

Your Guide to **BUYING LAND** **LAND LOAN CONSIDERATIONS:** PART 1



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If you have your sights set on the perfect acreage, make sure you do your homework. It can save a lot of heartburn later, says Miles Hamrick, loan officer for AgSouth Farm Credit in the Lincolnton and Shelby branches.

Being knowledgeable about land prices in a given area along with what to expect on the path to ownership requires a little research. It's essential if you're looking in an area that is new to you. If you're moving from out of state or from a large metropolitan area in state the asking price per acre may sound like a bargain, but the going rate per acre actually may be significantly less.

A good starting point as negotiations begin, and particularly before you sign an agreement to purchase, is to spend some time talking with a loan officer at the local AgSouth Farm Credit office in either the county you live or the county where you will be purchasing land. Loan officers are aware of the local market and can guide you through essentials such as the loan application and approval process and the do's and don'ts in purchasing farm land.

Hamrick says that ideally it's best to have key portions of the transaction in place when you apply for a loan to purchase farm land. Key items are seller's name, a tax map or survey (if available) and a negotiated purchase price that is in line with market values.

"When you buy a piece of property a survey should exist that is used to provide a description of the parcel," says Hamrick. "But sometimes the surveys are dated and raise questions about the exact acreage in a piece of property. That's when it's good to get a new survey."

AgSouth Farm Credit does not require perc tests on land loans, unless you plan to build a home on the acreage. (A percolation test determines the water absorption rate of the soil in preparation for building a septic drain field.)

Even if the land you are purchasing is for farming and may not include a home, a conversation with the seller about any water issues may be in order. For certain farming operations you want to ensure you have ready access to water on your property; having to add a source of water can be a large, unexpected expense.

Miles Hamrick

Commercial Ag Loan Officer for Lincolnton and Shelby Branches





HELPFUL DOCUMENTS

Land purchases that are less than \$250,000 can be handled relatively quickly when it comes to the approval, says Hamrick. “It’s helpful to have tax returns and pay stubs. With your name, address, date of birth and Social Security number, AgSouth Farm Credit can have a decision based on your credit history in about one to two days. The approval is contingent on the appraisal and getting a clear title to the land.”

For larger purchases, financial documents such as tax returns, bank statements, pay stubs and balance sheets are required. A loan officer will advise on any other necessary documentation, depending on individual circumstances and the complexity of the loan. If the purchase is being made by an entity such as a corporation or LLC the legal documents for the entity are also required.

For any land purchase, plan on a down payment typically in the range of 25 percent. The amount of the required down payment can be higher or even sometimes lower depending on credit risk and the nature of the land being purchased. AgSouth Farm Credit will loan 75 percent of the purchase price or the appraisal amount, whichever is less. This applies to both lot and land loans. For example, if you’re buying \$100,000 worth of land and it appraises for \$100,000 then you will need to plan on \$25,000 down plus your fees. The loan will be \$75,000. “But if the land appraises for only \$80,000,” says Hamrick, “you will have to come up with a lot

more money than you had anticipated because the loan amount will only be 75 percent of the \$80,000.”

Down payments can also vary depending on whether currently owned land might be used as collateral to go toward the down payment. Sometimes a down payment may be a combination of cash and land, or land only, depending on circumstances. If cash is the method of down payment, documentation of available cash is required.

Land loans can be up to a 20-year fixed rate.

How much time to expect before closing on your piece of real estate? For a straightforward piece of property allow from 30 to 40 days. On a more complex piece of property allow 60 days or more.

For other considerations such as land accessibility and easements see part 2 of Land Loan Considerations.

