

# FARM REAL ESTATE TRANSACTIONS

## STEP-BY-STEP

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### 1. Find your partners

Your team of partners will likely include a lender, realtor, and lawyer, and may also include an accountant, a farm advisor or extension agent, a land trust, or an investor.

### 2. Make an offer and sign a purchase agreement

The seller likes your offer—great! You will make your offer formal in a purchase agreement, which states the price and lists many contingencies that will allow either you or the seller to back out of the contract. At this time, you will likely open an escrow account, where you will make a “good faith” deposit towards the purchase price.

All terms of the purchase agreement are potentially negotiable, and it’s important to get them right. For instance, most sellers will expect you to prequalify for financing with a bank, but the Farm Service Agency does not offer prequalification to its borrowers, so you may need to negotiate the purchase agreement differently if FSA is your only lender.

The purchase agreement sets a date or approximate date for closing, and you should confirm with your lender, realtor, and lawyer how much time they need to help you get ready for closing.

### 3. Obtain financing

Most real estate transactions involve a third-party lender. Many farmers actually work with two lenders: Farm Service Agency, which might provide a loan guarantee, and a bank or Farm Credit institution.

The lender(s) will consider your financial history, your business plan, your purchase agreement, and the property itself before approving your loan. The lender will order an appraisal to make sure they’re not loaning you more than the property is worth. Though different lenders’ underwriting teams can have very different thresholds for acceptable loan-to-value ratios, it’s a key consideration for all of them.

### 4. Title examination, disclosures, inspection, and walkthrough

You or your lawyer will order a title company to examine the property title and make sure it is clear of liens; usually you will also buy title insurance too.

The seller will send you a property disclosure, listing the major features of the property, and typically you will order an inspector and/or surveyor to confirm these details.

Typically, on your closing day you will complete a walk-through of the property to confirm that everything is in the same condition as when the purchase agreement was signed.

## 5. Closing

The big day! Usually either at the title company's office or one of the lawyers' offices, you will gather with your lawyer, realtor, and lender to sign many, many documents which complete the transaction. In addition to your down payment, you will be expected to pay several transaction fees at or prior to the closing, including:

Cost Item	Cost	Notes
Appraisal	\$2,000 - \$6,000	Varies with size and complexity of property
Title Company costs	\$1,000 - \$3,000	Varies with value of property and complexity of deal  * includes preliminary title report, title insurance, signing, notary and recording fees
Inspection	\$1,000 - \$5,000	Varies with type and complexity of property; not always required
Loan Fees	.5 % - 2% of loan amount	Varies with loan amount and complexity (lower % for larger loans)
Guarantee Fees	0 - 1.5% of loan amount	This assumes a Farm Service Agency guarantee. (0% to those who qualify and are approved for FSA Down Payment Program)  If a different guarantee program is used, it could be as high as 3%
Lender fees	\$200 - \$500	Credit reports, UCC-1 filings, etc.

\* Assumes a loan amount of at least \$250,000 - \$1.5 Million

Source: California FarmLink

This resource is part of the National Young Farmers Coalition's Finding Farmland Course. Visit us at [youngfarmers.org/finding-farmland-course](http://youngfarmers.org/finding-farmland-course)  
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