

Farm Management

When does a handshake count?

MANY business transactions take place with nothing more than a handshake or verbal promise. Occasionally, a party to one of these transactions will change their mind or be unable to perform their part of the agreement. The issue becomes, "Are parties legally bound to verbal agreements?" As is the case with most legal questions, the answer is, "It depends."

Ohio law incorporates the Statutes of Frauds, which are laws that specifically address the validity of verbal or non-written contracts. Under the Statute of Frauds, six types of verbal contracts are not binding on the parties: 1) a contract for the sale of land or an interest in land, 2) a contract that cannot be completely performed within one year, 3) a promise to answer for the debt of another, 4) a promise by an executor of an estate to personally pay for the debts of the estate, 5) a promise made in exchange for marriage, and 6) contracts for the sale of goods exceeding \$500.

The Statute of Frauds is designed to prevent fraud by requiring contracts that are of great importance to be in writing before they are enforceable by the parties. Contracts subject to the Statute of Frauds that are most common to farmers are contracts for land and the sale of goods exceeding \$500.

If two parties enter in a verbal agreement that is subject to the Statute of Frauds, neither are legally bound to the contract and can renege on their obligations without consequence. For example, a farmer verbally agrees to sell a buyer 100 acres on a handshake agreement. A few days later, the farmer changes his mind and decides not to sell the land. The farmer can cancel the sale, and the buyer has no legal recourse.

In another example, the farmer agrees to purchase a \$50,000 tractor from a seller on a verbal agreement. A few days later, the seller gets a better offer and sells the tractor to another party. The farmer has no legal recourse against the buyer because the transaction was never put on paper.

Exception for partial performance

As is the case with nearly every law, several exceptions exist to the Statute of Frauds. One exception is partial performance. If the parties at least partially perform on their obligations, their verbal agreement becomes legally binding. Using the land sale example above, if the buyer writes the farmer a \$10,000 check for a down payment and the farmer accepts and deposits the check, the contract has likely become enforceable and no longer subject to the Statute of Frauds. This exception is based on the thought that if a contract was not in place for the sale of the land, the seller would not have written a check to the farmer, and the farmer would not have accepted and deposited the check.

Another example is detrimental reli-



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ance. If two parties enter into a verbal agreement and one of the parties relies

on that agreement to enter into another agreement, the original verbal agreement may be enforceable. Using the tractor purchase example, after agreeing to buy the tractor from the seller, the farmer tells the seller that he is now going to buy a new corn planter that he will use with his new tractor. The farmer then proceeds to buy the corn planter. The

seller is likely now bound to their original verbal contract because the farmer has relied upon the seller's promise and would now be detrimentally affected if the seller were to cancel the sale of the tractor.

Contracts in writing help prevent any misunderstanding of terms and conditions of an agreement.



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