

Land Loan Down Payments What is Required?

Question:

What is usually required for a down payment on a land loan?

Answer:

When looking for a land loan and trying to determine what you might need for a down payment you can typically expect a range between 20% to 40%. Each land lender has different parameters, but we have listed 3 key factors that usually hold the most significant value to land lenders when determining what you may need for a down payment on a land loan.

1. Repayment capabilities
2. The appraisal and/or purchase value
3. Collateral value from land already owned

1. The ability to repay a land loan is always the highest priority for any land loan lender. Detailed analysis is done on applicants wanting a land loan to determine what down payment is required. Personal and or corporate balance sheets, tax returns, and credit history all play an important role in determining if someone is capable of repayment for a land loan and ultimately what is needed as a down payment. If a solid repayment capability can be determined than the amount allowed to be borrowed could be increased causing potentially a lower down payment. If repayment is marginal and causes increased risk, a larger down payment could be expected.

2. Whenever land is purchased, an appraisal will have to be done if a land loan is desired. An appraisal is done in order to establish the value of the land at the time of purchase. Most land loan lenders require detailed narrative summary appraisals to ensure a true value of the land. In many cases the appraisal value does not exactly match that of the appraisal value. Most often, the loan amount is determined on a percent of the lowest value of either the appraisal value or the purchase price. That percent creates a L.T.V. (loan to value). Most lenders require a standard 60 to 80 percent Loan to Value, meaning a down payment of 20 to 40 percent is required.

3. So what if you do not have the necessary cash available for the 20 to 40 percent or do not want to use that amount of cash for your land loan? Some land loan lenders offer other alternatives for land loans. The amount of down payment can be dramatically reduced or even completely eliminated if you have property you already own that has substantial equity. You are then able to cross collateralize your already owned property with the new property. If the combination of value between your



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existing property and the new purchased property is at a value against the land loan amount at the 60 to 80 percent required by most land loan lenders, than a loan could be given with little or no down payment.

These three factors all hold the majority of possibilities for the required down payment amount for a land loan. However, every land loan is case sensitive. There could be many more factors that influence the amount needed for a down payment. The only sure way to know is contact a lender specific to land loans and openly communicate your situation and purchase desire. After a short time with all of your information, they should be able to give you an exact answer to what will be needed for a down payment.

Written by Kory Unruh,
Vice-president for Land Loan Specialists.com
www.landloanspecialists.com



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