows the seller to have a merchantable title. Second, the warranty in the general warranty deed is only as good as the warrantor and is virtually useless if the seller has little or no means. That is, if the seller is without means the defense he can make or be forced to make against claims that arise after the transaction is over is likely to be worth very little.

However, the warranty deed is a secure defense against the claims of the seller while the quitclaim is sometimes not. The general rule of law is that the quitclaim does not convey after acquired title (that is title acquired after the sale of the real estate has taken place) whereas the warranty deed does. The quitclaim, in other words, acts merely to release claims the seller may have at the time of sale whereas the warranty deed warrants peaceful possession forever.

A special warranty deed which warrants the title only against defects caused by acts of the grantor, is sometimes used in lieu of a general warranty deed. Such a limited warranty may or may not be of value, depending upon the circumstances of the particular case. Certain classes of sellers may not have the legal authority to incur the obligations involved in a general warranty of title, and may, therefore, be able to execute only quitclaim or special warranty deeds. The purchaser's attorney will no doubt advise him as to such matters.

The General Warranty Deed

A technical discussion of the nature of the general warranty deed would be out of place in a publication of this kind. However, a skeleton copy of such a deed containing the usual provisions to be found in such an instrument is included in the appendix. A study of the language of the instrument will give the reader some acquaintance with this type of deed and some information that may be useful to him in the preliminary stages of his bargaining. For comparative purposes a copy of a standard quitclaim deed form is also included in the appendix.

The Abstract

No farm purchaser wishes to buy a lawsuit nor to pay the seller for something the seller does not indeed have. One of the paramount necessities in a real estate transaction from the buyer's viewpoint is, therefore, to determine that the seller does have title to the property that is to be transferred. Fortunately, there are well established procedures for title search and the process is called abstracting. The resulting document is called an "abstract of title." Such an abstract is in effect a brief history of the ownership of a specific tract of real estate and includes a complete list of all conveyances and other instruments or documents relating to or affecting the title to the property. The abstract is designed to reveal the person or persons who actually hold legal title to the property and is the main line of defense of the purchaser in his effort to avoid being shouldered with a property the title to which is clouded.

The making and examination of an abstract are both technical matters beyond the powers of the usual farm purchaser. He will, therefore, need to turn over the abstract to a competent attorney to get the advantage of a trained judgment in the matter.

Drawing the Deed

When the time for the signing of the deed arrives the purchaser will need first to be sure that the signature of the grantor is that of the owner or his duly accredited agent. Second, he will have to decide upon the identity of the grantee. If the deed names the purchaser alone as grantee, so that title is taken in his name alone, the title to the property at his death vests in his heirs subject to the right of the executor or administrator to sell the property for payment of debts. On the other hand, if title is taken in the names of both the purchaser and his wife, upon the death of either, the survivor, under Missouri law, becomes the sole owner, free of debts other than those that specifically encumber the property itself, and without the necessity of administration proceedings to clear the title. Title may be vested in joint grantees who are not husband and wife in such a way that upon the death of one complete title will vest in the other.

Recording the Deed

After the transaction is completed to the point that the buyer has received the deed to his farm, there is one other matter he should take care of promptly. This matter is the recording of the deed itself. The public and the government have recognized the advantages in making land titles secure. In every county seat town in the entire state of Missouri, therefore, a public office is provided where titles may be and should be recorded. The office is in the courthouse and is called the Office of the Recorder of Deeds. A fee

for the recording is charged for the maintenance of the office and the salary of the recorder.

Having the deed recorded is a great safeguard of one's ownership since it is a legally sanctioned notice to the entire public that the deed to the property is indeed in one's hands. The law with respect to the responsibilities of owners to record their titles, furthermore, is very strict. Failure to record, if the matter gets into court, will be interpreted as a failure to notify others regarding the change in ownership that has taken place. These others, in the eyes of the law, have the right to assume that the real estate is owned by those in whose name the title is duly recorded. Indeed, maintaining official recording offices would be of very little value if the public were not permitted to depend upon them in just such a manner.

The Mortgage*

Few farm purchasers are able to pay down the purchase price without further formality and thus to proceed from the contract to full ownership in fee simple. Where the buyer possesses the needed cash, all that is necessary, once all items of the purchase contract have been agreed to, is for the buyer to hand the seller the money at the same time that the seller hands the buyer the executed deed.

Usually the buyer must, however, arrange for a mortgage as a part of the purchasing process and there are usually two choices open to him. That is, he may obtain a purchase money mortgage directly from the seller or he may finance himself by obtaining a mortgage from a third party. When the down payment is small the usual procedure is to obtain a purchase money mortgage directly from the seller since established lending agencies usually refuse to lend on the thin equity in the property that a small down payment gives the buyer. However, if the down payment is as much as 25 percent of the appraised value of the property the buyer may usually obtain a Land Bank Commissioner Loan from the Farm Credit Administration. Insurance companies and farm mortgage loan companies will usually lend up to 50 percent of appraised value and the Federal Land Banks will lend a maximum of 50 percent of the appraised value of the land and 20 percent of the appraised value of the buildings.

Usually the purchaser will find that he can obtain more favorable prices and terms with a large down payment. That is, if 60 percent must be borrowed upon mortgage the rate of interest may be as high as 5 or 5.5 percent while a man borrowing only 40 percent of the value of the farm may obtain his mortgage at only a 4 percent rate. Not always will the rate vary with the percentage of value borrowed in such a manner, however. For instance, one company apparently

*In Missouri, the mortgage usually takes the form of a "deed of trust." The term "mortgage" has been retained herein because it is more widely understood. Persons wishing to know more about the deed of trust should consult a lawyer or other informed person.

anxious to maintain the book value of its acquired farm real estate sold farms in recent years at a relatively high price but charged only a 2 percent interest rate for a number of years after purchase.

When the buyer arranges to obtain a purchase money mortgage from the seller all details as to the terms of the mortgage should be arranged when the original contract is being drawn up. Otherwise, the purchaser once having signed the contract may find himself "out on a limb," forced to accept the mortgage terms offered by the seller or to get himself financed elsewhere. There should, therefore, be a meeting of minds of buyer and seller both as to terms of contract and mortgage where the purchase money mortgage is to be accepted by the grantor.

When the buyer expects to finance a purchase through a third party he should make full arrangements to obtain the necessary loan before he signs the contract. Particularly should he avoid paying over any earnest money till he has completed such arrangements, unless indeed there is a specific clause in the purchase contract providing for the return of the earnest money in case obtaining the loan by a certain date proves impossible.

When the loan is to be obtained from a third party the buyer will need to go over the terms of the mortgage quite as carefully as the terms of the contract for purchase. He will need to arrange with the mortgagee the rate of interest to be paid, the amount of annual principal payment if any, the place and time of payment and other details of similar nature. The privilege of prepayment should be carefully written into the mortgage contract and the penalty for such prepayment, if there is to be any, specifically stated.

Perhaps it should be pointed out also that the rate of principal payment and the prepayment privilege are related in an important manner. It is a matter of safety to have the required principal payment for each year made as small as possible. Lean years occur in the financial history of almost every farmer. Sometimes, also, even in years otherwise fat, sickness or accidents may make extraordinary outlays necessary. These are the years that make small principal payment requirements a blessing and, with the prepayment privilege in the contract, the small required payment has no disadvantage.* Generally speaking the prepayment privilege may be said to confer two very significant advantages to the buyer and borrower. First, it permits him to make advance payment in years of above normal income, thus reducing the total amount of indebtedness and the interest payments of later years. Second, it enables the buyer (borrower) to refinance whenever interest rates decline. That is, he may replace the old contract with a new loan contract at the lower rate using the proceeds of the new loan to pay off the old. As obviously, some disadvantage to the lender may be involved, the exacting of a slight penalty for the exercise of the prepayment privilege has justification.

*Except in cases where a penalty for prepayment is stipulated in the contract.

Time in Which to Pay

Pressing the matter of the prepayment privilege may be overdone, however, and should not be allowed to obscure the even more important matter of arranging under the terms of the mortgage contract for ample time in which to pay for the farm. Fifty years ago mortgage contracts were seldom written for more than 5 or at most 10 years. Mortgages are now commonly written for much longer periods, and that it is as it should be. It is just the young men who expect to accomplish wonders that are likely to purchase farms and, indeed, such enthusiasm is exactly the stuff that is needed if wonders are to be accomplished. The fact remains, however, that even young men find it difficult to pay for a farm in a short time.

Sober judgment in the matter, therefore, suggests that impossible goals should not be set and a study of the facts reveals that farmers really clear their farms of debt only rather slowly. No exact statistics regarding the rate of debt repayment by Missouri farm land purchasers are available, but other studies indicate that normally it requires from 20 to 30 years to liquidate a heavy mortgage indebtedness, the average being about 25 years.

The terms of the mortgage contract should be written to reflect judgment and facts more than enthusiasm and seldom should the years to pay be less than 20 and, by preference, 30 or more. Only when the debt involved is small and ample reserve funds for debt liquidation are assured, or when the borrower is willing to depend upon his ability to renew, should the period be as short as 10 years. The Federal Land Banks write most of their mortgages for 20 to 30 or more years, to permit the retirement of debt at a rate that is not too burdensome to the farmer. It's just good business and good insurance for the family living to get a long period in which to pay. Many a farmer who made a contract to pay in too short a time has sweated a farm out of the family, and farms are just not worth that much.

Method of Repayment

Three methods of repayment of farm mortgage loans are in common use. One is the so-called lump sum repayment plan under the terms or circumstances of which a farmer borrower of, say \$1000 for ten years, pays annually only the interest, and at the end of the ten years pays the \$1000 in a single lump sum. This plan is sometimes called a sinking-fund method because it usually necessitates accumulating cash reserves with which to retire the principal when it becomes due.

A second method is often referred to as the proportional plan. Under its terms a farmer borrowing \$1000 for a 10 year period would repay \$100 and the interest due each year for the 10 year period. The payments, however, may be arranged in most any manner desired and need not be exactly proportional. This method

is much the same as that used when the bonded debt of business or governmental corporations is paid by retiring the bonds serially.

A third method and one being used increasingly in the case of farm mortgage debt retirement is the "amortization" plan. Amortization in general refers to the "killing off" or retirement of debt but is used more formally in reference to a particular type of repayment method. Under the standard amortization plan the payment (interest and principal) is the same from year to year until the loan is retired.

The lump sum repayment plan is subject to the inconvenience that the borrower must accumulate and often hold idle funds with which to retire the whole of the debt when it comes due or make arrangements for renewing or refinancing the loan. Farms have been lost because of inability to renew and these are often, therefore, genuine inconveniences. Either the standard or some long period proportional payment plan will suit most farmers' circumstances better than the lump sum plan. This latter plan may suit buyers or borrowers in some cases and circumstances, particularly where the mortgage is for relatively small amounts for short periods. In general, many circumstances and conditions, such as the age of the buyer, the size of loan, type of farming and so on will all influence the method of repayment selected and there is no choice for the individual but to study each plan with his own circumstances in mind and make his selection accordingly.

The Rate of Interest

Perhaps most important of all is the matter of the interest rate. Farmers have always paid rather dearly for credit though in the last two decades governmental institutions have done much to reduce rates all around. In this respect, however, farmers are still not on a par with most business men, though about on an equality with those in the smaller towns.

The thing to do, apparently, when getting ready to obtain a mortgage loan is to shop around a bit. There are always the Federal Land Banks to refer to, and they do offer low rates of interest. They also, however, require that 5% of the loan be invested in National Farm Loan Association stock.* That requires borrowing 5% more than would otherwise be necessary† and taking some risk of getting back as much as was paid for the stock in the first place. For this reason, some farmers prefer to go elsewhere for credit. It is sometimes said that one can sacrifice a half percent in interest to avoid the necessity of stock purchase. However, not only is this statement far from exact, but circumstances alter cases. Each transaction must be considered individually and appropriate judgments based upon the facts. Indeed, calculating the cost of the loan

*A bill calling for a change in this requirement is, however, now before Congress.

†A fact often more than compensated for by the additional fact that Land Bank Loans are made for such long periods and paid off in such a manner that renewals are not necessary.

is a fairly complex matter since it involves determining (1) the amounts paid in interest, fees, and at times renewal costs and (2) the amount of capital borrowed taking into consideration the period for which it is available for use by the borrower. Always, however, the fact that interest is of prime importance in a financial transaction that covers so long a period of years as that involved in the usual mortgage contract should be held in the forefront.

In the table below are compared total interest payments at varying rates of interest for loans of varying periods.

**TOTAL INTEREST PAYMENTS ON A \$1000 LOAN AT VARYING INTEREST RATES
AND FOR VARYING PERIODS ***
(Standard Amortization Plan of Debt Retirement Used in Each Instance).

Loan Period	Rate of Interest				
	4	4½	5	5½	6
10 yr.	\$232.90	\$263.78	\$295.07	\$326.69	\$358.70
20 yr.	471.68	537.48	604.85	673.59	743.69
30 yr.	734.89	841.76	951.56	1063.95	1179.46
40 yr.	1021.16	1173.79	1331.00	1492.85	1658.61

*The data of this table was supplied to the authors by the information and statistical section of the Farm Credit Administration District VI, St. Louis, Missouri.

The Contract For Deed

There are at least as many ways to buy a farm as there are to skin a cat and in the foregoing the description has centered only upon the usual or customary way. Not uncommon, however, is the method of purchase using the contract for deed or bond for deed. Such a method is often employed in circumstances in which the seller for one reason or another does not wish to give title to the land until the buyer has completed certain performances required in the contract for deed. Often times, for instance, sellers do not wish to surrender title when they sell for a very small downpayment so that the contract for deed is commonly used in cases when the buyer starts out with a "thin equity" only. Some states have or have had mortgage moratorium laws which prevent or prevented the foreclosing of mortgages in case of delinquencies and in such states sellers may prefer to sell on a contract-for-deed basis to avoid difficulty of repossession in case the buyer cannot or will not pay out on the contract.

The buyer need not feel himself prejudiced by a request of the seller to accept a contract for deed rather than the deed itself. Under such a contract the receipt of the deed by the buyer is delayed

but nonetheless certain if he meets the requirements laid down in the contract. The vigilance of the buyer must, therefore, be used for the scrutiny of the terms of the contract. The necessity for a complete agreement between buyer and seller on all terms of the contract for deed is even more important than in the contract for purchase, as outlined above. Since the contract for deed must outline a contractual relationship that is to exist for a number of years, agreement on such items as interest rates, amounts of principal payment, dates and place of such payment are all the more significant.

Nor should the question of the buyer's obligation at the end of the contract be forgotten. That is, the buyer may wish to have in the contract the provision that the seller is to grant him a mortgage upon certain stipulated terms at the conclusion of the contract. Otherwise, the buyer must be ready at the end of the contract period to finance the remaining payments, if any, by obtaining mortgage money elsewhere.

Father-and-Son Contracts

One exceptional type of land sale and purchase contract perhaps deserves some particular attention. All the foregoing discussion has dealt with contracts between parties whose relationship to one another is on a strict business basis. Preserving a large element of this "business basis" in all contracts is desirable but there is, nevertheless, room for many special clauses in contracts between close relatives, particularly between father and son.

However, the drawing up of such father-and-son contracts may not be any easier because the father wishes his son to have especially favorable terms. The need for clear statement of conditions and of a satisfactory meeting of minds is hardly less pressing than in the case of ordinary transactions. Not unusually the trust that exists between father and son lies behind a loosely drawn contract with each party having an unconsciously different interpretation of particular clauses because the matter was not thoroughly threshed out.

Furthermore, while father and son could often settle amicably and equitably any difficulties arising over ambiguous clauses there is always the matter of death to consider. What interpretation would heirs or third parties that might be concerned in the case of the death of the father think of the terms of the contract? This question should be constantly before father and son when such contracts are drawn. The safest way is to take the matter to an attorney, explain to him in full what is wished and have him put the contract in a form that will not later prove embarrassing.

Flexible or Variable Payment Provisions

Other means of attempting to reduce the risk of a farm purchase are available and will appeal to some buyers. These may be referred to broadly, as flexible or variable payment plans and are already in use by a few commercial agencies and particularly, by the Farm Security Administration in connection with its "Tenant Purchase" program.

Variable payment plans were developed as a direct recognition of the hardship that a rigid contract imposes upon buyers or borrowers whose incomes fluctuate widely. Farmers' incomes in Missouri in recent years have been unusually uncertain and many a farmer borrower has had fixed payments of interest of say \$500 a year to meet with \$1000 available for that purpose one year and only \$250 available in the succeeding year. Under terms of the variable payment plans, the payments vary with the income. That is, the payments are not fixed, but vary more or less closely with the borrower's capacity to pay.

Three general types of variable payment plans are in use and may be labelled (1) the share of crop, (2) the price of principal crop produced, and (3) the net income plans. However, none of these can be called thoroughly standardized and the buyer will have no choice but to study any plan which may be available with sufficient care to determine whether or not it suits his circumstances and whether or not he wishes to employ it. Furthermore, variable payment plans are not always available and, indeed, are not often available from the particular owner from whom the farm is to be purchased. If the buyer wishes to use such a plan he will of necessity have to make inquiry as to what financial agency may wish to finance him upon a variable payment basis. To give the prospective buyer an idea of the type of contract involved in one such plan now widely in use a copy of the "Agreement for Variable Payments on Net Income Plan" used by the Farm Security Administration for its Tenant Purchase Program is included in the appendix.

Still other plans are available. An ingenious method of acquiring farm ownership by payments in kind has recently been described in some detail by Professor O. R. Johnson of the Missouri College of Agriculture. The description is contained in Missouri Agricultural Experiment Station Bulletin No. 478, a copy of which may be obtained by a request to the College of Agriculture, at Columbia, Missouri.

Finally, however, each buyer will need to understand that the variable payment plans are in considerable part just a substitute method of handling his finances. He can, in other words, get virtually the same results under ordinary (non-variable payment) contracts by a careful attention to the handling of his own reserves and have at the same time a somewhat greater personal control over

his finances. For the farmer who wishes to build and manage his own reserves the ordinary type of contract may appear preferable. In any event, reserves will still be needed for emergencies not connected with the financing of the farm; that is, for sickness, accident, and the like. In general, the variable payment plans will appeal to those who wish to formalize the matter of taking care of an important part of the risks of finance right at the start of the contract payments.

The Reserve Deposit and Conditional Payment Plan of the Federal Land Banks

One method of providing for investment safety that is immediately available to those who finance their purchase through the Federal Land Bank is the so-called conditional payment or deposit reserve arrangement that has just recently become available. Under the arrangement that has been made available by these banks, borrowers may deposit advance payments on loans with the bank and receive upon such deposits a rate of return equal to that which they pay upon their loan. Under this arrangement borrowers may make considerable deposits with the bank in good years and in poor years use these deposits to make payments that would have been difficult to make without them.

In effect this plan operates much like a variable payment plan but needs no advance planning or contracting to be put into effect, eliminates the calculation each year of the borrower's obligation, and is even more smoothly adapted to the borrower's convenience. Even the best of the variable payment plans do not take account of all the exigencies to which farmer's income available for debt is subject. Under the deposit reserve plan farmers are permitted to make advance payments when and if their net receipts make them convenient.

For details concerning this plan the prospective purchaser has only to refer to the nearest National Farm Loan Association office or to the St. Louis Federal Land Bank.

Getting the Down Payment

Finally, there are two matters of some importance that must be attended to before the young farmer makes his purchase. First, he must acquire the skill and experience to manage the production side of farming and second he must accumulate the down payment. Neither of these matters is the subject of this paper. However, a word of warning may not be amiss. Not every young farmer should attempt farm ownership. Some do better when they depend on others for supervision or when they leave to others the risks of purchase and ownership.

One matter in this connection, the amount or size of down payment, is of direct concern in the financing of a farm purchase. The size of the down payment is governed by a number of considerations. First, there is the matter of how much or little the seller is willing to accept. If the purchase is to be financed through the Land Bank Commissioner of the Farm Credit Administration, the buyer must have about a 25% down payment. That is, commissioner loans are limited as a maximum to 75% of the normal agricultural value of the farm. However, some landowners may be willing to sell for a down payment smaller than 25% and about the only way to discover the amount needed, as far as the seller's requirements are concerned, is to inquire directly about the matter of the person, or agency, that has the land to sell.

Second, there is the matter of the safety of purchase. That is, is it safe to buy with as small a down payment as 10, 15, or even 25 per cent of the purchase price? Other matters besides the down payment also affect the safety of purchase. That is, safety is affected also by the time at which the purchase is made, the interest rate that must be paid, the rate of principal repayment, and the like. Nevertheless, the best of circumstances and terms only reduce somewhat the size of the down payment that makes for safety and are never a complete substitute.

Some people actually do pay out on the so-called "shoestring" purchase of a farm particularly if they happen to have bought just before prices of farm products started on a long rise. Buying a farm should not, however, for the great bulk of purchasers be made too much of a gamble. The matter is too serious both for the buyer and for his family. A mistake may leave effects that cannot be erased.

A report of the Federal Land Bank of St. Louis on its experience in selling farms may aid the prospective purchaser in determining the amount of down payment that sound financial management requires. This bank found that purchasers making down payments of as much as 25 percent have, in recent years, been almost universally successful in holding their property and making the scheduled payments. When down payments were much smaller than 25 percent, however, the number of buyers who later lost their equities was often large and the smaller the percentage down payment the greater the mortality. One of the officers of the St. Louis Bank in a letter (dated August 27, 1941) to the writers commenting upon the relationship of down payment to safety of purchase wrote, "It is interesting to note that of some 6000 purchase money mortgages (of the Federal Land Bank of St. Louis) outstanding on July 31, 1941, aggregating more than \$9,000,000, only 47 broke down during the past two years. Of these 47 reacquirements, there were only three where the purchasers had paid as much as 30 percent in

cash." The bank ordinarily requires approximately a 25 percent down payment and the experience of the bank indicates that a farm purchase may be made with confidence when the down payment is that proportion or more.

In addition to these general considerations of safety, however, there are other rather more specific considerations that affect the amount of down payment that may be advisable. Thus the down payment may be smaller if the prospective buyer is buying only a small acreage to manage in connection with a much larger farm that he expects to continue to operate as a tenant. Often it may be a good plan to buy only a part of the farm and become a part rather than a full owner where circumstances make that possible. Second, the down payment may be made smaller if the prospective purchaser has other property such as a large inventory of livestock or farm equipment, insurance policy reserves, or the like that can be used in case of emergency. Likewise, smaller down payments are more permissible if the farm to be purchased is known to yield an unusually stable income. Finally, also smaller down payments are quite suitable if the price level is rising but that may mean little to the usual purchaser since he does not usually have dependable information on price movements.

On the other hand, certain circumstances make advisable a larger than usual down payment at the time of purchase. When depleted land that will yield only a meager income for a period until its fertility is built up is purchased the down payment should often be a major portion of the price. Similarly, when the farm purchased has an exceptionally large fine dwelling so that a great percentage of the purchase price is for "home value" the down payment should be commensurately increased. In general, also, any circumstance or condition that points to greater than usual risks should lead the buyer to scrutinize his position not only in respect to the down payment but also with respect to his financial reserves and his ability to cope with the most unfavorable conditions that are likely to arise.

Summary

1. Get ready to buy by getting a suitable down payment together and making a study of farm real estate values in the community in which the purchase is to be made.

2. Don't be stampeded into a poor purchase by talk of rising land values.

3. List and evaluate all material aspects of the farm as an aid in determining its prudent investment value.

4. The contract for purchase if it is to be defensible in court, must be signed by both parties. Avoid oral side agreements since they cannot be enforced.

5. Have the terms of the contract made so complete that all significant points upon which agreement is needed are covered.

6. Accept only a general warranty deed unless the circumstances requiring the acceptance of the quitclaim or special warranty are well understood and unprejudicial.

7. Employ an attorney to examine and approve the contract, the abstract and the deed and to advise with respect to how both contract and deed or any other instruments involved should be signed.

8. Record the deed promptly after the purchase has been completed.

9. Make all arrangements for financing before the contract is signed. That is, make all and final arrangements with respect to obtaining a purchase money mortgage before becoming liable on the contract.

10. The terms of the mortgage are as important as the terms of the contract and should be arranged with the help of an attorney.

11. Particularly important in arranging the terms of the mortgage are the matters of the interest rate, the number of years the mortgage is to run, the annual payments required and the prepayment privilege.

12. Often, the farm purchaser's convenience is best served if he obtains a standard or proportional amortization plan of debt repayment.

13. Purchasing upon the basis of contract or bond for deed may be necessary under certain circumstance and need not be avoided if the buyer obtains legal advice and is clearly informed regarding his transaction.

14. Father-and-son contracts and other contracts between close relatives may contain concessions seldom encountered in the usual transactions. Such concessions may aid materially in passing farm ownership from one generation to the next but all unusual clauses in contracts need the scrutiny and approval of an attorney.

15. Flexible payment contracts of a number of types are sometimes available for those who wish to use them. Such contracts may add to the safety with which a farm purchase may be made. They are, however, not always or even usually available, are still relatively unstandardized and need, therefore, to be employed with care.

APPENDIX: TYPES OF LEGAL FORMS

REAL ESTATE CONTRACT

THIS CONTRACT, made and entered into in duplicate this day of, 193 .., by and between THE FEDERAL LAND BANK OF ST. LOUIS - FEDERAL FARM MORTGAGE CORPORATION, ST. LOUIS, Missouri (hereinafter referred to as the Seller), and

whose Post Office Address is (hereinafter referred to as the Purchaser, whether one or more);

WITNESSETH: That the Seller hereby agrees to sell and convey, and the Purchaser hereby agrees to buy, as herein provided, the following described real estate situated in the County of and the State of, to-wit:

Subject to all existing public and private roads and easements, and reserving unto the Seller, its successors and assigns, an undivided one-half of all oil, gas, coal and other minerals, in, upon, and under the above described land, for the price and sum of

..... Dollars (\$

to be paid by the Purchaser as follows:..... Dollars (\$), at the time of the signing of this contract, in the form of St. Louis Exchange, the receipt whereof is hereby acknowledged by the Seller subject only to final payments; the remainder to be paid to the order of the Seller through the assumption of the existing first mortgage, if any, and the interest thereon from

19, and Dollars (\$

cash on delivery of deed, together with interest @ per cent per annum on the unpaid portion of purchase price from date of acceptance of this contract to date of delivery of deed, the deed to be delivered on or before 19; the balance, if any, to be paid through purchase money loan or loans secured by mortgage(s) and/or deed(s) of trust on the above described real estate in the form of a year amortized loan, with interest @ per cent per annum, with annual installment dates of first each year, the Purchaser to have the right to pay one or more principal installments on said purchase money loan or loans at any time, without penalty.

The Purchaser agrees to pay all general taxes and all special improvement taxes and assessments which are due and payable in the year of and thereafter.

It is understood that said property, is leased or rented until 19 to of and the Purchaser agrees to buy said land subject to said lease and to the rights of all present occupant(s) and lessee(s). Purchaser furthermore agrees to accept the present lessee(s) and occupant(s) as his tenant(s), the Seller Purchaser to collect and retain all uncollected rentals for the year to which Seller is entitled except:

(Continued)

The Purchaser agrees from the date of this contract to keep the buildings erected and to be erected on said premises insured, to an amount and in companies acceptable to the Seller, for the benefit of the Seller and assigns; and in default thereof such insurance may be procured by the Seller, at the Purchaser's expense. Prior to the delivery of the deed as above provided, such policies, whether procured by the Purchaser or Seller, shall be carried in the name of the Seller. Policies now in force or hereafter issued to the Seller may be continued in effect and renewed by the Seller if necessary, and the Purchaser agrees to pay the unearned premium on said policies from date of this contract, unless the Purchaser furnishes other policy or policies satisfactory to the Seller. Subsequent to delivery of deed, policies shall bear the standard mortgage clause, payable to the Seller and assigns as interest may appear, without contribution. If loss occurs prior to delivery of deed, and deed and mortgage are subsequently delivered as herein provided, the Seller agrees to apply the insurance proceeds toward the construction or repair of the buildings destroyed or damaged, or, at the option of the Purchaser, to the reduction of said mortgage debt.

Within thirty (30) days after the Purchaser's written request therefor, the Seller agrees to deliver to the Purchaser abstracts of title to said real estate, properly certified to date, for his examination. The Purchaser agrees to notify the Seller in writing as to his acceptance of or objections to the title within ten (10) days after receipt of the abstract from the Seller. The Seller shall have sixty (60) days from date of delivery of such objection or objections to the title in which to rectify such defects, if any; but in case the Seller fails to rectify such defects in that time, then the money deposited, as aforesaid, without interest, shall be returned to the Purchaser, unless the Seller shall, at his own expense, furnish the Purchaser a written offer of some responsible title insurance company to insure the title in the usual form, notwithstanding the alleged defects. Upon the return of said deposit money, the rights of the parties hereunder shall cease and this contract shall thereupon be and become null and void.

The Purchaser agrees to pay the cost of recording all instruments evidencing his title and all mortgages or deeds of trust given as part of the purchase price as above provided, and to have the abstract of title extended to show all said instruments of record, and to have the abstract properly certified as to judgments against the Purchaser. The cost of documentary stamps for the conveyance must and will be met by the Purchaser. The Purchaser further agrees to return to the Seller all abstracts submitted to him for examination, to be retained by the Seller until the loan or loans herein specified are paid in full.

Upon receipt of cash payments, notes and mortgages and/or deeds of trust hereinbefore provided, and all further sums to which the Seller may be entitled on account of tax advances, insurance premiums paid by the Seller, or the maturing of an installment of any existing first mortgage or of the proposed purchase money mortgages or deeds of trust as hereinabove provided, and upon compliance by the Purchaser with each and every covenant and condition herein imposed by the terms of this contract, the Seller agrees to execute and deliver to the Purchaser a warranty deed; provided, however, that the Seller shall not be obliged to warrant against adverse claims to title or possession, asserted, through legal proceedings or otherwise, after the date hereof and prior to delivery of deed.

If the Seller has kept his part of the contract, as herein provided, and the Purchaser fails to comply with any provision of the contract within ten (10) days after the time herein required, then all payments made hereunder may be retained by the Seller as liquidated damages, or the Seller may, at its option proceed to enforce the contract against the Purchaser as it may determine.

The Purchaser states that he has personally inspected all the boundaries, acreage, improvements and soil of said land, and in all other respects has checked the property which he has agreed to purchase; that he is satisfied with the premises as described herein and the terms of this contract, and makes the contract voluntarily, relying wholly upon his own knowledge and investigation, and not upon any statements or representations made by the Seller or by any person representing or purporting to represent the Seller.

It is mutually agreed that all covenants and conditions herein contained shall extend to and be binding upon the successors and assigns of the Seller and the heirs, executors, administrators and assigns of the Purchaser.

No assignment of this contract shall be made without the written consent of the Seller.

IN WITNESS WHEREOF, said parties have hereunto affixed their respective signatures.

Grantee(s).....
Name of Purchaser's Wife or Husband.....
If unmarried, state Single.....
Is Purchaser or spouse under any legal disability?.....

.....
Purchaser

.....
Purchaser

FEDERAL FARM MORTGAGE CORPORATION
By its Agent and Attorney-in-fact,
THE FEDERAL LAND BANK OF ST. LOUIS

By.....
Vice-President

STATE OF MISSOURI, }
County of Boone. } ss.

On this _____ day of _____, 194____, before me,

personally appeared _____

and _____

_____ his wife, to me known to be the
person described in and who executed the foregoing instrument, and acknowledged
that _____ executed the same as _____ free act and deed.

IN TESTIMONY WHEREOF, I have hereunto set my hand and affixed my official
seal at my office in said County, the day and year first above written.

My term of office as a Notary Public will expire _____, 194____

STATE OF MISSOURI, }
County of Boone. } Sect.

THIS DEED from _____

_____ was produced before me, Recorder of Deeds for Boone County, on the _____ day
of _____ in the year of our Lord, One Thousand Nine Hundred and Forty _____
and with the certificate thereon endorsed, is duly recorded in Book _____ Page _____

Given under my hand as Recorder aforesaid, with the seal of said office hereto affixed, at
office in Columbia, on the day and year aforesaid.

Filed at _____ o'clock _____ M.

Recorder

By _____

WARRANTY DEED

No. _____

TO

Filed for record _____, 194____

at _____ o'clock _____ minutes _____ M.

Recorded in Book _____ Page _____

ATTEST:

Recorder

Deputy

(Continued)

This Deed, Made and entered into this day of

A. D. One Thousand Nine Hundred and Forty, by and between

.....

.....

of County, State of part of the first part, and

.....

of County, State of party of the second part:

WITNESSETH, That the said part of the First Part, for and in consideration of

..... DOLLARS

to paid by the said part of the Second Part, the receipt of which is hereby acknowledged, do by these

presents Grant, Bargain and Sell, Convey and Confirm, unto the said part of the Second Part, the following described

tract or parcel of land, situated in the County of Boone, in the State of Missouri, to-wit:

TO HAVE AND TO HOLD the same, together with all the rights, immunities, privileges and appurtenances to the same be-
longing unto the said part of the Second Part, and to heirs and assigns, forever; the said

..... hereby covenanting that heirs,

executors, and administrators, shall and will WARRANT AND DEFEND the title to the premises unto the said part

of the Second Part, and to heirs and assigns, forever, against the lawful claims of all persons whomsoever.

IN WITNESS WHEREOF, the said part of the First Part ha hereunto set hand and
seal the day and year first above written.

WITNESS

..... (Seal)

..... (Seal)

..... (Seal)

..... (Seal)

..... }
..... }
..... }

MISSOURI AGRICULTURAL EXTENSION SERVICE

STATE OF MISSOURI, } ss. On this _____ day of _____ A. D. 19____
County of _____

before me personally appeared _____
and _____

his wife, to me known to be the persons described in and who executed the foregoing instrument and acknowledged that they executed the same as their free act and deed.

IN TESTIMONY WHEREOF, I have hereunto set my hand and affixed my official seal at my office
in _____ the day and year first above written.

My term expires _____, A. D. 19____

STATE OF MISSOURI, } ss. On this _____ day of _____ A. D. 19____
County of _____

before me personally appeared _____

to me known to be the person described in and who executed the foregoing instrument, and acknowledged that _____
executed the same as _____ free act and deed. And the said _____

further declare _____ to be single and unmarried.

IN TESTIMONY WHEREOF, I have hereunto set my hand and affixed my official seal at my office
in _____ the day and year first above written.

My term expires _____, A. D. 19____

Recorder's Fee . . . \$ _____
COLUMBIA PRINTING CO

Filed for Record this _____ day
of _____ A. D. 19____
at _____ o'clock _____ minutes _____ M.
Recorder

QUIT-CLAIM DEED
FROM
TO

STATE OF MISSOURI, } ss. IN THE RECORDER'S OFFICE
County of _____

I, _____ Recorder of said County, do hereby certify that the within
instrument of writing was on the _____ day of _____ A. D. 19____, at _____ o'clock and _____ minutes
M., duly filed for record in my office, and is recorded in the records of this office in Book _____ at page _____

IN TESTIMONY WHEREOF, I have hereunto set my hand and affixed my official seal at
_____ this _____ day of _____ A. D. 19____

Recorder

(Continued)

THIS INDENTURE, Made on the _____ day of _____ A. D. One Thousand
Nine Hundred and _____ by and between _____

of the County of _____ and State of _____, part _____ of the First Part, and

of the County of _____, in the State of _____, part _____ of the Second Part:

WITNESSETH, That the said part _____ of the First Part, in consideration of the sum of _____
DOLLARS

to _____ paid by the said part _____ of the Second Part, the receipt of which is hereby acknowledged, do _____ by these
presents, Remise, Release and forever Quit-Claim, unto the said part _____ of the Second Part, the following described Lots,
Tracts, or Parcels of Land, lying, being and situate in the County of Boone and State of Missouri, to-wit:

*[This Deed of Quit-Claim being made in release of, and satisfaction for, certain Deed _____
dated the _____ day of _____, 19 _____; recorded in the Recorder's office within and for the County
of Boone, aforesaid, in Deed Book _____ at page _____.]

TO HAVE AND TO HOLD the same with all the rights, immunities, privileges and appurtenances thereto belonging, unto
the said part _____ of the Second Part, and _____ heirs and assigns, FOREVER; so that neither the said part _____ of
the First Part, nor _____ heirs, nor any other person or persons for _____ or in _____
name—or behalf, shall or will hereafter claim or demand any right or title to the aforesaid premises, or any part thereof, but
they and every one of them shall, by these presents, be excluded and forever barred.

IN WITNESS WHEREOF, The said part _____ of the First Part ha _____ hereunto set _____ hand _____ and seal _____
the day and year first above written.

Signed, Sealed and Delivered in presence of us,)

_____ (SEAL)

*Erase this clause in case this Deed is not made in release of some other instrument.

Form FSA-LE-228
Rev. 10-17-40

UNITED STATES DEPARTMENT OF AGRICULTURE
FARM SECURITY ADMINISTRATION

**AGREEMENT FOR VARIABLE PAYMENTS
ON NET INCOME PLAN**

This Agreement, entered into between the undersigned Borrower and the Secretary of Agriculture (hereinafter referred to as the "Government"), this day of

WITNESSETH:

1. Purpose.—(a) The purpose of this Agreement is to substitute for the payment schedule set forth in the note executed by the Borrower for the repayment of the loan made to him by the Government under Title I of the Bankhead-Jones Farm Tenant Act, a plan of variable payments in accordance with the provisions of Section 48 of said act.

(b) The plan of variable payments shall be substituted only for the schedule of principal and interest payments set forth in the Borrower's note, and the Borrower shall be obligated to make payments for taxes and insurance, and to otherwise comply with the terms and conditions of his mortgage or deed of trust, as fully as though this Agreement had not been executed.

2. Records and reports.—(a) The Borrower agrees to maintain, in a manner prescribed by the Farm Security Administration, a complete and accurate record of all income received, and all expenses incurred, in carrying out the farm and home management plan or plans developed with him by the Farm Security Administration. Such records shall be so maintained as to reflect adequately the net cash income of the Borrower for each fiscal year, as herein defined.

(b) The Borrower agrees that his fiscal year shall be the 12 months ending on of each year.

(c) The Borrower agrees that records maintained by him shall be available for examination at reasonable times by the county rural rehabilitation supervisor or home management supervisor of the Farm Security Administration, or such other representative of the Department of Agriculture as the Government may designate.

3. Determination of net cash income.—(a) Within 15 days after the close of the fiscal year, as determined in 2 (b) above, the Borrower agrees to submit to the county rural rehabilitation supervisor, on forms prescribed by the Government, an operating statement showing all income received and expenses incurred, and gain or loss in net worth in carrying out his farm and home management plan for such fiscal year.

(b) On the basis of such operating statement, the Government shall determine the net cash income of the Borrower during such fiscal year. In determining such net cash income, the Government may disallow any expenses or charges which are found to have been unreasonably incurred.

(c) As soon as the net cash income of the Borrower for the fiscal year has been determined by the Government, written advice of such determination shall be given to the Borrower.

4. Payments.—Within 15 days after receiving notice of his net cash income, the Borrower agrees to make payments as follows:

(a) Until he has built up an adequate reserve, as herein defined, the Borrower agrees that his payment shall be equal to his net cash income. Such payment shall be applied, first, to meet all principal and interest installments under the note which are then due and payable and, second, as prepayments on the installments of principal next to become payable under the note. If the payment is insufficient to meet the principal and interest installments then due and payable, any deficiency shall be carried forward to the next fiscal year.

(Continued)

(b) The Borrower shall be deemed to have accumulated an adequate reserve if, as of the date of his last annual settlement, he had (1) paid all installments of principal and interest then due, and (2) had, in addition, made prepayments of principal equal to three times the annual interest and principal amortization payment provided for in his note.

(c) So long as the Borrower maintains an adequate reserve, as herein defined, the amount of his net cash income to be applied to the prepayment of further installments of principal shall be discretionary with him: *Provided, however*, That, without the consent of the Government, and in accordance with the provisions of Section 3 of the Bankhead-Jones Farm Tenant Act, no final payments shall be accepted less than 5 years from the original date of the loan.

(d) To provide for the systematic accumulation of current income to meet the payments provided under paragraphs (a) and (b) above, the Borrower agrees to deposit in a special bank deposit account, out of cash received by him from time to time during each fiscal year, either (1) a share equal to the landlord's share customarily paid in his locality as rent for farms similar to the Borrower's, or (2) the cash equivalent of the following shares of the following crops as determined by the Government.

Crop	Percentage or share	Crop	Percentage or share

5. **Resumption of fixed payments.**—(a) If the Government finds that the Borrower has failed to comply with the provisions of Section 2 of this Agreement, relating to records and reports, or has failed to make payments in accordance with Section 4 of this Agreement; or, if the Government shall, for any other reason, determine that the variable payment plan herein provided should be discontinued, it may give written notice of such discontinuance to the Borrower. The Borrower shall also have the right to discontinue the variable payment plan by giving written notice of such discontinuance to the county rural rehabilitation supervisor, provided that such notice is given at least 30 days before the end of the current fiscal year, and provided that the Borrower has met all principal and interest installments under his note which are then due and payable.

(b) In the event that the Government or the Borrower shall give notice of the discontinuance of the variable payment plan, further payments by the Borrower shall be computed and shall be payable as follows: The unpaid balance of principal then owing shall be payable in such equal annual installment, including interest from time to time remaining unpaid, as will retire such principal within 40 years from the original date of the loan. Interest, unpaid at the date the variable payment system is discontinued, shall, at the option of the Government, be either (1) immediately due and payable, or (2) payable in such installments and at such times as the Government may agree to in an extension agreement to be executed between the Borrower and the Government.

IN WITNESS WHEREOF, the parties hereto have caused this instrument to be executed the day and year first above written.

UNITED STATES OF AMERICA,

By

(Title)

*Farm Security Administration,
United States Department of Agriculture.*

.....
(Borrower—husband)

.....
(Borrower—wife)

.....
(Borrower's post-office address)

.....
(County)

.....
(State)

U. S. GOVERNMENT PRINTING OFFICE 16-9859

UNIVERSITY OF MISSOURI COLLEGE OF AGRICULTURE AND THE UNITED STATES DEPARTMENT OF AGRICULTURE COOPERATING

J. W. BURCH, Director, Agricultural Extension Service
Distributed in furtherance of the Acts of Congress of May 8, and June 30, 1914

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