

## Fixed Bushel Rent

Fixed bushel rents are a form of flexible lease that can be developed for cropland. With this lease the tenant gives the landlord a fixed number of bushels of corn and/or soybeans as rent. For example, the rent for the corn land may be 60 bushels of corn per acre, and 20 bushels of soybeans per acre for the soybean land. The landlord can sell the grain, store it for later sale, or use the grain in another fashion.

**Computing the number of bushels**

The methods used to compute an equitable bushel rent are the same as the methods used in *Information File Creating a Flexible Lease*. These methods involve determining the number of bushels needed to generate a rental rate similar to the rate generated with a crop-share lease or a cash rent lease.

An important difference between a Fixed Bushel Lease and the Share of Gross Revenue Lease as outlined in *Information File Creating a Flexible Lease* is that rent under a Share of Gross Revenue Lease is based on a share of the current year’s actual yield while the rent under a Fixed Bushel Lease is based on a fixed number of bushels and does not change from year to year.

This has implications for government payments. To be eligible for direct and other government payments, the landlord must share “production risk” with the tenant. However, because rent is a fixed number of bushels, the landlord is not eligible to participate in these programs and all the payments go to the tenant. Of course, to compensate, the tenant can transfer some of this money to the landlord or increase the number of bushels. Also, check with the Farm Service Agency for ways of handling Marketing Loans and Loan Deficiency Payments.

**Converting to a flexible cash rent**

Because some landlords don’t want to be involved in marketing grain, the lease can be developed so that the landlord doesn’t take physical possession of the grain. Instead, the tenant pays the landlord an amount of cash rent equal to the value of the landlord’s share of the crop.

For example, assume the landlord’s rent is computed as the value of 60 bushels of corn. Specify dates and specified in the lease for recording local cash prices. These prices are multiplied by the number of bushels to determine rent. For example, if 60 bushels per acre is multiplied by the local cash price of \$3, the rent is \$180 per acre ( $60 \times \$3 = \$180$ ).

**Risk reduction**

As grain prices rise, the value of the landowner’s bushels increases and rent goes up. Conversely, rent goes down if grain prices drop. For example: Assume the corn fixed bushel rent is 60 bu. and alternative corn prices are \$3.50, \$3, and \$2.50 corn prices

- $60 \text{ bushels} \times \$3.50 = \$210$  rent per acre
- $60 \text{ bushels} \times \$3.00 = \$180$  rent per acre
- $60 \text{ bushels} \times \$2.50 = \$150$  rent per acre

However, rent from a fixed bushel lease does not adjust due to changes in yield. The landowner receives a fixed number of bushels regardless of whether there is a bumper crop or a crop failure. For example, assume corn price is \$3.50 and alternative corn yields of 150, 180 and 210 bushels per acre.

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Although a fixed bushel lease is meant to reduce the tenant's risk, it may actually increase the risk. Crop prices and yields are often not independent of each other. Widespread drought often leads to rising prices while bumper crops often lead to declining prices. Because the lower (higher) yield is offset by a higher (lower) price, the impact of these changes on the tenant's income is reduced. However, by allowing rent to vary due to changes in prices, but not yields, rent may actually increase (decrease) in years when the tenant's income remains the same or actually decreases (increases).

### **Conclusion**

A fixed bushel lease should only be used when production risk is relatively low, such as for land under irrigation, or in locations where poor crops rarely occur. In other cases, safeguards can be built into the lease such as reducing the bushels of rent if yields fall below a certain level. Likewise, bonus bushels could be paid to the landlord in years of bumper crops. However, in this case, basing rent on a fixed percent of the actual yield may be preferred to a fixed bushel rent. Purchasing crop insurance will also help reduce the risk of low yields. You may want to choose an APH (yield) insurance policy rather than one of the revenue insurance products. Also, don't forget the different rules for government program participation.

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