

THE USE OF LAND INSTALLMENT PURCHASE CONTRACTS IN THE PURCHASE AND SALE
OF FARM REAL ESTATE IN HIGH RISK AREAS OF KANSAS

by

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INTRODUCTION

Two economic trends of the past several years have made their effects felt upon both established farmers and young persons trying to get started in farming. One trend is the continued rise in farm real estate values despite several years of declining farm income. The explanation of these divergent trends involves several factors, among them: (1) the demand by farmers to add to their existing land holdings to permit more efficient use of their enlarged machinery investment and technical "know-how"; (2) the urban and industrial encroachment upon rural areas; (3) continued demand for part-time farms and rural residences; (4) the impact of the capital gains tax in restraining sales where owners have accumulated a large capital gain; and (5) the lack of alternative investments to yield an income (after the capital gains tax is paid) as high or higher than can be realized from the income of the farm enterprise.¹ The second trend, closely related to the first, is the increased capital requirements in farming as compared to the declining farm income.²

The established farmer, desiring to maintain an income comparable to that of other segments of the economy, is attempting to expand the scale of the farm unit to accomplish this goal.³

The beginning farmer must accept the risks and responsibilities of acquiring and using enough land and capital to have efficient operations

¹ Norman J. Wall, "Buying Farms Through Land Contracts", Banking, February, 1959.

² H. Van Vliet, "Increased Capital Requirements and the Problem of Getting Started in Farming", Journal of Farm Economics--Canadian Journal of Agricultural Economics, December, 1958, pp. 1613-1614.

³ Loc. cit.

and to return enough money for an acceptable living.⁴

Concern especially over the problems of these beginning farmers led to research on the subject in the North Central States.⁵ (This thesis comes within the scope of this study, designated as NC-15).

The needs of established and beginning farmers in obtaining more capital, specifically land, may best be met by the availability of long-term farm credit and, for the beginner, low-equity financing.

To obtain this financing the farmer may turn to one of several major sources of credit including savings and loan associations, life insurance companies, commercial banks, savings banks, individual and noninstitutional lenders, and various public and semi-public credit agencies including the Farmers Home Administration and the Federal Land Banks.⁶

The two major types of loans available to the farmer from these sources are real estate mortgages and "sales contracts."

From a legal standpoint, mortgages fall into three general classes: regular mortgages, deeds of trust, and equitable mortgages.⁷ The regular mortgage calls for the conveyance of the property and the title to the buyer with the seller maintaining a claim against the property to secure the payment of the loan. When the loan is paid the mortgage is voided and the buyer has full and legal title with no claims on it from the seller.

A deed of trust differs from a mortgage in that it transfers the title to a third party, or trustee, who has power to advertise and sell the

⁴ Don Kanel, Franklin J. Reiss, and Charles L. Stewart, "Getting Started in Farming is Hard", Land, The 1958 Yearbook of Agriculture, pg. 254.

⁵ Loc. cit.

⁶ Raleigh Barlowe, Land Resource Economics, Prentice-Hall, Inc., Englewood Cliffs, New Jersey, 1958, pg. 443.

⁷ Ibid.

property without a suit upon default of the buyer.⁸ If the buyer pays off the loan the title is then transferred to him.

Various other arrangements such as faulty or incomplete mortgages, the giving of a deed as security for a loan, or the conditional sale of land are treated by the courts as equitable mortgages as long as there is written evidence that the parties intended that real estate be held as security for the payment of a debt.⁹

The "sales contract" is known under a variety of names including "real estate contract", "installment sales contract", "agreement to convey", and "contract for deed."¹⁰ However, the author has chosen to refer to it as the Land Installment Purchase contract due to the fact that this term appears to be the most descriptive. For convenience it will be referred to simply as the contract in the remainder of this thesis.

The North Central Regional study, NC-15, referred to earlier, concerned primarily with how the young person gets started in farming, particularly without family assistance, was concerned with the contract as a potential means of getting young people started because of its apparent low-equity method of financing. Therefore this thesis is concerned primarily with the contract as a method of financing farm real estate purchases, especially in high-risk areas of Kansas.

The first year of popularity enjoyed by the contract was during the World War I land boom. Speculators, for only a small down payment, could purchase land on a contract. Then either the contract or the title could be

⁸ I. W. Duggan, and Ralph U. Battles, Financing the Farm Business, John Wiley & Sons, Inc., New York, 1950, pg. 175.

⁹ Barlowe, op. cit. pg. 447.

¹⁰ Henry E. Hoagland, Real Estate Finance, Richard D. Irwin, Inc., Homewood, Illinois, 1954, pg. 123.

re-sold later as the market moved upward resulting in a profit to the speculator. The sudden collapse of the land market in 1920-21 caused many of these buyers to lose their thin equities.¹¹

The next surge of popularity and use for the contract came as a result of the depression of the early 1930's. Lending agencies, particularly insurance companies, found themselves with thousands of farms acquired by foreclosure with farm ownership not intended as a major purpose of these agencies. The contract enabled these agencies to sell these farms to buyers who could not qualify for conventional mortgage financing. The rising farm incomes of World War II permitted most of such contract buyers to increase their equities and acquire title.¹²

Currently interest in and use of contracts is reviving. Largest increases in use have occurred in the Corn Belt and Lake States, the Northern Plains, and the Mountain region. Table 1 shows the increase in the use of contracts in Kansas from 1948 to 1958. This increase in use results to a great extent from the facts that in many cases it will ease both Federal and State tax payments on capital gains, the seller can regain possession quickly in case of default, and its use avoids the problem of reinvestment of funds, which otherwise would be necessary with a cash sale.¹³

Contracts usually arise because of the willingness of property owners to help finance the sale of their properties. Under the usual contract arrangement, the buyer makes a down payment on the property (although a down payment is not a necessary feature of the contract) and agrees to pay the balance of the purchase price in periodic payments. Once the contract goes

¹¹ Wall, op. cit.

¹² Loc. cit.

¹³ Loc. cit.

Table 1. Estimated percentage of voluntary farm real estate transfers by various methods in Kansas, 1946-1958¹.

Year	Percentage of voluntary transfers		
	Cash	Contract	Mortgage
1946	71	6	23
1947	68	6	26
1948	66	7	27
1949	59	8	33
1950	59	8	33
1951	58	9	33
1952	58	9	33
1953	47	12	41
1954	48	14	38
1955	42	15	43
1956	44	13	43
1957	39	16	45
1958	43	16	41

¹ ARS Survey, provided by William H. Scofield. Estimates obtained from farm real estate reporters.

into effect the buyer takes possession of the property and operates it in much the same manner as a mortgaged owner.¹⁴ No mortgage is involved however, because the borrower is not the owner and hence cannot give a mortgage.¹⁵

¹⁴ Barlowe, *op. cit.*, pg. 456.

¹⁵ William G. Murray, *Agricultural Finance*, The Iowa State College Press, Ames, Iowa, 1953, pg. 147.

The seller or his assigns retain legal title to the property until all the payments are made or until the buyer's equity permits him to refinance his purchase with a mortgage.¹⁶

Several methods are used for setting up the repayment schedule in contracts. The payment dates may be annual, semiannual, quarterly, or monthly. Some contracts provide for relatively small payments during the early years and larger payments toward the end of the contract period. Other contracts provide for equal periodic payments on principal, which means that interest payments become smaller and smaller as the debt is retired. Other contracts establish amortization schedules in which all periodic payments of principal plus interest are equal. Still other contracts provide for variable payments based on the amount of crop production and agricultural prices each year.¹⁷

Possibly the biggest difference between contracts and mortgages is a legal one. The rights and remedies of a person buying land under a mortgage are determined according to the law of mortgages; under the contract they are determined by the law of contracts.¹⁸

The law of mortgages varies considerably from state to state but in all of them a defaulting debtor is given a right of redemption which can be extinguished only by a foreclosure sale. At any time during the redemption period and the foreclosure procedure the buyer can remove the default if he can raise the money.¹⁹

¹⁶ Barlowe, op. cit. pg. 456.

¹⁷ Charles L. Stewart, and Stanley W. Voelker, "The Mechanics of Land Transfer", Land, The 1958 Yearbook of Agriculture, pg. 216.

¹⁸ Loc. cit.

¹⁹ Loc. cit.

There is even greater diversity among the states in the rights and remedies of buyer and seller in the case of defaulted land contracts. In some states, the seller can terminate a defaulted contract upon short notice and retain all payments made by the buyer as liquidated damages. Legislatures of some states have attempted to mitigate the harshness of abrupt termination by requiring the seller to give 30 days' written notice before cancelling the contract or by establishing a redemption period between default and cancellation, the length of which depends upon the proportion of sales price already paid. In several states the most important remedy of the seller is a judicial action for strict foreclosure of the contract, the courts being empowered to grant a short redemption period before the seller can regain the property. In all states, however, the mortgage method of financing gives the buyer more protection in case he defaults than does the contract method, in that, he has more time within which to remove the default and he has a chance to recover part of his investment.²⁰ In Kansas the court can decide whether the buyer is allowed a redemption period, and, if so, the length of the period.²¹ Court action on the matter may not be uniform throughout the state.

²⁰ Loc. cit.

²¹ Wilfred H. Pine, and James K. Logan, Acquiring and Transferring Farm Real Estate in Kansas, Circular 367, November, 1958, pg. 10.

REVIEW OF ECONOMIC THEORY

Function of an Economy

A basic function of an economy should be to maximize the total economic welfare of the community in which the economy functions. Reder states that, "The welfare of the community is said to be a maximum if its productive resources are utilized in such a way that it is impossible to make any one person more satisfied (put on a higher indifference surface) without making at least one other person less satisfied (put on a lower indifference surface)."²²

Contribution of Land to Economic Welfare

Land contributes to the maximum economic welfare when it meets certain marginal, second order, and total conditions for maximum welfare.

The use of the land meets the marginal conditions of maximum welfare when:

1. The marginal rate of substitution between any two products of the land is the same for every individual who consumes both;
2. The marginal rate of transformation between any two products is the same for any two units of land used to produce both;
3. The marginal rate of transformation between the factor of land and any product is the same for any two units of land producing the product;
4. The marginal rate of substitution between any pair of products for any person consuming both is the same as the marginal rate of transformation (for the community) between them;
5. The reward paid the owner of the land is equal to the value of the marginal physical product of the land.²³

²² Melvin W. Reder, Studies in the Theory of Welfare Economics, Columbia University Press, New York, 1959, pg. 15.

²³ Adapted from Reder, Ibid., pp. 21-36.

The use of the land meets the second order conditions of maximum welfare when:

1. Each consumer has a diminishing marginal rate of substitution between each pair of products from the land;
2. There is a diminishing marginal rate of transformation between any product and the factor land or any pair of products from the land.²⁴

The use of the land meets the total conditions of maximum welfare when:

1. It is impossible to increase welfare by producing a product not otherwise produced;
2. It is impossible to increase welfare by using more of the factor land than is already being used.²⁵

Implications of the Economic Theory on Methods of Farm Real Estate Transfer

It follows that the contribution of the factor land to the total economic welfare of the community becomes the measure of the efficiency of the farm real estate market and the methods of transfer used. Efficiency, as defined by Schickele, "refers to the degree of success with which a definite device is used to achieve a definite purpose....a measure of the appropriateness of certain specific means to a given end."²⁶

The "definite purpose" in this case is to distribute the land to those individuals who can utilize it to fulfill the requirements of maximum economic welfare within the community, that is, those individuals who will put the land to its best use and who will achieve the greatest productivity from the land.

²⁴ Adapted from Reder, Ibid., pg. 37.

²⁵ Adapted from Reder, Ibid., pg. 37.

²⁶ Rainer Schickele, "Effect of Tenure Systems on Agricultural Efficiency", Journal of Farm Economics, February, 1941, pg. 185.

On the basis of these criteria the problem concerning methods of farm real estate transfer is a problem of how well the various methods contribute to that which should be their basic goal, getting the land into the control of those individuals who will best utilize it.

Although the solution of this problem rests upon the theoretical structure stating how to maximize economic welfare, a comprehensive study would determine which of the various transfer methods has been most successful in getting the land into the hands of the "best" individuals, whether these individuals be the young person just getting started in farming, the already established farmers, or others.

COMPREHENSIVE APPROACH

A comprehensive study to determine which of the various farm real estate methods was "best" within the economic framework discussed above would involve eight major steps.

First, the area to be studied would be determined. The high risk area of Kansas will be used for purposes of this discussion.

Second, the period of time to be studied would have to be established with consideration towards the economic trends in the farm real estate market and the agricultural scene in general. For purposes of this discussion the ten year period from 1951 through 1960 will be used.

Third, a list of all persons who own farm real estate in the high risk area would be compiled.

Fourth, the owners would be contacted to determine: (a) were they selling the land they owned on contract to any other parties, and (b) had they in the ten year period bought the land and if so how had they purchased

this land. In certain cases the land may have changed hands several times within the ten year period. The parties involved in these past transactions should also be contacted to discover the method used in transferring the real estate.

The completion of these steps should yield complete populations of all the methods of transfer; contract, cash, various types of real estate mortgages, gift or assignment, and inheritance; used for the ten year period within the high risk area.

Fifth, with complete populations of each method of transfer available stratified random sampling procedures could be used to select the cases for further study. The strata should be developed to include cases from all methods of transfer used and all types of farmland involved in the transfers.

Sixth, determination should be made of the information needed which would lead to an evaluation of the various methods of farm real estate transfer within the established economic framework.

Seventh, the gathering of the required information would be carried out with the aid of questionnaires, directed to the parties involved in land transfers selected by the stratified random sampling procedure, and any other methods of research which would aid in completing the information.

Eighth, the analysis of the methods of farm real estate transfer as they fit in with the economic framework of placing the land in the hands of those individuals who would best utilize it.

SCOPE OF STUDY

A comprehensive study always has some appeal. It would approach the "ideal" type of study. A careful examination of steps 3 to 8 would reveal

the tremendous task involved. Highly complicated analyses of a large volume of production information would be required. This was not possible to do within the scope of this thesis. Therefore, this thesis is limited to a description of the use of the contract method of transfer in a high risk area of Kansas. Appraisals of various aspects of contracts are made by relating "known" conditions conducive to the "best" use of resources to characteristics of existing contracts, such as, a low down payment permits a buyer to reserve more funds for other, and perhaps more productive, resources, or flexible repayment provisions appear desirable in an area with highly variable incomes.

This thesis deals only with contracts with very limited consideration to other methods of transferring and financing real estate transfers. As will be shown, it was not possible to select a random sample of contracts for study.

OBJECTIVES OF THIS STUDY

The objectives of this study were to determine:

1. Characteristics and circumstances of buyers and sellers involved in contracts;
2. Mechanics of developing and drafting contracts;
3. Sizes and characteristics of real estate involved in contracts;
4. Terms and provisions included in contracts;
5. Occurrences which take place during the life of a contract;
6. Relationships existing between circumstances under which the contract is used and the actual transaction, and relationships existing between factors within the transaction;
7. Advantages and disadvantages to the buyer and seller of using the contract as a means of financing the transfer of farm real estate;
8. Recommendations which can be made concerning the use and development of contracts.

LOCALE OF STUDY

The high risk area of Kansas selected for this study was type-of-farming area 12. The counties involved in the study were Logan, Wallace, Wichita, Greeley, Kearny, and Hamilton. Scott County, on the eastern edge of the region, was excluded due to the fact that it is heavily irrigated and consequently may not be classed as a high risk area. Figure 1 shows the location of these counties in Kansas.

A high risk area was used in this study because no similar work was carried out under the NC-15 study in any other section of the North Central Research Region. It was believed that the use of contracts in a high risk area may have differed from their use in other lower risk areas of the North Central Region.

SOURCES OF INFORMATION

The collection of data concerning contracts had two major phases. The first phase was to locate contracts in existence, or recently in existence, and obtain the names and addresses of the parties involved.

Three major sources supplied most of this information. The first source was the Register of Deeds in each county. Only a few contracts were found recorded; recording of contracts is not required in Kansas. This was the only direct source of the existence of contracts.

The second source was the real property tax receipts kept in each County Treasurer's office. This required the examination of all receipts in the county. When the person who paid the taxes was not the same as the person in whose name the deed was held this was considered an indicator of a contract transaction.

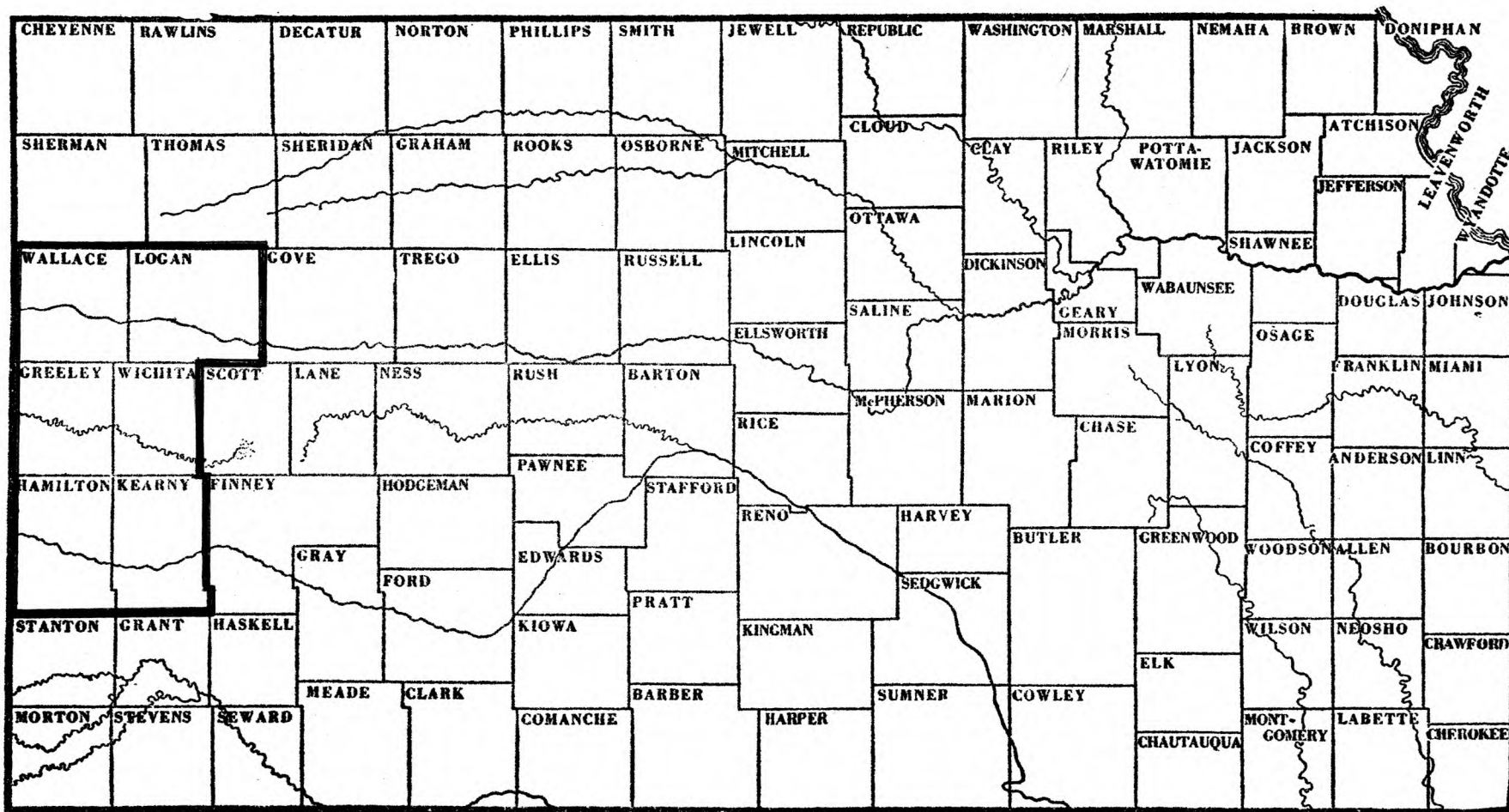


Figure 1. The location of the six high-risk area counties involved in this study, (the area studied is in the bold black outline).

The third source was the Agricultural Stabilization and Conservation Service office in each county. All the reconstitution forms (forms filled out by a farmer when he desires to have a piece of land put into his unit for the purpose of getting his wheat allotment) were examined for the last two years. All reported purchases were traced back to the Register of Deeds. When the title to a piece of farm real estate reported as purchased was discovered to still be in the name of the original owner, this was considered also as being an indicator of a contract. This source might have been followed back several more years. However, the reconstitution forms have only been in use for two years and records before this period of time gave no information which would enable one to trace a contract transaction.

An attempt was made to find parties involved in contracts from bankers, attorneys, abstractors, and real estate agents and brokers. However, in every instance the information desired was considered privileged and would not be divulged.

The second phase of the collection of data was the interviewing of the buyers and sellers in the transactions. For this purpose two questionnaires were developed--one for interviewing buyers and one for sellers. These are in Appendix A.

One problem encountered was finding people at home. In several cases the parties had moved out of the state. If necessary, three, and often four, stops were made at the homes of people in an effort to contact them. Many of the indicators of contracts obtained from the Agricultural Stabilization and Conservation Service offices and tax receipts failed to lead to contract transactions. Time and finances allowed only one, and sometimes two, calls to contact people who lived in other parts of the state.

The number of contracts studied and the number of interviews held are shown in Table 2.

Table 2. Interviews and contracts.

County	Interviews		: Interviewed	Contracts		: Total
	: Buyers	: Sellers		: Recorded	: no interview	
Logan	10	5	18 ¹	3		21
Wallace	5	1	6	3		9
Wichita	7	6 ²	13	1		14
Hamilton	5	0	6 ³	0		6
Kearny	1	1	4 ⁴	2		6
Greeley	0	0	0	3		3
Total	28	12	47	12		59

¹ One of the buyers interviewed was purchasing land under two separate contracts, one of the sellers interviewed was selling land under five separate contracts, and on two of the contracts both buyer and seller were interviewed.

² One seller was also interviewed as a buyer in another contract case.

³ One seller had already been interviewed pertaining to contracts on which he was selling land in Logan county.

⁴ One seller had already been interviewed pertaining to contracts on which he was selling land in Logan and Hamilton counties.

METHODS OF ANALYSIS

The analysis in this study was based on statistical method rather than the case study method. A summary review of the results of the study revealed no particular case or cases worthy of the complete and detailed study which would be required under the case study method. However, some cases did have certain aspects and factors which differed from the majority and these were separated out for special mention in the context of the thesis.

Due to the problems encountered in locating and obtaining information concerning contracts the entire population of contracts was not discovered and no random sampling procedure was possible. The statistical tests and procedures used involved only the population of contracts studied and no statistically significant conclusions could be drawn concerning the entire contract population in the six-county area.

A problem encountered in the analysis arose from the fact that the number of cases involved in the study and analysis of one factor pertaining to contracts was not always equal to the number of cases which could be applied in studying another factor. This resulted from: (a) the refusal of some interviewees to answer all questions; (b) the lack of knowledge on the part of some of the interviewees concerning the contracts in which they were involved; and (c) the fact that in some cases certain information requested from the party interviewed pertaining to the other party to the contract was not provided.

Contract transactions may be classified in several ways: size and/or characteristics of the farm real estate bought; the sizes of the various financial arrangements in the contract, such as the selling price, down payment, installment payments, and interest rate; the characteristics and circumstances of the buyer in the transaction; and the characteristics and circumstances of the seller.

The arithmetic mean, referred to as the average within this thesis, was used as the measure of central tendency, with one exception where the mode was used, in the analysis of the characteristics and circumstances of the various factors involved in the transactions and the contracts studied. The range was used as the measure of variation in certain factors.

Five statistical tests were used in the effort to determine what significant relationships might exist between certain factors involved in the transactions and contracts studied. The level of significance used in the statistical tests was .05.

The tests used were: the simple correlations between certain factors accompanied with the sight test of significance; the t-test for testing the differences in the means between two groups of certain factors within the population studied; the usual statistical F-test; the Kruskal-Wallis H-test; and Duncan's new multiple range test for unequal group sizes.

THE BUYERS

Of the 28 buyers interviewed 27 were married and one was not; all but one of the 27 had children. The ages of the buyers ranged from 28 to 65. The average age for 32 buyers for which information could be obtained was 46. The average farm work experience for these 32 buyers was 27 years. Several buyers answered the question, "How many years of farm work experience have you had," with, "all my life." To determine approximately how many years this would be 15 years was subtracted from his age. The number was selected arbitrarily but appeared to be a reasonable estimate of the age when men who have farmed all of their life first begin working full time.

The farm management experience of the average buyer was 20 years. This factor differs from the farm work experience factor in that it represents the time that the buyer had spent in actually making the operating decisions on the farm.

Thirteen of the 28 buyers interviewed owned no land prior to purchasing the land in question on contract. The average amount of land owned by the 15 buyers with land was 692 acres while the average for the entire group of

28 buyers was 371 acres.

All of the buyers interviewed were operating land. The average amount of land operated was 2,167 acres.

Seven of the 28 buyers had used contracts for purchasing farm real estate and two had used the method for selling prior to the use of the contract studied.

All of the buyers interviewed were farmers with the exception of one who was a retired farmer who considered himself as still operating land due to the fact that he rented out the land he owned and participated to some extent in the operating decisions of that land. However, of those buyers not interviewed for which information could be obtained one was a land agent, one a lawyer, one a furniture store manager, and one a district judge. The remaining 11 were farmers.

Twelve of the 28 buyers had income sources, that is, income sources not originating from the land they operated. Of these, four stated that part of the income from these sources would help make payments on the contracts.

Major characteristics of each buyer interviewed are in Table 3.

THE SELLERS

The average age of 32 sellers for which information could be obtained was 64 years. Their ages ranged from 37 to 88.

Twenty eight sellers owned an average of 1,565 acres of land.

Of the 13 sellers interviewed three had used the contract as a seller prior to the one studied and two had used the contract as a buyer. One of the sellers interviewed had used the contract for one transaction other than those studied. However, he had used the contract for seven transactions

Table 3. Characteristics of buyers interviewed.

Contract number	: Age	: Years of farm work experience	: Years of farm operating experience	: Acres of farm land owned ¹	: Acres of farm land operated	: Number of times prior use of contract	: Outside income sources
1	51	29	20	640	4300	None	Bowling Alley
2	57	42	38	600	1380	None	None
3	40	12	12	0	1280	None	Custom cutting
4 & 5	43	17	12	423	4638	3 as buyer	Sells crop hail and fire insurance and owns junkyard.
6	55	40	30	1760	2080	None	Holds stock in bank Elevator
7	54	14	14	0	2800	None	None
8	28	13	8	0	1680	None	None
9	42	21	18	320	2000	1 as buyer	A machine repair shop
10	48	33	13	0	3250	None	Terracing machine, custom cutting, harvests native grass
11	36	22	22	0	7000	None	Rent
12	48	33	20	1760	1980	1 as buyer	County Commissioner
13	47	32	12	0	420	None	Custom work
14	60	45	40	640	2160	1 as buyer 2 as seller	None
15	40	25	23	0	2400	None	None

Table 3. (concl.).

Contract: number	: Age	:Years of :farm work :experience	:Years of :farm operating :experience	: Acres of : farm land : owned ¹	: Acres of : farm land : operated	:Number of times: :prior use of :contract	:Outside income sources
16	38	23	11	320	1600	None	None
17	42	27	12	320	240	1 as buyer	None
18	41	26	16	700	3140	4 as buyer	None
19	60	45	40	320	760	1 as seller	None
20	42	27	20	0	2480	None	Yes (Source not specified)
21	34	19	19	0	1440	None	None
22	34	19	7	160	880	None	None
23	58	20	20	0	1220	None	None
24	57	30	21	0	800	None	None
25	35	18	10	half interest in 200	875	None	None
26	46	25	15	0	2000	None	Farmer's Union Insurance
27	40	15	15	0	2400	None	None
28	65	50	65	1900	320	None	Rent
29	36	21	12	320	480	None	Yes (Source not specified)

¹ Indicates total amount of farm land owned prior to the land involved in this study.

included in this study. He stated a preference for the contract because he had found it easier to sell his land. One buyer, a land agent, was responsible for three of the contracts in which he was the buyer and had been responsible for three other persons buying land from this particular seller on contract.

Major characteristics of each seller interviewed are in Table 4.

A t-test was made of the hypothesis that the average age of the sellers was the same as that of the buyers. The solved value resulting from the test was 6.60 as compared with a critical value of approximately 2.00 for 62 degrees of freedom. This forced rejection of the hypothesis and it was concluded that the average seller is older than the average buyer.

A Kruskal-Wallis H-test²⁷ was made of the hypothesis that the average buyer and seller owned approximately the same amount of land prior to the transaction. The test yielded a significant X^2 (chi-square) value of 4.78 as compared to the critical value of X^2 at one degree of freedom of 3.84. Thus the hypothesis was rejected and it was concluded that the seller owned more land than did the buyer in an average case.

In three of 43 transactions for which information was available the buyer and seller were related. The buyer was the son-in-law of the seller in one case, one buyer was a nephew of the seller, and one buyer was the nephew of the seller's wife.

²⁷ W. H. Kruskal, and W. A. Wallis, "Use of Ranks in One-criterion Variance Analysis", Journal of the American Statistical Association, 1952, pp. 583-621.

Table 4. Characteristics of sellers interviewed.

Contract number	Age	Other land owned	Number of times prior use of contract	Occupation	Businesses owned	Dependency on payments
1	77	480	None	Retired woman	None	?% ¹
2	59	2880	1 as buyer	Farming and livestock	None	None
30	65	1600	1 as seller	Farmer and stockman	Feed lot	None
31	88	0	None	Real Estate, City Treasurer, Police Judge, Probate Judge, protem	None	None
32-38	82	1280	8 as seller	Retired farmer	None	Partly
39	54	0	None	Car Salesman	None	None
40	50	1280	None	Car Salesman (Active farmer at time of sale)	Liquor Store	?% ¹
41	60	1460	None	Retired farmer (Active at time of sale)	None	None
42	Buyer Number 19					
43	62	640	None	Farmer	None	None
44 & 45	54	1280	1 as buyer 1 as seller	Farmer	None	None
46	65	204	None	Farmer	None	None
47	73	320	None	Retired farmer	None	?% ¹

¹ The sellers stated they were dependent to some extent upon the payments from the contracts, but could give no estimate as to the percentage of their total living expenses covered by the payments.

THE REAL ESTATE INVOLVED

Size of Land Unit

A total of 18,420 acres were involved in the 56 contracts for which the acreage involved could be determined. The size of the land purchased varied from 80 to 1,600 acres with an average of 329 acres in each transaction. Of these 56 transactions 20 were for 160 acres and 19 for 320 acres.

The land in 42 transactions for which land use information was available had a total of 9,751 acres of cropland, an average of 232. One transaction was for 1,600 acres of land with no cropland. The average cropland on the remaining 41 pieces of real estate was 238 acres.

Source of Income from Land

Information was requested in 29 cases concerning the major sources of income from the land involved in the transactions. Wheat was one of the major sources of income in 23 of these cases. In 14 cases grain sorghum was a major source of income. Other sorghums, barley, maize, rye, alfalfa, sugar beets, rye, livestock, and poultry were also income factors involved in the land under consideration. The land was in the soil bank in two cases and in two other cases corn silage was raised as a non-cash crop. In one case the buyer had cash leased his land to onion growers for 50 dollars per acre.

Improvements

The land was improved in 19 of 59 cases. Corrals were the only improvements in one of these cases. The improvements in all other cases involved both a house and outbuildings. In one of the 19 cases the buyer did not

purchase the improvements, but instead, the seller was required to remove them from the land within one year.

The buyers were asked to rate the improvements in 16 of the cases as to condition on the basis of good, fair, or poor. The modal rating of the houses involved was fair while the modal rating of the outbuildings was fair to good.

Reasons for Purchasing Land

The reasons given by buyers for purchasing the land were:

Six for additional land to keep their machinery busy;

Eight for places to live and operate from;

Two because they had been renting the land and the owner was preparing to sell it;

One to obtain pastureland;

One strictly for an investment;

One had an opportunity to take over the contract from another person and felt that it was "too good a bargain to pass up;"

One purchased for an added source of income from his farming;

One wanted to get established in farming in Wallace county and liked the particular land involved;

One because he owned the rest of the section and this land made it a complete section under his ownership;

Two because they believed it to have good underground water for irrigation purposes;

One because it adjoined other land he owned and would be easier to farm than land which was farther away;

One purchased the land for his son to live on and farm;

One purchased the land at an auction sale because he felt it was selling too cheaply to not be a good investment;

One buyer who was purchasing land on two separate contracts bought the land with the intention of putting it in the soil bank; however, the law was changed and prevented him from doing this so he was farming the land instead.

The buyer rented the land prior to purchasing it on contract in five of the 29 cases for which information was obtained.

Reasons for Selling Land

The reasons for selling land were given by the sellers as follows:

One felt she was no longer physically able to check on the land as often as she felt was necessary so she deemed it better to sell than to try to keep the land;

One seller stated that the buyer wanted this particular land and what he had as a land owner was always for sale;

One sold because he had more land than he could operate himself;

One seller was a real estate agent and this sale was in line with his business;

One did not need the land and he was able to sell for a profit;

One seller wanted to get rid of the land because it was improved and he did not feel that it paid to lease out improved land as he had been doing;

One seller had never farmed the land involved and he was offered a good price for it so he sold it;

One sold to onion growers from Colorado because they offered him a good price for the land;

One felt that the land was too valuable for himself to farm;

One seller, selling land on two separate contracts, sold because he got more money for the land than he believed it was worth;

One did not use the land and wanted to sell it;

One lived 115 miles from the land involved in the transaction and could not take care of it.

DEVELOPMENT OF THE CONTRACT

Who Suggests Using the Contract

One of the early decisions in a land transaction is the method to be used in transferring the land from the owner to the buyer. The buyer and/or seller or both suggested using the contract as the means of transfer in 36 of 45 cases studied. Third parties contributed to the decision to use the contract in nine cases. In 14 of the 36 cases in which the buyer and/or seller made the suggestion the seller suggested the use of the contract, in 12 cases the buyer was responsible for the decision to use the contract, and in eight cases the decision was made mutually. In the other two cases the land was sold at an auction and the sellers put the land up for sale on a contract basis. Of the nine cases in which third parties were involved in the suggestion to use the contract, a lawyer suggested the use of the contract in one case, real estate agents in two cases, a banker in one case, in four cases a land agent, and the seller and his attorney made the suggestion in one case.

Objections to Using the Contract

One of 45 buyers objected to using the contract because he wished to pay for the land outright. However, in this case the seller did not want full payment due to the effect on his income tax. The seller charged no interest and allowed the buyer to pay off the contract in three payments over two years time. One seller objected to using the contract because of the intangibles tax he had to pay.

Reasons for Using the Contract

Various reasons were given by the parties to the contract transactions as to why the contract was suggested and used.

Eighteen of 41 cases needed a method of financing and the contract appeared to be a convenient method to do this.

In ten cases, as opposed to other methods of financing in which the buyer receives the deed and the seller receives full payment, the contract allowed the seller to take less than 30 percent of the purchase price as down payment; therefore, the seller is only required to pay capital gains in any one year on only that part of the selling price which he receives in that year.

Three of the sellers wanted to use the contract because it made it easier than any other method of financing to recover the land in case of default on the part of the buyer.

In two cases the land was being sold on contract already and the buyer was simply purchasing the original buyer's interest in the contract.

In one case the seller was a good friend of the buyer's and felt that the contract required him to be less stringent on the buyer in completing the transaction.

In one case the buyer simply stated he liked to use the contract.

In one case the seller, who was selling land on seven separate contracts involved in this study, used the contract because it enabled him to sell his land more easily than if he demanded some other type of financing.

In four cases the buyer interviewed did not know exactly why the seller wanted to use the contract.

Reasons for not Using the Mortgage

Forty parties to transactions gave reasons concerning why a mortgage was not used instead of a contract.

Seven parties stated they did not believe a mortgage would have the same tax advantage a contract had.

Eight parties stated that the only way the buyer felt he could buy the land was on a contract basis, because it allowed a larger loan on the value of the land for financing purposes.

Seven of the parties stated that a mortgage was not even considered.

Two cases involved an assignment of the contract from one buyer to the buyer interviewed.

One party stated that the short payment period involved in his particular contract did not seem to justify use of a mortgage.

Two sellers would sell the land only on a contract basis.

One buyer felt that he would pay lower interest and have a longer time to pay for the land if he purchased on contract rather than mortgage.

Two parties did not feel there was enough down payment in their transactions to justify the use of a mortgage.

One seller did not want to be tied down by the long redemption period, 18 months, called for by state law on mortgages.

One seller preferred to possess the deed to the land until it was paid for rather than turn the deed over to the buyer as he would have had to do in a mortgage transaction.

Eight parties interviewed knew of no express reason why the mortgage was not used instead of a contract.

Several of the reasons mentioned for using a contract and not a mortgage such as; the contract allowed a larger loan for financing purposes, the down payment was not large enough for a mortgage, and the tax advantage of a contract as opposed to a mortgage; reflect that the parties were not aware of the fact that the seller may finance the buyer by a mortgage rather than a contract. In this case, as opposed to mortgages financed by financial institutions, the seller could accept as low a down payment as he chose and could also gain the tax advantages of a contract. Of course the transaction would then fall under the law of mortgages and the sellers who expressed a wish to be able to foreclose quickly and regain the land could not do so.

Decisions on Terms

The terms of the contract were decided through mutual agreement of both parties in 35 to 44 transactions. The buyer decided the terms in two cases and the seller was entirely responsible for developing the terms in seven cases.

Preparation of Contracts

Thirty four of the 47 contracts for which information was available were prepared by lawyers; two by real estate agents; three by bankers, one who was a seller; seven by one land agent, who in three of the cases was the buyer; and one by an abstractor.

Of 59 contracts 14 were drawn on a standard form contract of a type similar to or like those in Appendix C. The remaining 45 were drawn up in complete form by the drawer of the contract.

Recording of Contracts

Twenty of the 59 contracts studied were recorded with the Register of Deeds in the counties where the tracts were located. However, this could not be considered as being a reliable indicator of the number of contracts recorded in comparison to the number which were not. All of the recorded contracts were located in the six county area where the study took place. However, of those contracts not recorded only a portion were located. Therefore, the proportion of recorded to unrecorded contracts would actually be much lower than was indicated in this study.

Abstracts of Title

Six of 41 buyers received outright abstracts of title. In 29 of the cases the abstract was in escrow with the contract and deed and would go to the buyer when the contract was paid off. The abstract was being held from a previous mortgage on the land which was being paid off as the seller received the installment payments from the contract transaction in one case. One buyer received the abstract before he contracted to buy the land, one buyer was to receive the abstract after harvest one year from the date of the contract, and two buyers were to receive the abstract after they had paid off 50 percent of the principal in the transaction and taken out a mortgage on the remainder. In one case the buyer did not know when he would receive the abstract.

Use of Lawyers

At least one lawyer was involved at some stage of the transaction in 36 of 41 cases. The buyer and the seller each individually engaged a lawyer in 11 of the cases where a lawyer participated in some part of the transaction. The buyer and seller both used the same lawyer in nine of the cases. In seven cases only the buyer engaged a lawyer and in nine only the seller engaged one.

THE CONTRACTS

Financial Arrangements

The average selling price for 58 of the 59 contracts studied was \$25,334. The other case involved a price of 160 acres and \$8,250. No dollar value was placed on the quarter section of land in the transaction so the exact selling price could not be determined.

The average down payment in 57 cases was \$5,060. No down payment was required in five cases. The remaining 52 cases had an average down payment of \$5,546. This represents an average of 22 percent down payment for the 52 cases. The simple average percent down payment for the 52 cases was 21 percent. The range varied from one percent to 45 percent.

No attempt was made to develop comparisons of installment size to other factors in the contract due to the extreme variation in installments which occurred even within certain individual contracts. In 58 of the 59 contracts installments were paid once a year while in the other case they were paid twice a year. The repayment method used in approximately two-thirds of the contracts was equal payments on the principal each installment with declining payments on the interest as the principal decreased. The installments for each contract may be found in Table 1, Appendix C, along with the length and financial arrangements of the contracts.

The average interest rate for the 57 contracts for which information was available was 4.6 percent. Removal of the three cases which required no interest yielded an average rate of 4.9 percent.

Provisions

The remainder of this discussion concerning what the contracts contained is devoted to the various provisions found in the contracts. Before discussing what was discovered, however, it is pertinent to define the terms which refer to the various provisions which may be found in a contract.

The advance payments provision is placed in a contract for the purpose of giving the buyer the privilege to pay more than the stated installment if he so desires. As will be shown later this provision may contain stipulations limiting the size of the advance payments which may be made and specifying

certain dates on which an advance payment may be made.

Flexible payments refers to the provision which will allow the buyer to pay less than the specified installment in case of a bad year for crops or other financial difficulties which may arise. This provision may contain the stipulation that the buyer still pay the interest even though no payment is made on the principal.

The mortgage and deed provision gives the buyer the option of taking out a mortgage before the expiration date of the contract to pay off the seller and receive the deed to the land involved. This option may be limited by a provision to the effect that a certain percentage of the life of the contract must have expired or that a certain percentage of the principal must be paid off before it comes into effect.

A contract involving payment in kind means that the principal is to be paid off with farm products. A payment in kind provision where the amount paid is directly related to the amount produced can be construed to imply flexible payments since in bad years the amount paid will be less than in good years.

An assignment of interests provision states the circumstances under which the buyer and/or the seller may sell or assign his interest in the contract to a third party. The provision may prohibit such assignment or it may require some type of permission or consideration to be given in order to enable an assignment to take place.

The tax provision states which party is responsible for paying the taxes after the contract takes effect. A violation of this provision on the part of the party required to pay the taxes may be considered a default.

The forfeiture clause in a contract states the action which will be taken in event of default on the regular installment payments on the part of

the buyer. It also may cover other types of default such as failure to pay the taxes or maintain improvements on the land. The clause may include a specified grace period which gives the buyer a certain period of time to make good the default before he is forced to forfeit out on the contract.

The mineral rights provision of a contract will state the rights to minerals on the land involved which the seller retains for himself. It will include the percentage of the minerals reserved and may state a length of time for which the seller reserves these rights.

A provision pertaining to maintenance of improvements, found only in contracts pertaining to transactions which involve improved land, states the condition in which such improvements must be kept and may contain stipulations as to what the buyer may do to the improvements. Violation of this clause may be considered a default on the contract.

An insurance provision in a contract which involves improved land states which party is responsible for insuring the improvements on the land. It may also state what disposition will be made of any proceeds from the insurance. The proceeds may be used to replace or repair the destroyed or damaged improvements, they may be used as payment on the principal, they may be divided between buyer and seller according to their respective equities in the property at the time of the damage, or they may go to one of the parties to be disposed of as he sees fit.

If personal property is also included in the transaction this may be mentioned in the contract in a special provision.

In case the seller demands any other security of the buyer other than holding the deed in his name until the contract is completed this security may be specified in the contract.

The advance payments provision was found in 43 of the 59 contracts studied. In one other case an oral agreement had been made between the buyer and seller giving the buyer the privilege of making advance payments.

Sixteen contracts gave the buyer the privilege of paying as much as he desired. Three of the 16 contracts entered the stipulation that the buyer must make this payment on or before the interest-bearing date. Seven allowed the buyer to make any payment he desired after a certain specified date.

The buyer was limited as to the amount he could pay in advance in two of the 43 cases.

The stipulation on the advance payments clause in four of the cases was that the buyer must pay \$100 or multiples of \$100 and in one case he could pay \$1,000 or multiples thereof.

In certain cases two of the above mentioned provisions were used in conjunction with each other. For example, one contract allowed the buyer to pay \$100 or multiples thereof after the end of the first year of the contract's life.

Eight of the 59 contracts included a flexible payments provision. In four of these contracts the flexible payments arose from the fact that payment was to be made in crops, with the size of the payment directly related to the amount of crop production. Two of these contracts gave the buyer the right to suspend the regular installment payments in a bad year so long as he paid the taxes and interest. One contract gave the buyer the privilege of paying as much as desired each year so long as the contract was completed within its specified duration of 15 to 20 years. Another contract allowed the buyer to pay as little as \$2,000 or as much as \$15,000 in any one installment.

The mortgage and deed provision was found in four of the 59 contracts. In one of the cases no stipulations were given as to when the conversion from the contract to the mortgage and deed could be made. One contract specified that a "substantial" amount must be paid before the conversion could be made, and two specified that the conversion could be made only after 50 percent of the principal had been paid.

Four of the contracts included provisions for payment in kind. One contract provided for 1/3 of the crops from the land involved being used to pay the installments, one for 1/2 of the crops, one for 2/3 of the crops, and one for a portion of the crops the size of which was not indicated by the party interviewed.

Four of the contracts contained a provision pertaining to the assignment of interests. One of the contracts specifically stated that no such assignment could be made while the other three required the permission of the seller before the buyer could assign his interest in the contract.

A provision for taxes occurred in 58 of the 59 contracts. Of these contracts 57 provided for the buyer assuming payment of the taxes; one seller would continue to pay the taxes until a substantial amount was paid on the contract and the buyer would convert to a mortgage and deed. One contract had an added provision providing for the vendor to pay the taxes if the buyer neglected to do so. The seller could then charge the buyer seven percent interest per annum on all money he had to spend to pay the taxes.

Twenty nine of 57 contracts contained a forfeiture clause. Of these contracts eight provided for forfeiture at the option of the seller upon default by the buyer and did not guarantee any grace period for remedying the default, three provided for a 30 day grace period after the default

prior to forfeiture by the buyer, six provided for a 60 day grace period, and four allowed a six months grace period. A forfeiture clause was included in seven contracts but the party interviewed did not know the details of the provision and in one contract a grace period was allowed, but the party interviewed did not know how long it was.

Of 39 contracts for which information was obtained nine had a provision pertaining to the mineral rights reserved by the seller. Two of these contracts reserved $1/2$ of the mineral rights for the seller, one reserved $1/2$ of the mineral rights for the seller for 20 years, one for $1/2$ of the rights for 20 years and $1/8$ of anything discovered for as long as there was any production, one for $1/2$ for ten years, one for $1/2$ until the seller died, one for nonparticipating rights (The seller was reserving rights to any minerals discovered but the buyer was receiving all lease rentals) for $1/2$ on one quarter for ten years, one for $1/3$ for 15 years, one for $1/4$ of the mineral rights, and one for non-participating rights on $1/4$ for 15 years. In one case $1/2$ of the rights had already been reserved by an owner prior to the seller, but the seller reserved no rights for himself.

Nineteen of the 59 contracts dealt with improved land. Of these contracts five contained provisions concerning the maintenance of the improvements. One contract specified that the buildings must be kept at least in their present condition, one specified that they must be "kept in good condition or their present condition", one stated that the buyer must maintain the buildings and could not tear them down or move them, and one required that the buildings be kept in good shape but that no structural alterations could be made in them. One of the contracts concerning improved land specified that the buildings were to be moved by the seller within one year from the date of the contract.

Seven of the 19 contracts involving improved land contained an insurance provision. In all cases the buyer was responsible for taking out the insurance and paying the premiums. The proceeds from insurance were to be used to replace or repair the destroyed or damaged property in four of these cases. Two contracts specified the proceeds were to be distributed between the parties according to their interests in the real estate at the time of the loss, and one contract provided for the proceeds to be applied to the principal remaining on the contract if they were not used to remedy the loss.

Three of the 59 contract transactions involved sale of personal property along with the farm real estate. Two of these contracts contained provisions in the contract pertaining to the personal property. The provision in both cases simply stated the price to be paid for the personal property involved.

The seller did not demand any type of security, other than the holding of the deed in his name until the contract was completed, in any of the 59 contract transactions studied.

Table 2, Appendix C, shows some of the provisions found in each of the 59 contracts studied.

OCCURRENCES DURING THE LIFE OF THE CONTRACT

Twenty six units of farm real estate involved in the 29 contract transactions for which information was available were being worked by the buyer or else he had hired labor doing most of the work under his direction. One buyer had turned the land over to his son who was on the land and operated it, one buyer had rented the land to a son, and in one case a non-related tenant was operating the land.

The land involved in 19 of the 29 cases for which buyers were interviewed was being operated as part of a farm unit and in ten of the cases it

was being operated as an entire unit in itself.

The seller never inspected the land in any of the 47 cases in which a party was interviewed once the buyer had taken over its operation. Neither did the seller ever participate in any of the operating or management decisions on the land involved in the transactions.

Possibly the most important occurrence which might take place during the life of the contract is for the buyer to default. Two buyers acknowledged having defaulted at one time or another during the life of the contract involved. In one case, however, the seller did not foreclose but allowed the buyer sufficient time to make good the default. The other case involved a contract which was to have been completed in five years, but the seller had allowed the buyer to put off payments for five years. As long as the buyer continued to pay interest there was no apparent inclination on the part of the seller to foreclose.

This probably does not represent the proportion of contracts in which a default has occurred. Where the buyer had defaulted and the seller had foreclosed no evidence existed in the sources used to find contracts. Therefore, only those defaulted contracts which had not been foreclosed would have been located.

The low number of defaults was probably also a direct result of the good crop production in the high risk area since the grain sorghum harvest in 1957.

None of the 28 buyers interviewed had changed the method of farming the land involved due to the fact that the land was being purchased on contract. However, of those farmers who had changed the method of farming the land after they had taken it over the major reasons given for having done so were because they had irrigated the land since assuming its control or had installed better

methods of farming than had been used.

One of the buyers interviewed stated he was going to sell his interest in the contract. He had originally bought the land under contract to put in the soil bank but a change in the law prevented him from doing so. This forced him to farm the land which was too far from the rest of his land to be farmed efficiently and conveniently. Therefore, he wanted to sell.

One other buyer was in the process of selling all but the improved part of the land he was buying under contract. He was doing so because he was offered a price for his interest in the contract at a good profit to himself.

None of the sellers interviewed had attempted to sell or assign their interests in their contracts.

ANALYSIS OF EXISTING RELATIONSHIPS

The objective of the first analysis performed was to determine whether any significant relationships existed between certain characteristics of the buyers and the size of the contracts used by these buyers.

The comparative factors on the characteristics side were; the age, years of farm work experience, and years of farm management experience of the buyer, and the amount of farm land owned and operated by the buyer and on the contract side; the selling price and the number of acres involved in the transaction.

The relationships between the age, years of farm work experience, and years of farm management experience of the buyer to the size of the contract were determined by simple correlations. The results are summarized in Table 5.

Table 5. Correlations between selected characteristics of the buyers and the size of the contracts (32 cases included).

Relationship	Correlation	Sight test ¹ level of significance
Age of buyer to acres purchased	.292	.349
Age of buyer to selling price	-.227	.349
Farm work experience of buyer to acres purchased	-.049	.349
Farm work experience of buyer to selling price	-.078	.349
Farm management experience of buyer to acres purchased	-.007	.349
Farm management experience of buyer to selling price	-.050	.349

¹ Snedecor, George W., Statistical Methods. Iowa State College Press, Ames, Iowa, 1956, Chapter 7, Table 7.6.1, pg. 174.

With insignificant correlations and in consideration of the amount of available information no further analysis was made on these factors. It was concluded that no significant relationship existed between the factors under consideration.

Simple correlations were used to determine the relationships between the amount of land operated and the quantity of land purchased and the selling price. The results are summarized in Table 6.

Table 6. Correlations between the amounts of land operated by the buyers and the size of the contracts (28 cases included).

Relationship	Correlation	Sight test ¹ level of significance
Acres operated by buyer to acres purchased	.138	.367
Acres operated by buyer to selling price	-.167	.367

No further analysis was deemed necessary and it was concluded that no significant relationships existed between the factors compared.

To determine the relationships between the amount of land owned by the buyer prior to the land involved in this study and the quantity of land purchased and the selling price a t-test was run.

The t-test was used in place of the simple correlation because the data involved 13 cases in which the buyer previously owned no land. Therefore, two groups were established; those who owned no land prior to that involved versus those who did own land. There were 13 cases in the first group and 15 in the second. The tested hypothesis was that the average amount of land purchased by those who already owned some land was equal to the average amount purchased by those with no land. This same hypothesis was tested for the selling prices, that is, the average price paid by those who already owned land was equal to that paid by those buyers with no land.

The test of the first hypothesis yielded a nonsignificant t-value of .916. The conclusion was that the acres of land bought by those who were already owners does not differ from those who were not.

The second hypothesis yielded a nonsignificant t-value of 1.532 and the conclusion reached was that the selling price assumed by a buyer with land did not differ from that assumed by one without land.

A Kruskal-Wallis H-test was used to determine whether any relationship existed between the interest rate and the down-payment/selling-price percentage.

The hypothesis was that no significant relationship existed between the interest rate and size (in percent) of the down payment. Solution of the H-test yielded a X^2 (chi-square) value of 7.696. This was less than the

critical value for X^2 at the .05 level and five degrees of freedom of 11.07. Therefore, it was concluded that no relationship did exist between the interest rate and the down-payment/selling-price percentage within the limits of the 56 cases for which information on both interest rate and the down payment was available.

An analysis of variance was used to determine whether certain provisions and factors within the contract had any effect on the percent of the selling price paid as down payment.

The first provision analyzed was the forfeiture provision. The down-payment/selling-price percentages were divided into two groups, those relating to the contracts with a forfeiture clause and those from the contracts with no forfeiture clause. The F-test was run on the results and the solved value was .115. This indicated that no significant relationship existed within the limits of this study between the presence of the forfeiture clause in the contract and the size of the down payment. The analysis of variance is shown in Table 7.

Table 7. Analysis of variance of effects of the presence of the forfeiture clause upon the down-payment/selling-price percentage.

Source	: Degrees of : freedom	: Sum of squares : of deviations	: Variance	: F
Classes of contracts	1	14.18	14.18	.11 ns
Contracts	55	6,806.21	123.75	
Total	56	6,820.39		

ns - nonsignificant at the .05 level.

An analysis was also made to determine whether the down-payment/selling-price percentage was related in any way to improvements on the land.

The analysis of variance, shown in Table 8, yielded an F-test value of .056 which also indicated that no significant relationship existed.

Table 8. Analysis of variance of effects of the presence of improvements on the land upon the down-payment/selling-price percentage.

Source	: Degrees of : freedom	: Sum of squares : of deviations	: Variance	: F
Classes of contracts	1	7.12	7.12	.06 ns
Contracts	54	6,782.70	125.61	
Total	55	6,789.82		

ns - nonsignificant at the .05 level.

A breakdown was made of the acres involved in the transactions studied, the selling prices, the down payments, the interest rates and the down-payment/selling-price percentages by counties.

An analysis of variance was run for each of the factors separately to determine whether the variance from county to county was equal.

The F-test values yielded by the analysis of variances run on the interest rates by counties and the down-payment/selling-price percentages by counties were .72 and 1.69, respectively. Both of these values were non-significant and it could be concluded that these factors did not differ from county to county.

The F-test value resulting from an analysis of the variance of the size of the contracts among counties classed as to the acres of farm real estate involved yielded an F-value of 2.56 which was slightly larger, and therefore significant, than the critical value of F at 5 and 50 degrees of freedom of 2.40. This led to the conclusion that there was a significant difference in the sizes of the farms purchased in certain counties.

A Duncan's new multiple range test for unequal class numbers²⁸ was run in an attempt to determine which of the counties was responsible for this significant result. The test, however, failed to reveal which of the counties caused this. This was probably due to the fact that, as was pointed out, the F-value yielded by the analysis of variance was just slightly larger than the critical F-value.

The county variance analysis of the contracts classed as to sizes of selling price yielded a significant F-value of 3.15. The mean separation technique of Duncan's did reveal the source of the inequality of variances indicated by the significant F-value in this analysis. This inequality arose from the significant difference in the average selling price of \$15,264 in Logan county and that of \$44,108 in Wichita county. The information available was not sufficient to determine what caused this large difference.

The classification of the contracts according to size of down payment resulted in an analysis of the variance among the six counties which yielded an F-value of 5.46. The Duncan technique indicated that the four counties of Wallace, Hamilton, Logan, and Kearny, with average down payments of \$1,825, \$2,277, \$3595, and \$3,972, respectively, differed significantly from Wichita county with an average of \$10,608. Here too there was no way to determine, with the information available, what caused this significant difference.

Tables 9 through 13 give the analyses of variance discussed above.

An attempt was made to analyze certain other relationships, such as the major sources of income on the land to the number of acres purchased and the selling price of the land. However, such a general analysis was virtually

²⁸ Clyde Y. Kramer, "Extension of Multiple Range Tests to Group Means with Unequal Numbers of Replications", Biometrics, September, 1956, pp. 307-310.

impossible due to the fact that the predominant characteristic of such relationships was the existence of many varied individual circumstances and cases.

Table 9. Analysis of the variance in interest rates among the counties studied.

Source	: Degrees of freedom	: Sum of squares of deviations	: Variance	: F
Groups of contracts by counties	5	6.11	1.22	.72 ns
Contracts	51	87.11	1.71	
Total	56	93.22		

ns - nonsignificant at the .05 level.

Table 10. Analysis of the variance in down payment/selling price percentages among the counties studied.

Source	: Degrees of freedom	: Sum of squares of deviations	: Variance	: F
Groups of contracts by counties	5	968.33	193.67	1.69 ns
Contracts	51	5,852.07	114.75	
Total	56	6,820.40		

ns - nonsignificant at the .05 level.

Table 11. Analysis of the variance in acres of land involved in contract transactions among the counties studied.

Source	: Degrees of freedom	: Sum of squares of deviations	: Variance	: F
Groups of contracts by counties	5	797,929.55	159,585.91	2.56 *
Contracts	50	3,118,864.17	62,377.28	
Total	55	3,916,793.72		

* - significant at the .05 level.

Table 12. Analysis of the variance in the selling prices of the land involved in contract transactions among the counties studied.

Source	:Degrees of: :freedom	: Sum of squares : of deviations	: Variance	: F
Groups of contracts by counties	5	7,061,390,941.96	1,412,278,188.39	3.15 *
Contracts	52	23,294,031,710.20	447,962,148.27	
Total	57	30,355,422,652.16		

* - significant at the .05 level.

Table 13. Analysis of the variance in the down payments in contract transactions among the counties studied.

Source	:Degrees of: :freedom	: Sum of squares : of deviations	: Variance	: F
Groups of contracts by counties	5	624,777,358.07	124,955,471.61	5.46 *
Contracts	51	1,166,955,250.77	22,881,475.55	
Total	56	1,791,732,608.84		

* - significant at the .05 level.

ADVANTAGES AND DISADVANTAGES OF THE CONTRACT

Much of the subject matter within this section deals with advantages and disadvantages of the contract. A great deal of the information comes from the opinions of the parties interviewed. Not all of the advantages and disadvantages which might arise through use of the contract were actually believed to exist by the parties interviewed.

To the Buyer

One potential advantage of the land contract is that it could permit the buyer to accumulate more capital than if he were using some other method of financing.

The 28 buyers interviewed were asked whether they felt they had been able to accumulate more capital each year under the contract than if they had used the mortgage or some other means of financing. Fifteen believed that in one way or another the contract had helped them accumulate more capital, eight did not think it had, and five did not know whether it had or not. The principal reasons stated apparently reflected the idea on the part of the buyers that their contracts required a lower down payment and/or lower installments with less interest on the principal than did other means of financing. Although the buyers did not indicate that they thought they bought at a lower price with a contract than with other methods they did feel that all or some of the other factors mentioned were lower so that each year they were able to use more money for working capital and the purchase of other capital such as machinery.

Another possible advantage of a contract investigated was whether it enabled a young person with little capital to get started in farming as compared to other methods. Both buyers and sellers were asked what they believed was the best method of doing this. They were given a choice of: buy under a land purchase contract, buy under a mortgage agreement, rent, lease with option to buy, work as a hired man, or some other method.

Of the 40 interviewees 13 favored renting as the means of getting started and eight believed the lease with option to buy was best. In general the reasons given for using these methods rather than the contract were that a young person with little capital needed to use what he had for working capital and machinery and should not spend it on land.

One interviewee stated that he did not see how the young person could get started any other way than to inherit what he needed. It is worth noting

that approximately one half of those interviewed mentioned inheritance as the best way to get started and in some cases the only way in a high risk area such as that studied. However, most of these people went ahead to name what they considered as the best means of financing a beginning farmer with little capital.

One person stated that although renting was the best method to use to get started he believed that a contract to purchase land should eventually be used in conjunction with renting land.

One person advocated using either the mortgage or the contract because he felt a young person may as well be buying land with the money he would otherwise use for renting land.

One person interviewed supported the contract as the best method because he believed the young person buying land would have "more backing" than one who was not when it came time for him to get loans for working capital and machinery.

The general opinion stated by the other persons interviewed involved various types of suggestions for getting started but all were aimed at preserving the young person's capital for machinery and working capital rather than buying land.

This portion of the study indicated that the contract as it is now being used is probably not the best method for a young person with little capital to get started in farming in the high risk areas of Kansas.

A major advantage of the contract method of financing as opposed to mortgage financing by institutions is that the buyer can receive a larger loan on the land he is purchasing, requiring much less capital to buy the land than under mortgage financing from an institution.

Savings and loan associations can loan up to 80 percent of the appraisal value of their mortgaged properties. National banks are limited to maximum loan-value ratios of 50 percent and 60 percent depending on the type of loan. State regulations specify maximum loan-value ratios varying from 50 percent to 66 2/3 percent for life insurance companies and from 50 percent to 80 percent for mutual savings banks. Federal legislation in 1944 allowed the federal land banks to raise their maximum loans from 50 percent to 65 percent of the normal agricultural value of farm property.²⁹

The only financing agency which can make loans as large as those which it is possible to make with the contract, up to 100 percent, is the Farmers Home Administration. Such loans can be made to those owner-operators who use its supervised credit to acquire farm ownership plus the ownership of needed equipment, livestock, or supplies.³⁰

It is also possible to get up to a 100 percent loan on the value of the land purchased when the seller does the mortgage financing for the buyer.

Due to the fact that the buyer is purchasing land but has no deed to that land a possibility arises that the buyer may be handicapped in obtaining credit or in financing machinery by chattel mortgage because he bought land under a contract.

The 28 buyers interviewed were asked whether they had realized such a handicap since they purchased the land involved on contract or whether they thought such a handicap might even exist. Twenty seven of the buyers replied in the negative. One buyer believed the purchasing of land on contract could

²⁹ Barlowe, op. cit. pg. 450.

³⁰ Loc. cit.

be a handicap in the obtaining of credit because a buyer does not have title to the land, thereby injuring his financial statement.

However, it may be concluded that buying land under contract is not a credit handicap in the area studied; therefore, this is probably not one of the disadvantages of using the contract to purchase land in a high risk area of Kansas.

An attempt was made to determine in the interviews with the buyers and sellers whether the use of the contract may have had an adverse effect upon the selling price of the land involved as contrasted with what the selling price might have been had the transaction been for cash or financed with a mortgage.

For 18 of 40 transactions the party interviewed stated that the land involved probably could have been purchased for cash. The opinion expressed in 16 of these cases was that the selling price of the land would have been the same on a cash basis as it was under the contract. In two cases the opinion expressed was that the price may have been slightly lower.

None of those interviewed felt that the use of the mortgage would have changed the selling price any from what it was under the contract.

On the basis of the opinions of those interviewed it was concluded that the contract had no adverse effects on the selling price as compared to cash or use of a mortgage.

In consideration of the fact that the buyer does not hold the title to the land involved in the transaction until he has paid off the contract the possibility exists that the buyer would hold off making permanent improvements until he had full title to the land.

However, none of the 28 buyers interviewed thought the fact that he was purchasing land on contract deterred him from making permanent improvements, such as soil conservation, buildings, fences, ponds, and dams.

The buyers were asked whether they thought there were any disadvantages to using a contract which does not exist when using the mortgage. Of the five buyers who stated they believed a disadvantage existed four of them pointed out the fact that there are no definite laws pertaining to foreclosure, grace periods, and redemption as there are in mortgage transactions. The other buyer stated as a disadvantage the fact that a mortgage could be paid off when the buyer wants to. This statement arose from the buyer's own position however, in that, he had no advance payments clause in his contract, and could not be applied to contracts as a whole.

The other disadvantage mentioned can be applied to all contracts in Kansas. Kansas law does not require any grace period or redemption period to be given in the case of default on contracts. This means that the failure of the buyer to make one payment may cause him to lose his entire equity in the land involved almost immediately unless he is allowed a certain grace period in the contract or can work out a satisfactory arrangement with the seller. His only other hope is that the courts in his area will allow him a redemption period which is possible in Kansas. This possibility of losing ones entire equity is perhaps the greatest disadvantage to the buyer existing in the use of the contract.

The possible consequences of having no legal grace or redemption period on a contract become more of a reality in a high risk farming area than in an area of low risk and diversified farming. Whereas, in a low risk area with diversified farming if one cash farm product fails another is likely to be

forthcoming in time to make the required installments, if the cash crop fails in a high risk area there will probably be no returns until the next major crop in six months or one year, a period of time much too long under present legal conditions to enable the buyer to come back and save his equity.

To the Seller

A major advantage which may accrue to the seller from the contract is a tax advantage. When the seller receives no more than 29 percent of the selling price as down payment and installment payment in one year he need only include that portion of the capital gains accruing from the sale and applicable to the 29 percent or less he received on the principal as part of his income. If he were to receive more than the 29 percent as happens under institutional financing then he has to include the capital gain from the entire selling price in his income for the one year in which he received the payment. With the progressive income tax this increase in his income could cause considerable loss to him as opposed to the taxes he would have had to pay had he taken 29 percent or less. However, it is also possible for the seller to gain this tax advantage under mortgage financing if he is the financial agent rather than a financial institution.

The contract gives the seller a good opportunity to protect his equity in the land he is selling. Under mortgage financing if a buyer defaults it will probably take the seller 18 months to recover the land involved. The contract, barring the possibility of appeal for court remedy by the buyer, allows the seller to get his land back quickly and with a minimum of expense.

Another advantage to the seller is the fact that retaining a sizable contract balance on which interest payments are received avoids the problem

of reinvestment of funds, which otherwise would be necessary for a cash sale or an institutionally financed mortgage sale.³¹

One possible disadvantage to the seller is that he may sell to a buyer for a low down payment and small installments only to have the buyer default and leave the land in poor shape and improvements in bad repair. However, provisions to prevent the buyer from allowing the farm and land to fall into bad condition may be put into the contract and failure of the buyer to follow these provisions may constitute default.

RECOMMENDATIONS

Within the limits of this study four major recommendations can be made pertaining to increasing the usefulness of the contract. These recommendations come within the areas of the down payment, state laws and provisions pertaining to the grace and redemption periods of a contract, the recording of contracts, and certain provisions within the contract.

A buyer should endeavor to pay as large a down payment as possible when buying land on contract. Three major reasons exist for doing so. First, the amount of interest which will be paid over the life of a contract will be less with a larger down payment than with a small one. Second, the buyer who pays a larger down payment stands to protect his equity in the contract better than one who pays a smaller one. This applies mainly to those areas in which a court will allow redemption periods to the buyer in case of default on the basis of the amount of equity he has in the contract. The larger down payment gives the buyer more equity at the beginning of the contract life and he is therefore more likely to get a favorable decision from a court

³¹ Wall, *op. cit.*

pertaining to a redemption period in case of his default than is the buyer who paid little or nothing down on the selling price. Third, down payment and risk vary inversely: the smaller the down payment, the greater the amount of risk at any point in time and in any community. If two farmers purchase similar farms in the same community, one with a ten percent and the other with a 40 percent down payment, the farmer with the small equity is running the greater risk. That is, the small equity is more likely to be lost with a drop in prices or yields than the large. If, however, prices go extremely low, as in 1932, the farmer with the 40 percent equity stands to lose also, and his loss will be much greater than that of the farmer with only ten percent invested.³²

This payment of more money down has two limitations, however. First, the buyer should not pay so much down that his working capital is impaired, and second, the amount the buyer may pay down might very well be limited to the 29 percent allowed the seller under capital gains taxation laws.

The parties interviewed were asked how long after default should a buyer lose his equity in the contract.

Fifteen of 38 stated that they believed that a buyer should have at least one crop year or one year before being forced to forfeit the contract and lose his equity. Six favored at least an 18 month redemption period; three were for at least six months; three thought at least two crop years or two years would be best; one thought that the redemption period should cover at least the entire poor phase of the "crop cycle"; and one believed the amount paid on the principal should determine the length of the redemption period, such as, giving two years redemption if 1/4 of the principal had been

³² Murray, op. cit. pp. 110-111.

paid and possibly three years if 1/2 of the principal had been paid. Five of those interviewed believed that the length of the redemption period should depend upon the individual buyer in each case and should not be definitely set. One of those interviewed had no opinion as to how long the period should be, one believed 60 days grace should be set, and one seller thought that if the buyer defaulted the contract should be immediately foreclosed.

The suggested redemption periods made by the sellers ranged from no time to 18 months while the range suggested by the buyers was from six months to 24 months and one buyer believed the "crop cycle" should be the measure of the redemption. Although no statistical measure could be used, it was apparent that the buyers tended to favor a little longer period before a person lost his equity than did the sellers. Four of the five persons who believed basically that the period depends upon the individual buyer were buyers.

Although no recommendation can be legitimately made from the results of this study pertaining to the lengths of the grace and redemption periods which should be established in the contracts of the high risk areas of Kansas, it can be recommended on the basis of this study that the contracts should include such provisions. Another way to achieve the same purpose would be to broaden the state laws to establish a redemption period on contracts similar to that on mortgages. However, the establishing of one set period for the state could deny the contract of some of the flexibility which it now has in comparison to the mortgage method.

None of the sellers interviewed were aware of a particular advantage which might accrue to them from recording their contracts with the Register of Deeds in the county where the land involved was located.

As of January 1, 1959, the Kansas Intangibles Tax Law became effective.

It states:

Every taxpayer who files an intangibles tax return shall indicate upon which of the two optional methods of taxation set out below he desires to have his taxes computed: (Option 1) That money, notes, and other evidences of debt, subject to taxation, which were owned or held by him on the first day of March be taxed at the rate of five (5) mills on the dollar; or (Option 2) That he shall pay a tax equivalent to three percent (3%) upon the total gross earnings received by him from all notes and other evidences of debt, subject to taxation, during the next preceding twelve (12) month period ending December 31.³³

The exception to this law arises from the Kansas law pertaining to the registration of mortgages and other evidences of debt with the Register of Deeds. The law states: "A registration fee for each one hundred dollars or major fractions thereof, of the principal debt or obligation which is secured by such mortgage, the sum of twenty-five cents...provided that after the payment of the registration fees as aforesaid the mortgage and note thereby secured shall not otherwise be taxable..."³⁴

The effect then of this law has been to exempt the seller holding a contract for the purchase of land from the payment of the intangibles tax if he records the contract with the Register of Deeds and pays the registration fee.³⁵

Table L₁ takes the average contract found within this study and demonstrates the savings in taxes which would accrue to the seller if he would record the contract rather than pay taxes on the basis of one of the two options open to him under the Intangibles Tax Law. This recommendation is

³³ "State of Kansas, Intangibles Tax Law", 92-12-1, Auth. L. 1958, Ch. 23, sec. 7, (Spec. Sess.) Department of Revenue, Topeka, Kansas.

³⁴ General Statutes of Kansas, Annotated 1949, 79-3102.

³⁵ Taken from a discussion with Mr. J. Robert Wilson, lawyer and abstractor, of Manhattan, Kansas.

Table 14. A comparison of intangibles tax and registration fee on the average of 51 contracts in 6 counties involved in this study¹

Selling price	Down payment	Amount of taxable indebtedness	Interest at 4.65% of taxable indebtedness	Intangibles tax at 5 mills per dollar of indebtedness	Intangibles tax at 3% of gross earnings	Registration fee ²
\$23,696.00	\$4,937.00	\$18,759.00	\$872.30	\$93.80	\$26.17	\$59.25
		16,674.67	775.37	83.37	23.26	
		14,590.34	678.45	72.95	20.35	
		12,506.00	581.53	62.53	17.45	
		10,421.67	484.61	52.11	14.54	
		8,337.34	387.69	41.69	11.63	
		6,253.00	290.76	31.27	8.72	
		4,168.67	193.84	20.84	5.82	
		2,084.34	96.92	10.42	2.91	
Total			\$4,361.47	\$468.98	\$130.85	\$59.25

¹ Computed on the Kansas Intangibles Tax Law and based upon the 51 contracts for which all of the four factors of selling price, down payment, interest rate, and length of contract were available.

² Paid only once.

based on the assumption that the sellers usually list their contracts in their intangibles tax reports. This may not be the case, however.

The one disadvantage to the seller which can arise from recording the contract is that if the buyer should default on the contract the seller must obtain a quitclaim deed or file for quiet title in order to get full and legal title back in his own name. However, when the buyer has paid a substantial down payment and there is no reason to believe a default will occur it is to the advantage of the seller to record the contract in order to save on the taxes.³⁶

A flexible payments provision would probably go far in better adapting the contract for use in the high risk areas of Kansas. A bad crop year can force even the best farmer to default on his payments if he has no other source of income on which he can depend. A flexible payments provision, related in one way or another to the possibility of crop failure or damage, can enable a buyer who is buying land on contract to protect his equity. The provision should provide that the buyer pay the interest and taxes even though he pays nothing on the principal. The one limitation which might exist would be in the case of the seller who is dependent upon the installment payments for all or a major portion of his living expenses. In this case it might be difficult to establish a flexible payments provision and the best thing the buyer can do is to set up a reserve to cover the payments in bad years.

An advance payments provision would be a great advantage to the farm buyer. He can make substantial payments during good years and thus reduce the possibility of losing the farm during a period of low income.³⁷

³⁶ Taken from a discussion with Wilson.

³⁷ James A. Munger, "Borrowing Money to Purchase Land", Land, The 1958 Yearbook of Agriculture, pg. 222.

As has been pointed out, one disadvantage to the seller comes from the possibility that a buyer may forfeit the contract and then leave the land and improvements in poor condition. In the best interests of the seller contracts should make provision for the maintenance of improvements and possibly the maintenance of the condition of the soil on the land. If the buyer did not conform to the provision the seller could claim default and foreclose. The inclusion of the provision might also enable the seller to get court remedy in the case of the buyer who lets the improvements and land fall into bad condition.

SUMMARY AND CONCLUSIONS

The Typical or Average Case

This typical or average case was developed for purposes of summarization. The characteristics, circumstances, and factors in it were developed from: (a) the average of factors which were numerical in nature, such as age, selling price, and interest rate, and; (b) the typical or most frequent occurrence of non-numerical factors such as the inclusion of certain provisions in the contract, improvements, and the recording of contracts.

The buyer was married and had children. He was 46 years of age and had worked on a farm for a little over 27 of those years. He had about 20 years of farm management experience.

Prior to the purchase of the land involved he owned about 370 acres of farm land and he operated 2,167 acres, including that land he owned and that he was buying under the contract studied.

The contract under study was his first experience with a contract for buying or selling land.

The age of the seller was 64 years and he owned 1,565 acres of farm land, both significantly greater than for the buyer.

The seller never used the contract before as a method of buying or selling land.

No relationship, other than possibly friendship, existed between the buyer and seller.

The piece of land involved was 329 acres and it had 232 acres of cropland. The major source of income from the land was wheat and milo. The land was unimproved.

The buyer and seller may have had any of a number of reasons for buying or selling the land.

The buyer and/or the seller made the decision to use the contract as the means for transferring and financing the land in question. Several reasons existed for using the contract instead of some other means of financing.

The terms of the contract were decided mutually by the buyer and seller and the contract was prepared by a lawyer in complete form rather than on a standard form.

The contract was placed in escrow with the deed and abstract of title and was not recorded.

The contract involved a selling price of \$25,334 with a down payment of \$5,060 and an interest rate of 4.6 percent. Installments were to be paid once a year for nine years.

The contract included provisions for advance payments and the payment of taxes on the land involved. Any of a number of other provisions may have been included in the contract.

The land was worked by the buyer, either by himself or with hired labor, and it was operated as part of a farm unit.

The seller never inspected the land once it was taken over by the buyer, nor did he participate in any of the operating decisions concerning the land.

The probability of the buyer defaulting on the contract was quite low.

The fact that he was buying on contract did not force the buyer to change the method of farming the land in question.

The use of the contract may have constituted an advantage to the buyer since he might have been able to accumulate more capital than if he had used some other means of financing.

One disadvantage of using the contract to the buyer was the possibility of losing his entire equity in the contract had he defaulted on it with no chance to redeem the lost equity.

The seller received a tax advantage in that he received less than 29 percent of the selling price as down payment and only had to include that amount of the capital gains accruing from the down payment in his income for the year.

If he had been financially able the buyer would have saved some interest expense had he paid a larger down payment, at least up to the maximum 29 percent allowed by capital gains tax laws, rather than the 20 percent he did pay. This also would have given him more equity in the contract at an earlier stage in the life of the contract.

It would have been to the buyer's advantage had he demanded provisions for grace and redemption periods in the contract.

Assuming the seller filed the contract in his intangibles tax report, he could have saved money on the intangibles tax if he had recorded the contract

and paid the registration fee, thereby not having to pay any intangibles tax on the contract.

It would also have been to the buyer's advantage to have had a flexible payments provision in the contract to protect him from defaulting in case of a bad crop year in which he could not afford to pay the installment payments on the principal.

Conclusions

No significant relationships existed between certain characteristics of the buyer; age, years of farm work experience, years of farm management experience, acres of land owned, and acres of land operated; and the size of the contract classed as to the number of acres involved and the selling price.

Analysis of the comparison between the interest rate on the contract and the size of the down-payment/selling-price percentage resulted in no significant relationship.

An analysis of variance of the relationship of the presence or lack of the forfeiture clause in the contract upon the down-payment/selling-price percentage revealed that there was no significant relationship between the two.

Likewise no significant relationship appeared between the down-payment/selling-price percentages in contracts dealing with improved land and those dealing with unimproved land.

Analysis by counties revealed no significant difference in the variances of the interest rates and down-payment/selling-price percentages. The analysis showed significant differences among the counties when the contracts were classed as to the acres of land purchased, the selling prices, and the down payments. The information available was not sufficient to explain the reasons for these significant differences.

From the standpoint of the buyer the contract is probably not the safest or best method for financing in the high risk areas. The conclusion arose from the uncertainty with which a buyer's equity is protected as opposed to the general characteristics of a high risk area. However, the inclusion of flexible and advance payments provisions along with a redemption period at least long enough to give the buyer a chance to get another cash crop would go far in adapting the contract for effective use in a high risk area.

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APPENDICES

Appendix A. The questionnaires used to interview buyers and sellers.

KANSAS AGRICULTURAL EXPERIMENT STATION
DEPARTMENT OF AGRICULTURAL ECONOMICS
KANSAS STATE UNIVERSITY

Schedule No. _____
Date _____

BUYER'S SCHEDULE
School Year; 1959-60

LAND PURCHASE CONTRACT STUDY

I. REAL ESTATE INVOLVED

1. What is the legal description of the land purchased?
County _____, Section _____, Township _____, Range _____
2. a. How many acres are there in the tract? _____
b. How many of these acres are in cropland? _____
c. What are the three major sources of farm income?
1) _____, 2) _____, 3) _____.
3. a. Are there improvements on the land? Yes _____ No _____
b. What are they?
1) Dwelling; Yes _____ No _____; Good _____ Fair _____ Poor _____
2) Other Buildings: Yes _____ No _____; Good _____ Fair _____ Poor _____
4. By whom is the land being operated? _____
5. Is the land now being farmed: as part of a farm unit? _____
as an entire farm unit? _____

II. BUYER

1. a. When were you born? _____
b. Are you married? Yes _____ No _____
c. How many children do you have? _____ Sons _____ Daughters _____
2. What is your relation to the seller? _____
3. Did you rent this land prior to purchasing it? Yes _____ No _____
4. a. Have you ever used the contract before? Yes _____ No _____
b. How many times? As a buyer _____ As a seller _____
5. a. Do you own other farms or land? Yes _____ No _____
b. How much? _____
6. What was your reason for purchasing this land? _____
7. a. How many years of farm work experience have you had? _____
b. How many years of farm management experience have you had? _____
8. If you farm, how many acres do you operate (include both owned and rented land)? _____
9. If not a farmer, what is your major occupation? _____

10. a. Are you a native of the community where the land is located?
Yes _____ No _____
b. If no, why did you purchase this land away from your community?
-

11. a. Do you have any outside income sources? Yes _____ No _____
b. Are these used to help pay the installments? Yes _____ No _____
c. Are you building up a reserve fund to make payments in bad years?
Yes _____ No _____
d. If yes, how many years would this reserve cover? _____

12. What was your approximate net worth at the time you purchased this land? _____

III. SELLER

1. a. Did you buy the farm from:
Individual _____
Estate _____
Partnership _____
Corporation _____
Government _____
Other (specify) _____
b. If an individual, was he or she:
Active farmer _____
Retired farmer _____
Farmer's widow _____
Nonfarm widow _____
Business or professional man _____
Other (specify) _____
2. What was the seller's approximate age? _____
3. a. Did he have any other farms? Yes _____ No _____
b. How much? _____
4. a. Does he have any outside businesses? Yes _____ No _____
b. What are they? _____

IV THE CONTRACT

A. Procedure

1. a. Who suggested the use of the contract? _____
b. For what reason was the suggestion made? _____
c. Why was a mortgage not used? _____
d. If a mortgage had been used, what would have been the purchase price? _____ The down payment? _____ The interest rate? _____
e. Could the land have been purchased for cash? Yes _____ No _____
f. If yes, what would have been the purchase price? _____
2. By whom was the contract drafted? _____

3. Was the contract drafted on a standard form? Yes _____ No _____
4. a. Was there a preliminary earnest money contract (binder or option to buy) involved in the transaction? Yes _____ No _____
b. If yes, how much was it? _____
5. a. Is the contract recorded? Yes _____ No _____
b. If not, why not? _____
c. If yes, why? _____
6. a. Did you have any objections to the use of the contract? Yes _____ No _____
b. If yes, what were they? _____
7. a. Did the seller have any objections to the use of the contract?
Yes _____ No _____
b. If yes, what were they? _____
8. a. Did you take this contract over from another person? Yes _____ No _____
b. Why did he give it up? _____
c. Were any of the terms changed? Yes _____ No _____
d. If yes, what were these changes? _____
9. a. Did you engage a lawyer? Yes _____ No _____
b. If so, at what stage of the transaction? _____
c. Did the seller engage a lawyer? Yes _____ No _____
d. Was your lawyer different from the one the seller had? Yes _____ No _____
10. a. What part did you take in the drafting of the contract? _____
- b. If you had taken more part in it what provision in the contract would have been different than they are now, if any? _____

B. Provisions

1. What was the:
- | | |
|------------------------|--------------------------------------|
| a. Selling Price _____ | d. Date of Contract _____ |
| b. Down Payment _____ | e. Length of Contract _____ |
| c. Interest Rate _____ | f. Expiration Date of Contract _____ |
2. a. On what dates during the year are installments paid? _____
b. What are your major income producing months? _____
c. If these do not coincide would you prefer that they would? Yes ___ No ___
3. a. Is there a provision for flexible payments? Yes ___ No ___ Don't Know ___
If yes, describe _____
If no, why not _____

3. b. Is there provision for advance payments on principal? Yes _____ No _____
Don't Know _____
If yes, describe _____
- c. Can payment be made in kind? Yes _____ No _____ Don't Know _____
Describe _____
- d. Is there a mortgage and deed provision? Yes _____ No _____ Don't Know _____
Describe _____
- e. Is there a forfeiture clause? Yes _____ No _____ Don't Know _____
- f. Is there a provision for assignment of the buyer's interest in the
land with or without the seller's permission? Yes _____ No _____ Don't
Know _____ Describe _____
- g. Is there a similar provision for the seller to assign his interest?
Yes _____ No _____ Don't Know _____ Describe _____
- h. Who pays future taxes? Buyer _____ Seller _____ Don't Know _____
- i. Did the seller reserve any mineral rights? Yes _____ No _____ Don't
Know _____ To what extent? _____
- j. Is there any provision for the maintenance of buildings? Yes _____
No _____ Don't Know _____ Describe _____
4. a. Was any personal property purchased from the seller? Yes _____ No _____
b. If yes, what was this property? _____
c. What were the provisions concerning personal property, if any? _____

5. a. Is there an insurance provision? Yes _____ No _____ Don't Know _____
b. Who pays the premiums? Buyer _____ Seller _____
c. How are the proceeds divided between buyer and seller? _____

- d. Do any of the proceeds apply to the principal? Yes _____ No _____ Don't Know _____
6. a. Did the seller demand any type of security, such as a mortgage on
certain equipment, etc., in order to secure the payment of the regular
installments? Yes _____ No _____
b. If yes, what was this security? _____

C. Knowledge of Legal Conditions

1. a. If you default do you have any grace period? Yes _____ No _____ Don't Know _____
b. If yes, how long? _____
c. Do you have a period in which to redeem the property after default
and forfeiture? Yes _____ No _____ Don't Know _____
d. If yes, how long? _____
e. Can the seller get a deficiency judgment against you if this contract
is forfeited? Yes _____ No _____ Don't Know _____
f. What other type of proceeding is available to the seller to remove you
from the land in case of default? _____
g. What disposition would be made of the crops in the fields if you were
forfeited out before harvest time? _____

- h. If forfeited out would you get back any of the money you have paid on the principal? Yes _____ No _____ Don't Know _____
- i. How much? _____
2. a. Have you received an abstract of title from the seller? Yes _____ No _____
- b. Will you receive an abstract of title from him? Yes _____ No _____ Don't Know _____
- c. If yes, when? _____

V. RELATIONS

A. Of Buyer to the Land

1. How is the farm being operated? _____
 Yourself doing most of the work _____
 Yourself with hired labor doing most of the work _____
 Rented to a tenant _____
 Other (specify) _____
2. a. Is the method of farming different from what it was prior to the use of the contract? Yes _____ No _____
- b. Is this because of using the contract? Yes _____ No _____
- c. If yes, why? _____
3. a. Are you farming differently or have special plans or programs (reserves, insurance, type of farming, etc.) because you purchased with a contract rather than a mortgage? Yes _____ No _____
- b. If yes, what are you doing specifically? _____

B. Of Buyer to the Seller

1. a. Does the seller participate in any of the operating and management decisions? Yes _____ No _____
- b. If yes, what are these decisions? _____
2. a. Does the seller inspect the farm? Yes _____ No _____
- b. If so, how often? _____
3. a. Have you ever made a payment late? Yes _____ No _____
- b. Have you otherwise ever defaulted on your contract? Yes _____ No _____
 If yes, explain _____
- c. Did you and the seller try to work out some arrangement? Yes _____ NO _____
 If yes, what? _____
- d. How many times has this occurred? _____
- e. What was the longest period you were in default? _____
- f. Were you ever served with notice of termination? Yes _____ No _____
- g. Were you ever taken to court over this contract? Yes _____ No _____
- h. Do you think the seller was fair to you upon your default? Yes _____ No _____
- i. Do you think the law was fair to you upon your default? Yes _____ No _____
 If no, in what way was it not? _____
- j. Would you suggest any changes in the law or contract that would have helped you on your default? Yes _____ No _____
 If yes, explain _____

- k. Do you think you would have gotten fairer treatment under a mortgage?
 Yes _____ No _____
 Why? _____
- l. What provisions would have helped prevent you defaulting? _____

4. a. Have you ever tried to sell, transfer or assign your interest in this land contract? Yes _____ No _____
 b. If yes, what were your reasons for doing so? _____

 c. If yes, and the assignment was not made, why wasn't it? _____

VI. OPINION

1. Have you ever felt handicapped in obtaining credit, or in financing machinery by chattel mortgage, because you bought your farm under a land contract? Yes _____ No _____
2. a. Do you believe you paid a higher purchase price for this land under the land contract than if you had used a mortgage? Yes _____ No _____
 b. If so, was this due to a lower down payment? Yes _____ No _____
 c. What other reasons were there for this? _____
3. a. Do you think you have been able to accumulate more capital each year under the land contract than if you were using the mortgage or some other means of financing? Yes _____ No _____
 b. If yes, why is this? _____
4. a. Does the fact that you purchased on land contract deter you from making permanent improvements, such as soil conservation, buildings, ponds, dams, waterways, etc.? Yes _____ No _____
 b. If yes, what are these improvements? _____
 c. If yes, if you could take improvements and fixtures with you in case of default, would you make them? Yes _____ No _____
5. a. Which is the best way for a beginning farmer with little capital to get started in farming?
 Buy under land purchase contract _____ Lease with option to buy _____
 Buy under mortgage agreement _____ Work as a hired man _____
 Rent _____ Other (specify) _____
 b. Why do you believe this to be the best method? _____

6. a. Do you think Kansas should have more definite laws regarding forfeiture, and grace and redemption periods? Yes _____ No _____
 b. If so, what would you consider a proper length of time for a grace period? _____
7. a. Are there any disadvantages of a land contract as compared with a mortgage? Yes _____ No _____
 b. If yes, what are they? _____

8. Are you aware of the income tax advantage available especially to the seller by using the land contract? Yes _____ No _____
9. a. Are you satisfied with your land contract? Yes _____ No _____
 b. If yes, why? _____

 c. If no, why not? _____

10. At the time you made the land contract, did you expect land prices to:
 Go up _____ Go Down _____
 Stay about the same _____ Was not concerned with land prices _____
11. a. Do you believe the purchase price would have been changed if the down payment had been more _____ or less _____? Yes _____ NO _____ If yes, how? _____
 b. Do you think the purchase price on land contracts in your community is influenced by the amount of down payment? Yes _____ No _____
 Explain _____

12. a. Do you know anyone else who is buying or selling on the land installment contract? Yes _____ No _____
 b. If yes, who:
- | | Buyer | Seller | Address |
|-------|-------|--------|---------|
| _____ | _____ | _____ | _____ |
| _____ | _____ | _____ | _____ |
| _____ | _____ | _____ | _____ |
| _____ | _____ | _____ | _____ |
13. a. What is your name? _____
 b. What is your address? _____
 c. What is your seller's name? _____
 d. What is your seller's address? _____

KANSAS AGRICULTURAL EXPERIMENT STATION
DEPARTMENT OF AGRICULTURAL ECONOMICS
KANSAS STATE UNIVERSITY

Schedule No. _____
Date _____

SELLER'S SCHEDULE
School Year, 1959-60

LAND PURCHASE CONTRACT STUDY

I. REAL ESTATE INVOLVED

1. What is the legal description of the land which you sold?
County _____, Section _____, Township _____, Range _____
2. a. How many acres were in the tract you sold? _____
b. How many of these acres are crop land? _____
3. a. Are there improvements on the land? Yes _____ No _____
b. What are they?
1) Dwelling: Yes _____ No _____; Good _____ Fair _____ Poor _____
2) Other Buildings: Yes _____ No _____; Good _____ Fair _____ Poor _____
4. a. Has the buyer changed the method of farming from that used when you controlled the land? Yes _____ No _____
b. If yes, how? _____
c. If yes, do you think this was due to use of the land contract rather than a mortgage? Yes _____ No _____
d. If yes, why? _____
5. How did you operate the farm when you owned it?
Yourself doing most of the work _____
Yourself with hired labor doing most of the work _____
Rented to a tenant _____
Other (specify) _____

II. THE SELLER

1. Is the seller:
An individual _____ A corporation _____
An estate _____ The Government _____
A partnership _____ Other (specify) _____
2. a. When were you born? _____
b. Are you married? Yes _____ No _____
c. How many children do you have? _____ Sons _____ Daughters _____
3. What is your relation to the buyer? _____
4. a. What is your occupation? _____
b. Was it this when you sold the land? Yes _____ No _____
c. If not, what was it? _____
5. a. Have you ever used the contract before? Yes _____ No _____
b. If yes, how many times? As buyer _____ As seller _____

- 6. a. Do you own any other land? Yes ___ No ___
 b. If yes, how many acres? _____
 c. How close is this land to the land that was sold? _____
 d. Why was this land sold? _____
- 7. a. Do you own any businesses? Yes ___ No ___
 b. If yes, what kind? _____
- 8. a. Are you dependent, at least in part, on the payments of this land contract for your living? Yes ___ No ___
 b. If yes, what fraction? _____
 c. For what are you using the payments you receive? _____

III. THE BUYER

- 1. What was the approximate age of your buyer? _____
- 2. a. How much farm work experience had the buyer had prior to purchasing this land? _____
 b. How much farm management experience did he have? _____
 c. Would you consider your buyer a beginning farmer? Yes ___ No ___
 d. Would you have preferred to have sold to a buyer with more management experience? Yes ___ No ___
 e. If yes, how much experience did you desire? _____
- 3. a. What was the previous credit reputation of the buyer? Excellent ___
 Good ___ Fair ___ Poor ___
 b. Did the buyer's credit reputation influence your decision to use a land contract rather than a mortgage? Yes ___ No ___
 Explain _____

IV. THE CONTRACT

A. Procedure

- 1. a. Who suggested the use of the contract? _____
 b. For what reason was the suggestion made? _____
 c. Why was a mortgage not used? _____
 d. If a mortgage had been used, what would have been the purchase price? _____
 The down payment? _____ The interest rate? _____
 e. Would you have sold the land for cash? Yes ___ No ___
 f. If yes, what would have been the purchase price? _____
- 2. a. Did possible tax advantages influence your use of the contract? Yes ___ No ___
 b. If no, were you aware of any such advantages? Yes ___ No ___
 c. If yes, what were these advantages which influenced your decision to use the contract? _____

-3-

3. a. By whom was the contract drafted? _____
 b. Were there other persons involved in the transaction? Yes ___ No ___
 c. If yes, who? _____
 d. How were they involved? _____
 4. Was the contract drafted on a standard form? Yes ___ No ___ Don't know ___
 5. a. Was there a preliminary earnest money contract (binder or option to buy) involved in the transaction? Yes ___ No ___
 b. If yes, how much was it? _____
 6. a. Is the contract recorded? Yes ___ No ___
 b. If no, why not? _____
 c. If yes, why? _____
 d. Do you know if there is a tax advantage in recording the contract? Yes ___ No ___
 e. If yes, what is this advantage? _____
 7. a. Did you have any objections to the use of the contract? Yes ___ No ___
 b. If yes, what were they? _____
 8. a. Did the buyer have any objections to the use of the contract? Yes ___ No ___
 b. If yes, what were they? _____
 9. a. Did your buyer: buy direct from you? _____
 take over another person's contract _____
 b. If he took over another contract, why did the former buyer give up his contract? _____
 c. Have the terms of the contract been changed in any way for the new buyer? Yes ___ No ___
 d. If yes, what were these changes? _____
 10. a. Did you engage a lawyer? Yes ___ No ___
 b. If so, at what stage of the transaction? _____
 c. Did the buyer engage a lawyer? Yes ___ No ___
 d. Was your lawyer different from the one the buyer had? Yes ___ No ___
 11. a. What part did you take in the drafting of the contract? _____
 b. If you had taken more part in it what provisions in the contract would have been different than they are now, if any? _____
-

B. Provisions

1. What was the:

a. Selling price _____	d. Date of contract _____
b. Down payment _____	e. Length of contract _____
c. Interest rate _____	f. Expiration date of contract _____
2. On what dates during the year are installments paid? _____

-4-

3. a. Is there a provision for flexible payments? Yes ___ No ___ Don't know ___
If yes, describe _____
If no, why not? _____
- b. Is there provision for advance payments on principal? Yes ___ No ___
Don't know ___
If yes, describe _____
- c. Can payment be made in kind? Yes ___ No ___ Don't know ___ Describe _____
- d. Is there a mortgage and deed provision? Yes ___ No ___ Don't know ___
If yes, describe _____
- e. Is there a forfeiture clause? Yes ___ No ___ Don't know _____
- f. Is there a provision for assignment of the buyer's interest in the land
with or without the seller's permission? Yes ___ No ___ Don't know _____
If yes, describe _____
- g. Is there a similar provision for the seller to assign his interest?
Yes ___ No ___ Don't know ___ If yes, describe _____
- h. Who pays future taxes? Buyer ___ Seller ___ Don't know _____
- i. Did you reserve any mineral rights? Yes ___ No ___ Don't know _____
To what extent? _____
- j. Is there any provision for the maintenance of buildings? Yes ___ No ___
Don't know ___ Describe _____
4. a. Did you sell any personal property to the buyer? Yes ___ No ___
b. If yes, what was this property _____
c. What were the provisions concerning personal property, if any? _____
5. a. Is there an insurance provision? Yes ___ No ___ Don't know _____
b. Who pays the premiums? Buyer ___ Seller ___
c. How have the proceeds been divided or how will they be divided between
buyer and seller? _____
d. Do any of the proceeds apply to the principal? Yes ___ No ___ Don't know _____
6. a. Did you demand any type of security, such as a mortgage on certain equip-
ment, etc. in order to secure the payment of the regular installments?
Yes ___ No ___
b. If yes, what was this security? _____

C. Knowledge of Legal Conditions

1. a. If the buyer defaults does he have a grace period? Yes ___ No ___
Don't know _____
b. If yes, how long? _____
c. Does the buyer have a period in which to redeem the property after
default and forfeiture? Yes ___ No ___ Don't know _____
d. If yes, how long? _____
e. Can you get a deficiency judgment against the buyer if this contract is
forfeited? Yes ___ No ___ Don't know _____
f. In case of default by the buyer what type of proceeding is available to
you to get the buyer off the land? _____
g. What disposition would be made of the crops in the fields if the buyer
had to forfeit before harvest time? _____

- h. If the buyer had to forfeit could he get back any of the money he had paid on the principal? Yes ___ No ___ Don't know ___
- i. How much? _____
2. a. Have you given an abstract of title to the buyer? Yes ___ No ___
- b. Are you going to give him one? Yes ___ No ___ Don't know ___
- c. If yes, when? _____

V. RELATIONS

1. How frequently do you inspect the farm? _____
2. a. Do you participate in any of the operating decisions of the farm? Yes ___ No ___
- b. If yes, what are these decisions? _____
3. a. Has the buyer ever failed to make a payment on time? Yes ___ No ___
- b. If yes, what action did you take? _____
- c. How long did you have to wait for payment? _____
- d. How often has this happened? _____
4. a. Have you ever taken back any land which you had sold under a land contract? Yes ___ No ___
- b. How did that buyer default? _____
- c. By what method did you take the land back? _____
5. a. Have you ever tried to sell, transfer or assign your interest in this land contract? Yes ___ No ___
- b. If yes, what were your reasons for doing so? _____
- c. If yes, and the assignment was not made, why wasn't it? _____

VI. OPINION

1. a. Are you satisfied with your land contract and buyer? Yes ___ No ___
- b. If yes, why? _____
- c. If no, why not? _____
2. a. Do you think Kansas should have more definite laws regarding forfeiture, and grace and redemption periods? Yes ___ No ___
- b. If yes, what would you consider a proper length of time for a grace period? _____
- c. If there were an established grace period and/or redemption period, do you believe this would affect the purchase price any? Yes ___ No ___
- d. If yes, how? _____

3. a. Which is the best way for a beginning farmer with little capital to get started in farming?
 Buy under a land purchase contract _____ Lease with option to buy _____
 Buy under a mortgage agreement _____ Work as a hired man _____
 Rent _____ Other (specify) _____
- b. Why do you believe this to be the best method? _____
4. a. Would you have changed the purchase price if the down payment had been more _____ or less _____? Yes _____ No _____
 If yes, how? _____
- b. Do you think the purchase price on land contracts in your community is influenced by the down payment? Yes _____ No _____
 Explain: _____
5. When you sold your farm did you think land prices were:
 Going up _____ Going down _____
 Staying same _____ Was not concerned with land prices _____
6. a. Should the contract provide the payments are due in the month(s) that the buyer receives his major income? Yes _____ No _____
 Why? _____
- b. Would you as a seller be willing to accept 3 or 4 smaller payments a year rather than one or two larger ones if the total amount received were the same? Yes _____ No _____
7. a. If the buyer could remove the temporary improvements and fixtures he added in case of his default and repossession by seller, do you think buyers would be encouraged to add such things? Yes _____ No _____
- b. Would the same be true if the seller agreed to compensate the buyer upon forfeiture and repossession for permanent improvements made, such as, soil and water conservation, buildings, dams, ponds, waterways?
 Yes _____ No _____
8. a. Do you know anyone else who is buying or selling on the land installment contract? Yes _____ No _____
- b. If yes, who? Buyer Seller Address
- | | Buyer | Seller | Address |
|-------|-------|--------|---------|
| _____ | _____ | _____ | _____ |
| _____ | _____ | _____ | _____ |
| _____ | _____ | _____ | _____ |
9. a. What is your name? _____
 b. What is your address? _____
 c. What is your buyer's name? _____
 d. What is your buyer's address? _____

Appendix 3. Two examples of standard form contracts.

CHAMPION **NO. 55**
CLASP 6 X 9

No. _____
AGREEMENT

AND

STATE OF KANSAS,
County,) ss.

This instrument was filed for record on the _____ day of _____, A. D. 19____,
at _____ o'clock _____ M., and duly recorded in _____ of _____,
at page _____.

Register of Deeds.

PAYMENTS FALL DUE

Month	Day	Year	Principal	Interest	Total

SALE NEGOTIATED BY

PAYMENTS FALL DUE

Month	Day	Year	Principal	Interest	Total

State of _____, County of _____, ss.
BE IT REMEMBERED, That on this _____ day of _____, A. D. 19____,
before me, the undersigned, a Notary Public in and for the County and State aforesaid, came
_____ who executed the foregoing instrument, and duly acknowledged the execution of the same as free and voluntary act and deed for the uses and purpose therein set forth.
IN WITNESS WHEREOF, I have hereunto set my hand and affixed my official seal, the day and year last above written.

Notary Public.

(Term expires _____, 19____)

INSTALLMENT CONTRACT FOR THE SALE OF REAL ESTATE

THIS AGREEMENT, Made and entered into this _____ day of _____,
by and between _____,
_____,
as party of the first part, and _____,
_____,
as party of the second part:

WITNESSETH: That said party of the first part for the consideration hereinafter mentioned, covenants and agrees to sell and convey unto the said party of the second part, or the heirs and assigns of said second party, all the following described real estate, to-wit:

upon the terms and conditions hereinafter specified.

And said party of the second part hereby covenants and agrees to purchase said above described property, and to pay to said party of the first part the sum of _____,

in the manner following: _____,
cash upon the signing of this agreement, _____,

and the remainder of said purchase price or _____,

together with interest thereon at the rate of _____% per annum from _____
on said unpaid principal sum, in monthly payments as follows: \$ _____ on the
_____ day of _____, 19____, and \$ _____ on the _____

day of each and every month thereafter until the said principal sum be fully paid, with the further agreement that the aforesaid _____% interest is to be first deducted to date of each said monthly payment out of each said monthly payment, and the remainder of each said monthly payment shall then be applied on the said unpaid principal sum. Said second party is to have the privilege to pay ahead on this agreement at any time and to pay same in full at any time. In addition to the said monthly payments of principal and interest, said second party shall pay all taxes for the year _____,

_____ and all subsequent years, and shall keep the improvements on said premises insured with fire and extended coverage insurance in an amount sufficient to cover the unpaid principal sum of this contract at all times during the life of this contract, said insurance to be maintained at expense of second party and to be written with proper contract clause attached showing interest of said first party; and the said second party shall pay all utilities from _____ at which time said second party is to have possession of said premises.

And it is also mutually agreed between the parties hereto that if the said second party fails or neglects to pay all taxes and assessments levied against said realty property within _____ days from the date when the same become due and payable according to law, or if the said party of the second part fails to pay any of the payments of principal or interest for _____ days from the date when the same become due and payable, as herein stipulated, or in event said second party fails to maintain the fire and extended coverage insurance on the improvements as provided above, then this agreement shall become null and void, at the option of the first party, and the said second party shall and will forfeit to the said first party all money paid on this agreement as liquidated damages for breach of this agreement, and shall and will surrender the possession of said premises to the said first party or assigns of said first party.

And it is further agreed that said party of the first part shall at once execute to to said party of the second part a good and sufficient Warranty Deed conveying unto said party of the second part the realty above described, in fee simple, free and clear of all incumbrances whatsoever, including the taxes for the year _____ and all prior years,

which said Warranty Deed together with a copy of this agreement shall be deposited in escrow with Charlson and Wilson Escrow Agents of Manhattan, Kansas, until the initial _____ in downpayments have been disbursed, the costs of this escrow paid, and the title approved by said second party, and then said copy of this agreement and said Warranty Deed shall be deposited in escrow with _____ where all payments under this contract shall be made and where said copy of this agreement and said Warranty Deed shall remain until all the terms and conditions of this agreement are complied with, when said Warranty Deed shall be delivered to the said party of the second part.

And the said party of first part hereby agrees to furnish to said party of the second part or assigns of said second party, an abstract of title posted to date, showing merchantable title to the above described premises in first party, free and clear of all incumbrances whatsoever.

First party agrees to maintain fire and extended coverage insurance on the improvements in amount adequate to protect all parties herein to date of delivery of possession of said premises as provided above, when said second party agrees to assume said insurance obligation as provided above.

It is agreed that first party is to pay a _____ commission to _____ for arranging this sale, said commission to be paid out of the _____ payment aforesaid by the escrow agents who are to have authority to do what is necessary to aid in the handling of this escrow.

Said second party agrees to maintain the premises in a good state of repair during the life of this contract.

It is further agreed between the parties hereto that time is the essence of this agreement and further, that all covenants and agreements herein contained shall extend to and be binding upon the respective heirs, executors, administrators and assigns of said parties. IN WITNESS WHEREOF, the said parties have hereunto set their hands in quadruplicate the day and year first above written.

STATE OF _____, COUNTY OF _____, SS:
BE IT REMEMBERED, That on this _____ day of _____, 19_____, before me, the undersigned, a Notary Public in and for the County and State aforesaid, came _____

who are personally known to me to be the same persons who executed the within instrument of writing, and such persons duly acknowledged the execution of the same. IN WITNESS WHEREOF, I have hereunto set my hand and affixed my notarial seal the day and year last above written.

My commission expires _____.
-2- Notary Public

APPENDIX C

Table 1. Summary of the length and financial arrangements of the contracts studied.

County	:Contract: :number :	Selling : price :	Down : payment :	Installments	Date of : installments	:Interest: :rate (%) :	Length of :contract, yrs
Logan	1	\$ 16,500	\$ 4,500	\$ 4,000	May	5	3
Logan	2	14,400	3,000	1,050	Sept. 20	6	10
Logan	3	16,000	4,000	600	Jan. 1	5	20
Logan	4	15,600	7,000	1,720	Aug. 1	5	5
Logan	5	13,600	3,900	1,000	Aug. 1	5	10
Logan	6	30,000	8,700	Not set	Aug. 1	0	4
Logan	7	14,400	4,400	1,000	Mar. 1	6	10
Logan	8	11,750	*	*	After harvest	*	10
Logan	9	32,000	6,000	Not set	Mar.	5 1/2	15-20
Logan	10	19,000	1,000	2,000	Nov.	6	9
Logan	11	19,200	5,800	2,000 and 1,000 the last year	Aug. 1	5	7
Wallace	12	8,000	2,000	1,500	Apr.	4 1/2	4
Wallace	13	24,000	2,000	First of 1,000 Two of 1,500 Rest at 3,000	Nov.	6	7
Wallace	14	8,000	1,000	1,000	Aug. 15	5	7
Wallace	15	80,000	0	Half of crops	After harvest	4 1/2	14

Table 1. (cont.)

County	:Contract: :number :	Selling : price :	Down : payment :	Installments	Date of : installments	:Interest: :rate (%)	:Length of :contract.yrs
Wallace	16	\$ 13,200	\$ 1,025	\$ Not set	Dec. 31	5	5
Wichita	17	24,000	2,000	2,000	Sept.	5	11
Wichita	18	75,000	15,000	10,000	Aug. 1	5	6
Wichita	19	75,000	21,750	**	Feb. 25	5	**
Wichita	20	38,000	10,000	2,800	Oct. 15	4 1/2	10
Wichita	21	39,200	10,000	2,400	Mar. 3	5 1/2	12
Wichita	22	20,200	8,200	3,000	May 25	5	4
Wichita	23	28,000	5,280	One of 11,000 Rest in 3 years	Jan. 16	4	4
Hamilton	24	4,125	0	200	Mar. 1	5	***
Hamilton	25	100,000	10,000	2,000-15,000	Mar. 1	*	6-45
Hamilton	26	9,600	2,000	1,520	Feb. 20	6	5
Hamilton	27	11,000	0	3,000 and last one of 2,000	Apr.	4	4
Hamilton	28	4,000	1,160	One at 840 Rest at 200	Nov. 8	5 1/2	10
Kearny	29	40,000	12,000	2,800	Jan. 20	5	10
Logan	30	40,000	10,000	5,000	Aug. 1	4	6
Wallace	31	6,400	1,400	1,000	Apr. 11	4	5

Table 1. (cont.)

County	:Contract: :number :	Selling : price :	Down : payment :	Installments	Date of : installments	:Interest: :rate (%) :	Length of :contract, yrs
Logan	32	\$ 9,000	\$ 1,500	\$ 500	****	5	15
Logan	33	2,800	400	400	****	5	6
Logan	34	6,400	500	600 and 800 on last payment	****	5	7
Logan	35	16,000	2,000	Crop payment	After harvest	4	Until Paid
Kearny	36	9,600	1,600	800	****	5	10
Hamilton	37	6,400	500	500	****	5	8
Logan	38	4,800	1,800	500	Jul. 30	5	6
Wichita	39	70,000	10,000	10,000 for 2 years 4,000 for 10 years	Dec. 1	0	12
Wichita	40	Land and 8,250	Land	825	Jan. 12	5	10
Wichita	41	12,000	1,000 & 3,600 soon after	Not set	Not set	5	6
Wichita	42	72,000	20,880	20,880 30 days after down payment & 30,240 within one year		0	1 1/2
Wichita	43	45,000	13,000	5,000	Feb. 1	5	6
Kearny	44	12,000	0	First 2 for 750 Rest at 500	Oct. 1	3	24

Table 1. (cont.)

County	:Contract: :number	Selling : price	: Down : payment	: : Installments	: Date of : installments	:Interest: :rate (%)	:Length of :contract, yrs
Kearny	45	\$32,000	\$ 0	\$ 2/3 of crops	Twice a year after wheat and maize harvest	3	Until Paid
Logan	46	5,000	1,000	1,000	****	5	4
Wichita	47	51,000	14,790	5,000	Feb. 1	5	7
Greeley	48	10,500	1,800	First at 3,000 Rest at 1,140	Dec. 29	5	5
Greeley	49	80,000	23,200	4,750 and last of 4,550	Feb. 1	5	11
Wallace	50	16,000	2,000	2,000	Jan. 1	4	7
Greeley	51	9,600	100	1,000 6 mos. after down pay. Rest at 500	June 1	5	17
Wichita	52	24,000	6,000	1,800	Aug. 1	4	10
Wallace	53	22,000	2,000	1/2 of all crops	On or before Feb. 1	3	Until Paid
Wallace	54	30,000	5,000	2,500	Jan. 10	5	10
Logan	55	8,700	1,200	500	Sept. 15	5	15
Logan	56	6,400	1,400	355 & 310 on last one	Dec.	5	15
Logan	57	19,000	2,500	1,000 & 2,500 on last one	Nov.	5	15

Table 1. (concl.)

County	:Contract: :number :	Selling : price :	Down : payment :	Installments	Date of : installments	:Interest: :rate (%) :	Length of :contract, yrs
Kearny	58	\$17,500	\$ 5,500	\$ 4,000	July 10	4	3
Kearny	59	21,490	4,732	First at 1,500 Rest at 1,000 until paid	Jan. 1	6	17

-
- * - The information was held back by the party being interviewed.
 - ** - The party being interviewed did not give consistent answers to these factors.
 - *** - The seller in this contract has asked only that the interest be paid each year so the contract may run for an indefinite period.
 - **** - The information was not available.

Table 2. Summary of the provisions in the contracts studied.

County	Contract number	Adv. pay.	Flex. pay.	Mtge. & Deed	Insur- Tax	Forf. clause	Payment in kind	Assgmt of interests	Mineral rights	Person-ality	Maintenance of improvements
Logan	1				X						
Logan	2	X			X	X					
Logan	3	X		X	X						X
Logan	4	X			X	X		X			
Logan	5	X			X	X					
Logan	6	X		X	X	X					
Logan	7	X			X				X		
Logan	8	X			X	X			X		
Logan	9	X	X		X			X			*
Logan	10	X			X				X		
Logan	11				X	X				X	X
Wallace	12				X		X				
Wallace	13	X			X	X				X	*
Wallace	14	X			X						
Wallace	15	X	X		X	X		X	X		*
Wallace	16	X			X						*
Wichita	17	X			X		X				

Table 2. (cont.).

County	:Contract: number	:Adv.: pay.	:Flex.: pay.	:Mtge.&: Deed	:Tax	:Insur-: ance	:Porf.: clause	:Payment: in kind	:Assgmt of: interests	:Mineral: rights	:Person-: ality	:Maintenance of improvements
Wichita	18	X			X					X		*
Wichita	19	X			X						X	*
Wichita	20	X	X		X	X	X		X			*
Wichita	21	X			X							
Wichita	22				X		X					
Wichita	23	X	X		X							*
Hamilton	24	X	X		X		X			X		
Hamilton	25		X		X	X						*
Hamilton	26	X			X							*
Hamilton	27	X			X							
Hamilton	28	X			X					X		
Kearny	29				X		X			X		*
Logan	30	X			X		X					*
Logan	31	X			X							
Logan	32	X			X		X					
Logan	33	X			X		X					
Logan	34	X			X							

Table 2. (cont.).

County	:Contract: number	:Adv.: pay.	:Flex.: pay.	:Mtge.&: Deed	:Tax	:Insur-: ance	:Forf.: clause	:Payment: in kind	:Assgmt of: interests	:Mineral: rights	:Person-: ality	:Maintenance of improvements
Logan	35		X		X				X			
Kearny	36	X			X							
Hamilton	37	X										
Logan	38				X					X		
Wichita	39				X		X					*
Wichita	40	X			X		X					*
Wichita	41				X							
Wichita	42				X							
Wichita	43	X			X							
Kearny	44	X			X		X					
Kearny	45	X		X	X		X		X			
Logan	46				X							
Wichita	47			X	X							
Greeley	48	X			X		X					
Greeley	49				X	X	X					X
Wallace	50	X			X	X						X
Greeley	51	X			X		X					

Table 2. (concl.).

County	:Contract: :number	:Adv.: :pay.	:Flex.: :pay.	:Mtge.&: :Deed	:Tax	:Insur-: :ance	:Forf. : :clause:	:Payment: :in kind:	:Assignmt of: :interests	:Mineral: :rights	:Person-: :ality	:Maintenance of :improvements
Wichita	52	X			X		X					
Wallace	53	X	X		X		X	X				
Wallace	54	X			X		X					
Logan	55	X			X		X					
Logan	56	X			X		X					
Logan	57	X			X		X					
Kearny	58				X		X			X		
Kearny	59	X			X		X					

* - The contract dealt with improved land but there was no provision for the maintenance of the improvements.

THE USE OF LAND INSTALLMENT PURCHASE CONTRACTS IN THE PURCHASE AND SALE
OF FARM REAL ESTATE IN HIGH RISK AREAS OF KANSAS

by

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Capital requirements and farm costs have increased and net farm income has decreased during the past several years. Both the established farmer and the young person getting started in farming are affected. The North Central Regional Study, NC-15, has been concerned with the latter and has directed part of the work towards studying the land installment purchase contract. This thesis is concerned with the use of contracts in high risk areas of Kansas.

The contract is a method of farm real estate transfer whereby the seller retains title to the land in his name until the buyer pays off the contract. The buyer operates the land as his own, however.

The objectives of this study were to determine:

1. Characteristics and circumstances of buyers and sellers involved in contracts;
2. Mechanics of developing and drafting contracts;
3. Sizes and characteristics of real estate involved in contracts;
4. Terms and provisions included in contracts;
5. Occurrences which take place during the life of a contract;
6. Relationships existing between circumstances under which the contract is used and the actual transaction, and relationships existing between factors within the transaction.
7. Advantages and disadvantages to the buyer and seller of using the contract as a means of financing the transfer of farm real estate;
8. Recommendations which can be made concerning the use and development of contracts.

The high risk area of Kansas selected for study included Logan, Wallace, Greeley, Wichita, Hamilton, and Kearny counties.

Information concerning who was using contracts for farm real estate transfers was obtained from Agricultural Stabilization and Conservation

Service offices, County Registers of Deeds, and County Treasurers.

The information used in this study was obtained through study of recorded contracts and personal interviews with parties to both recorded and unrecorded contracts. Fifty-nine contracts in the six-county area were studied and interviews were held with 28 buyers and 12 sellers.

The information obtained was analyzed statistically. Since a random sampling was not possible the results of the statistical tests applied to the population of contracts studied and not to the entire population of contracts within the six-county area.

The factors pertaining to buyers were age, years of farm work experience, years of farm management experience, amount of land owned and operated, outside income sources, and previous use of the contract. Factors pertaining to sellers were age, amount of farm land owned, and previous use of the contract. The average age of sellers, 64, was significantly greater than the average age of the buyers, 46; the average amount of land owned by sellers, 1,565, was significantly greater than the average amount of land owned by the buyers, 371.

Factors studied in the development of the contracts and some of the findings were: who suggested using the contracts---in 80 percent of the cases studied the buyer and/or seller made the suggestion; what objections were voiced to using the contract---one buyer and one seller each had an objection; why was the contract used instead of some other means of financing; how were the terms decided upon---the terms in 80 percent of the contracts studied were mutually agreed upon by both buyer and seller; who drew up the contracts---over 70 percent were drafted by lawyers; and where was the contract being kept.

The average selling price on the contracts was \$25,334 and the down payment averaged 21 percent of the selling price. The average interest rate was 4.6 percent. Other factors studied pertaining to the contracts were installment sizes and provisions included in the contracts. Provisions found in various contracts were; advance payments in over 70 percent of the contracts, flexible payments in 14 percent, mortgage and deed in 7 percent, payment in kind in 7 percent, assignment of interests in 7 percent, tax in 98 percent, forfeiture clause in over 50 percent, mineral rights in 23 percent, maintenance of improvements in five of the 18 contracts involving improvements, insurance in seven of the 18 involving improvements, and personal property in 3 percent of the contracts.

Twenty-five of the 28 buyers interviewed were operating the land they were purchasing on contract themselves. Nineteen of the 29 units of land involved were being operated as part of a farm unit and the rest as an entire farm unit. Two of 47 buyers for which information was available had defaulted on their contracts; neither had been foreclosed on, however. Two buyers were trying to sell their interests in the contract they were buying land under; none of the sellers were attempting to do so.

Certain relationships were statistically analyzed. No significant correlation was found between certain characteristics of the buyers; age, farm work experience, farm management experience, acres of farm land owned and operated; and the size of the contracts classed as to selling prices and acres of land involved in the transaction.

Relationships between interest rates and down-payment/selling-price percentages, forfeiture provisions and down-payment/selling-price percentages,

and improvements and down-payment/selling-price percentages were non-significant.

There was no significant difference among the counties pertaining to the contracts classed as to interest rates and down-payment/selling-price percentages. However, statistical analysis revealed a significant difference among the counties when the contracts were classed as to the acres of land involved, the selling prices, and the down payments.

Advantages to the buyer in using the contract are: (1) he may accumulate more capital per year than under ordinary methods of financing, and (2) he can possibly receive a larger loan on the value of the land he is purchasing than he could were he to use most institutional financing. The major disadvantage to the buyer is that under the present legal status of the contract in Kansas he may lose his entire equity in the contract as a result of failure to make one payment on time.

The major advantage to the seller of using the contract is that he can take a down payment of less than 30 percent and save capital gains tax expense. This generally would not be possible if the transaction were financed by an institution. The major disadvantage to the seller is that a buyer may default and leave the land and improvements in poor condition.

A buyer would save on interest expense and decrease his risk if he paid a larger down payment. His risk in purchasing under contract would also be lessened if he could have a redemption period before he lost his equity in a contract after a default.

The seller would save on intangibles expense in most cases if he were to record the contract and pay the registration fee, thereby relieving him of the obligation to pay the intangibles tax.

The contract could be much better adapted to use in a high risk area if it were to include both a flexible payments provision and an advance payments provision.

The seller could protect his interest in the land better if he were to include a provision for the maintenance of improvements and the condition of the soil in the contract.