

## Custom Farming Agreements for 2016

An alternative to leasing farmland is a custom farming agreement (CFA). In a typical CFA, the custom operator agrees to perform all machine-related operations on the owner's land in exchange for a set fee or rate. The landowner pays for all seed, fertilizer, chemicals, crop insurance, and other input costs, but receives all of the grain produced, along with all eligible farm program payments on the land. The landowner is also responsible for grain storage and marketing.

The following are the average custom farming rates for 2016, based on the Iowa Farm Custom Rate Survey (the figures below include tillage, planting, and harvesting costs):

- **Corn:** \$130 per acre (Range = \$70.00 - \$190.50)
- **Soybeans:** \$115 per acre (Range = \$60.00 - \$170.00)
- **Small Grain:** \$92.50 per acre (Range = \$80.00 - \$110.00)

One particular advantage to a CFA is that it provides a landowner with extra income, with little or no additional operating capital or farm machinery investment. Fuel, maintenance, and repairs are usually the only added costs. In addition, CFAs offer a fixed return per acre to the custom operator and although there is some possibility of higher repair bills, this is minor compared to the price and yield risks typically faced by a farm operator in a normal cash-rental contract. Of course, in a good year, profits from a CFA will be lower than most cash-rental leases. However, in this era of much higher land rental rates, there is much more risk to the farm operator with a cash lease, as compared to a CFA with a landowner.

Landowners also find several advantages to a CFA. Landowners with small acreages can make many crop production and grain marketing decisions without the investment into machinery. The

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landowner does not have to negotiate land rental rates or worry about collecting lease payments, since the owner receives all of the crop proceeds. The landowner is considered to be the material participant for income tax purposes and the landowner is typically entitled to all crop insurance and government farm program payments.

### **Key issues with CFAs:**

Although the concept of a CFA is simple, close communication between the custom operator and the landowner is essential. A written contract for a CFA should definitely be prepared, which specifies the amount of payment by the landowner to the custom operator along with other pertinent details.

### **The following are some points to consider with a CFA:**

- The CFA should specify the payment amount per acre that the landowner will pay the custom operator. The CFA should also list the payment dates.
- There needs to be an accurate count with respect to land that will be handled under the CFA for payment purposes. This way a farm operator can accurately plan tillage, planting, and harvesting schedules.
- The normal field practices to be included under the CFA should be listed (tillage, planting, weed control, harvesting, etc.). Typically, these agreed-upon practices are part of the per-acre custom farming payment for the year that is negotiated between the custom operator and the landowner.
- Additional tillage trips or replanting due to weather conditions or added spraying applications of pesticides to control weeds, insects or diseases, which are provided by the custom operator, are usually charged to the landowner at a custom rate per acre that is over and above the base custom farming rate (refer to the 2016 Farm Custom Rates sheet for rates).
- Timing of planting and harvesting operations should be discussed and negotiated between the custom operator and the landowner prior to the growing season. This can become a tenuous issue, especially in years with challenging weather conditions.
- The custom operator may be asked for advice by the landowner regarding seed, fertilizer, chemical applications, levels of crop insurance coverage, and grain marketing decisions. However, the final decisions on these items lie with the landowner and the custom operator needs to be

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careful not to take responsibility for the final authority on those decisions.

- Typically, the harvested grain of the landowner is delivered by the custom operator to a farm storage facility owned or rented by the landowner or to an agreed-upon grain elevator as part of the CFA. Any grain deliveries beyond the local area usually result in the landowner paying an extra transport charge.

More details on CFAs, 2016 farm custom rates, and other farm machinery information can be found [here](#).

For more information, contact Kent Thiesse, Farm Management Analyst and Vice President, MinnStar Bank, Lake Crystal, MN. Thiesse is at [kent.thiesse@minnstarbank.com](mailto:kent.thiesse@minnstarbank.com) or 507-381-7960.

## 2016 Ag Conference

Join ICBM for this year's Ag Conference in Austin, MN.

Bankers will learn from ag industry experts and participate in discussions on critical ag issues and how they affect the financial industry.

The event will be held July 19-20. Registration and program information will be coming soon.

Questions? Contact Patti Coles, ICBM Meeting and Event Planner at [pcoles@icbm.org](mailto:pcoles@icbm.org) or 651-789-3987.

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