Iowa Cattlemen's Association

Preparing a Legally Sound Feeder Cattle Contract

ICA Fact Sheet
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Protection Against Legal Risk
The practice of buying and selling feeder cattle may seem relatively straight-forward. However, producers may unknowingly expose themselves to legal liability or other issues. For every producer, whether buying or selling feeder calves, it is important to take a look at current management practices and consider implementing other practices to protect the operation from legal risk. As producers look to buy or sell weaned calves, make sure to review the terms of feeder cattle sales contracts. As always, it is highly recommended that negotiated agreements are in writing regarding the transaction of feeder cattle, locking in the terms of the transaction and protecting both the buyer and the seller.

Livestock Purchase Agreement Benefits
A clearly drafted feeder cattle sales contract removes the potential for misunderstandings and even the potential for lawsuits between the parties. Contracts also have the ability to ensure payment. Structuring the terms of the transaction in writing, including the terms of payment can improve the chances a seller will get paid should financial issues arise. Once the terms have been set forth in writing, the parties should agree to additional terms in writing. This takes away the "he said, she said" challenges that can prevail with oral agreements.

Significant Contract Components
To develop a legally sound and functional contract, producers need to be aware of the terms that should be included in a sales contract.

- Price: For a contract to be legally enforceable, it requires consideration by both parties. The parties to a sales contract should also detail the purchase price and time for payment. It may be a good idea to require the buyer to remit a deposit to the seller at the time the sales contract is executed with the balance due in full upon delivery. It may also be advisable to request payment via wire transfer or cashier's check.
- Animal Description: It is recommended to include a description of the livestock being purchased in the agreement, including breed, condition, and health of the livestock in the agreement. This prevents buyers and sellers from unexpected health issues, underweight cattle, etc. A clause requiring all cattle to "be in sound and merchantable condition, allowing for rejection by the Buyer if unmerchantable," is advisable.
- Attorney fees: The terms of the agreement should specify who is responsible for attorney fees in the event a dispute arises between the parties.
- Venue: For cattle that cross state lines, it is recommended that the contract state law (either the state of origin or destination) governs the transaction.

This fact sheet was prepared by Erin Herbold-Swalwell, Brick Gentry Law Firm (August, 2015). Iowa Cattlemen's Association, 2055 Ironwood Ct, Ames, IA 50011 | 515.296.2266 | www.iacattlemen.org

- Transportation: Remember to detail the terms of shipment or delivery of the cattle, specifically the expense of shipment and which party is liable for the expense of transportation.
- Herd Health and Death Loss: Remember to discuss and come to a written agreement the party responsible for health issues or death loss during transportation. Typically, losses resulting prior to loading would be the seller's loss, with the buyer liable for losses after loading.
- Binding Clause: To make the contract a binding agreement both parties need to identify themselves and provide their signature. Additionally, an indemnification clause whereby the seller agrees to compensate the seller (v/v) for any loss resulting from the seller (or buyer's) negligence, is recommended.

Other Agreement Considerations

To allow the contract to come to fruition producers should follow additional action steps outside the developing the written agreement.

- Education: When producers negotiate with another individual or entity, they need to know as much about the agent as possible. It is advisable in larger transactions to ask for references.
- Transaction Documentation: As always, it is a good idea to clearly document the transaction. It is important to understand if a legal dispute arises, written documents can become evidence. With that being said, the best advice is when in doubt, put it in writing.
- Agricultural Liens: Iowa law does provide protection to custom feedlot operators to ensure the operator receives payment under Iowa Code §579A, the Custom Cattle Feedlot Lien law. The law requires the operator file a financing statement with the Iowa Secretary of State (often referred to as a UCC-1). The lien terminates one year after the cattle have left the custom cattle feedlot or sooner if the operator files a termination statement with the Iowa Secretary of State's office.
- Legal Advice: Producers should connect with their attorney for their ability to advise the clients and tailor advice given their understanding of operation specifics.

Packers and Stockyards Act

This federal USDA Packers and Stockyards Act (P&S Act) monitors industry activities and conducts regulatory compliance investigations to determine whether subject packers, market agencies, and dealers (buyers) are operating within the law. Buyers subject to the P&S Act must pay promptly for all the livestock they purchase. A list of registered buyers can be found on the P&A Act webpage (http://www.gipsa.usda.gov/psp/regulated.aspx). When a registered buyer does not pay the seller for their livestock promptly, a bond claim can be filed. Bonds must be filed within 60 days of the transaction. Livestock violations should be reported to the Livestock, Meat & Poultry department:

USDA, GIPSA, P&SP
1400 Independence Ave SW
Washington DC, 20250
1.800.998.3447

If you have additional questions regarding feeder cattle contract development, make sure to contact the Iowa Cattlemen's Association.

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