

Why are land loans harder to obtain than residential loans?

Land loans are simply hard to get because of three reasons. These reasons are:

1. Land loan lenders are limited in number compared to home loan lenders.
2. Few land loan lenders specialize in land loans and only land loans.
3. Land loans are in nature riskier loans.

1. Land loan lenders are limited in number compared to home loan lenders. I bet if you wanted to purchase a home or refinance your current home you could automatically think of several lenders that would love to compete for your home loan. Now how many lenders can you think of that would offer you a land loan for the 160 acre recreational land you want to purchase.

Because there is a limited amount of lenders who offer land loans, this makes it harder to obtain a land loan. This is simply a matter of supply and demand. More people are purchasing homes than land. So, more banks offer home loans than land loans. As the supply of land loan lenders decrease, the harder it is for the consumer to not only find a lender but develop a relationship with their lender.

2. Few land loan lenders specialize in land loans and only land loans. If you do get lucky to find a land loan lender, many times they offer a wide variety of loans and do not specialize in land loans. This just adds to the frustration due to the fact you get half way through the process only to realize your loan officer does not have a clue or relate in any way to your farm or ranch operation.

If the loan officer does not understand your way of life then how can they give you financial advice on the best loan products and terms that fit your needs. This very often adds additional expense and time to the loan process. Due to these extra costs and lost time many needing a land loan simply continue to search in frustration.

3. Land loans are riskier loans than home loans. One main reason is as an individual's income decreases they will choose to let their land loan default before they will lose their home. Also raw land values typically can have wider swings in value due to the fact that if a recession hits land will lose value faster than residential markets.



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As land loans are more risky, lenders require more collateral and greater financial strength from the customer to give them a land loan. As more is required down to purchase land and the financial condition of the borrower is tightened fewer people can get approved for a land loan.

These three reasons do make it harder for the individual looking for a land loan to achieve the loan they are searching for. Don't give up! Land loan lenders are available and they do want to give you the land loan that fits your need.

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