



# Your Guide to

## BUYING LAND NOW, PLANNING TO BUILD A HOME LATER

### CONSTRUCTION HOME LOANS PART 2

# CONSTRUCTION HOME LOANS VS. LAND LOANS: PART 2



Owning land to build a home continues to rate high on many folks' wish lists. So does having enough acreage where you have room to breathe. As communities continue to grow with new residents each year, housing stocks are slim and more people are looking to buy land to build a home.

If you have a perfect piece of property and a builder who is available, it may make sense to obtain a home construction loan to buy both the land and construct the home. This scenario may mean only one closing and that can save money. If, however, you're not ready to build, a land loan may be the best route.

Wanda Harris, an agricultural loan officer says that in some situations people are ready to buy the land but simply not ready to build, for various reasons.

"There is great value in securing the land with a land loan so you don't lose it," says Wanda. "That's huge. If you don't want to lose the chance to buy a particular piece of land, but you're not ready to build, it's important to buy the land and then wait

until you're ready to build to get a construction loan. Even though it will mean more than one closing, it's a scenario that may best fit your circumstances."

Typically, land loans require 25 percent down plus closing costs. Later, if the customer decides they are ready to move to a construction loan, they would pay off the land loan before setting up the construction loan. In this scenario, AgSouth Farm Credit can loan up to 85 percent, depending on the appraisal. "Their down payment will be 15 percent when they are ready to do the construction loan if they do not have enough equity in the land."

That's two closing times, two times an attorney is required, two separate loan periods and two different timeframes, says Wanda. We can do the one-time closing but it all hinges on the value of the appraisal and it requires a 15 percent down payment. It's just not comparable to the home construction one-time closing scenario (see part 1 of this blog series) but sometimes it fits the client's needs.

**Wanda Harris**

*Agri-consumer loan officer in the Browns Summit Branch*





In some instances a person may be ready to build but a builder may not be available to start construction. Just because a builder may not be available doesn't mean you should lose out on your dream property.

As you weigh your options, another feature of land loans that many people find attractive is the patronage cash dividend program, which doesn't apply to home construction loans.

"With our land loans, the interest rate may be a bit higher but we offset that by the dividends we pay over the life of the loan," explains Wanda. She is speaking of the patronage cash dividend program that can return a patronage cash dividend based on the interest earned on a loan the previous year. The amounts vary, depending on how much a person borrows. The dividend amount received is equivalent to about 1 percent reduction in the stated interest rate.

For those buying several acres, say 50 or 100 as an example, AgSouth Farm Credit does not require a survey on the portion that the house will be built on. This is the case whether you obtain a land loan or a home construction loan.

Wanda shares that it's helpful for people to have some idea of the most they want to put toward the

land and whether they have it on hand. "We can then estimate the monthly payments to make sure they can afford new debt that they are going to acquire with a new land loan."

To obtain a land loan, the property cannot be within the city limits; it has to be in a rural area. Conversely, to obtain a home construction loan, the house can be built in the city limits if the customer has a property that qualifies for farming potential elsewhere.

When a customer is prequalified, as soon as their offer is accepted on a piece of land, Wanda says she will need a copy of the signed contract by all parties to proceed with the loan request. Lot loans for construction loans have a term not to exceed 10 years. Farm loans, in which the land being purchased is currently being farmed or has some potential for farming, have a term not to exceed 20 years.

As you're considering buying land to build a home, talk with your loan officer about your options, specifically about construction home loans versus land loans. See part 1 in this 2-part "Buying Land to Build a Home" series about considerations that Taylor Jones, home loan specialist, shares about construction home loans that can wrap both the land purchase and the home construction into one loan.

