



Land Purchases

Sometimes we buy our dream home in an idyllic location. Other times, we find the location first but can only dream about building the home. So, we buy the land first.

The financing of a land purchase is different from a conventional mortgage on an actual home. In fact, most lenders don't lend for the purchase of land only.

However, as the mortgage industry evolves with the times, mortgage brokers can find some lenders that offer this "niche" kind of service. "And as with any niche product or service in any kind of industry, it usually costs a bit more," says Jerry Frate, president of Rochester Area Mortgage Services on Monroe Avenue.

A lender's requirements for a land-only loan are more stringent than for a loan for an existing home. The land buyer *must* make a down payment in cash of at least 20% of the purchase price. No extra loans or creative financing here if you fall short.

Also, the land-buyer must have an excellent credit rating at the onset. Finally, the interest rate will be higher than that of a conventional mortgage. Why? It's all a matter of risk and the possibility of default.

If the land-owner defaults on the loan, the lender has very little recourse in recouping the balance of the loan. Unlike a default on a conventional mortgage, where the lender can foreclose on a house and try to resell it, a default on a land loan leaves the lender with... just land, which is much harder to resell.

Still, for those dreamers and idealists who look to the future, the purchase of land can be an excellent way to lock in their vision of an idyllic location. Our caution – in addition to having the necessary cash and an excellent credit rating -- is to get advice from real estate, appraisal and mortgage professionals.

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