

Financing Land in California

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The intent of this land lender in California.

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California Land Financing Budget (Example):

Land Purchase Price \$300,000 Land Purchase Price
Soft Cost of Construction \$ 40,000 Plans and Permits
Hard Cost of Construction \$350,000 Construction Costs
Closing Costs \$ 22,000 Fees, Title, and Escrow.
5% Misc. Reserve \$ 17,500 5% of Construction Costs
Loan Interest Reserve \$ 35,000 Interest On Amount Drawn
Total Building Cost \$764,500
Appraised Value \$800,000 Estimated Value of Land with Building Completed
Down Payment \$191,125 25% of \$764,500

Benefits of California Land Lenders

Loan officers dealing with California land should be able to assist you with the following information:

- Assessment of the estimated yearly taxes, insurances, and HOA fees.
 - Approximate interest rate for the loan.
 - Down payment required.
 - Interpretation of your personal financial statements, credit scores, and income-to-debt ratios to conclude your eligibility.
- Utilities Lead to the Path of Finance

{bot_wrgoogle}One important thing to consider as you look to buy California land is utilities. When construction developers go into the construction stage to build new homes in Southern California then roads and utilities are built for a large number of homes. When the lender knows that a lot has public road access and utilities nearby they are often more willing to supply financing for the land because there is a foreseeable capacity to build on it which increase the California real estate worth and lowers the risk to the lender. The cost of installing utilities on a lot is not considered part of the hard construction costs for building.

Land Loans from a California Lender's POV

California land loans are more risky to lenders than residential loans. The reason for this is that normally most people do not live on the land they buy since it's vacant. As a result it is industry practice to not consider land a primary residence until something is built, and so it follows that vacant land is called investment property even if a person intends to build on it in the near future. Also, vacant land is called commercial property in California, that is property used for an investment purpose, even if the land is zoned residential and there are plans in place to build a primary residence. The importance of this categorization for lenders is that their risk increases on lending for land because a person can walk away from a land loan easier than a loan on a primary residence since the borrower has another place to live hypothetically.

Lenders for land will expect more from a borrow than on a residential home loan. There is a larger down payment expected typically than a California residential house or condo. There is more preparatory work expected also. Lenders may expect the borrower or buyer to bring a variety of items to the lender's table for a construction loan. Here is a partial list of potential requirements some lender's stipulate in order to obtain a land loan:

- Complete and permissible architectural drawings for what will be built on the land.
- Detailed time tables for all aspects of construction.
- Finalized realistic budget for the building.
- Supervisory chart, including a list of builder contact information for contractors and the architect assigned.
- Proof of bonded and insured builders and contractors.

Here is a list of the paperwork required from a borrower to get started on a land loan in California:

- Last 2 years of your federal income tax statements.
- Last 2 months of pay stubs for both you and your spouse with contact information.
- Your property information if you currently own including tax statements, HOA statements, any current mortgage statements, and any other debt statements you currently have.
- Any additional proof of income streams, including child support, trust fund, investment income, dividends, interest, rental income, social security or government monies.
- A complete list of your bank accounts and documentation, including all your checking, savings, money markets, and banking information.

Some Negatives and Positives

One draw back is that the courts of law in California have less regulations to protect the interests of land buyers than they provide to California residential home buyers since a land purchase is considered an investment. On the positive side, land is like having a clean slate of property. California land buyers have a much easier time when it comes to planning what they want to build, as long as the building plans live up to the regulations and zoning requirements of the city for the land's location. As a land buyer CA you also have much more flexibility on getting what you want than doing a residential home remodel for example. The best part of all about obtaining a loan to buy land in California is that it forces you to think through the land buying process ahead of time, talk to the right people which you will need to help you build a new home in Southern California and make a financial budget with sensible deadlines so that ultimately you can become a true player in the future development of a community for all to see. Plus you will have a really cool story about your personal experience in the timeless process of building on California land.