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How to Get Stimulated on Land Financing

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Guest Contributor

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Ok, let's talk about money and more specifically, financing land in today's environment while everybody's in the stimulus mode. Hey, is that possible?



So I get this call from Russell Ward who asks me to write about land financing for his newsletter, Vacant Land Guide. So, I submit to you my lexicon of great wisdom.

First, I am a scavenger of information on anything related to financing real estate. I spend hours online, on the phone, read several newspapers with eyes and ears locked on the message. I'm a networking fanatic and in doing so, clients come to me for loan counseling, loan packaging services,

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writing executive summaries, refining business plans, negotiating terms with lenders and in general, posture them favorably to increase their chances of capturing an acquisition or refinance loan program - period. Are you feeling a little stimulated yet?

I will assume the subscribers reading this publication are seasoned veterans of rural land real estate. That being stated, I won't bore you with the elementary basics of how general financing works. If you need a refresh on the subject, I suggest going to your local library and pick out one of the many books on the subject. Regardless of your knowledge level, doing that anyway is always a good idea. Just make sure you select a recent edition as the science of real estate financing is ever changing. Better yet, go to a book store and purchase the most recent publication(s).

You're still reading? Great! Let me share with you some of my experiences related to financing real estate to help you in your search for a rural land or farm loan. You're already aware banks are exceptionally careful about lending on rural dirt and specifically, acres of rural dirt. What was four years ago, now seems surreal - a dream of sorts. Back then, lenders threw money at you just to see if it would stick. Walking in the front door of your local bank with your John Deer hat on was probably more than enough to qualify. But today? Well, it's all changed as you know. Banks and lending companies aren't interested in talking to you about land loans. Most common response..."Unless you're putting 50 percent down, forget it". Now, I'm not saying you can not find a lender to finance land at a more leveraged position, it's just that the requirements have become more comprehensive. And lenders willing have dwindled.

Mark Twain once said..."Buy land; they're not making it anymore". So the best way I can help you capture a land loan in today's questionable market is to give you some rules of engagement to optimize your success.

Rule #1: Do your research. Jump online and start looking for lenders who specialize in land financing in your state and the surrounding states. Lenders prefer to work in their own backyard. Most offer informative loan information regarding rates and programs. Read everything they have to say on all pages. I have found good information and resource contacts in the FAQ log, the BLOG text, in testimonials and posted news articles. However, just be aware you may be reading old information. I have also discovered some lenders don't update their web site data very often. Some are even out of business, but their web sites are still flying. So if you land on a great site that looks like they have your lolly-pop, call them to make sure they're in business and if so, ask to speak to a loan representative to pre-qualify your request as it fits into their lending criteria.

Most sites do a very thorough job of providing not only loan data, rates and fees, but they also have specific forms to

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download. Some lenders are anal about using their forms and won't even look at your deal unless it's submitted appropriately on their electronic stationery. I've compared application procedures and forms from different lenders. Most are very similar and basically ask the same questions, but learning to play the lender's game and following their protocol will get you past the gatekeeper faster.

Rule #2: Provide a Complete Loan Package. I can't tell how many times I've provided a list of required documents for my clients to send me, and when it arrives, it's incomplete. Everyone listen up! When we ask for the most recent two years personal and corporate Tax Returns, what do you think that means? If we ask for a Personal Financial Statement, it means - fill out the whole form! Not half of it or just one side of it. Some don't even bother to sign where it says...SIGNATURE! I've even had clients tell me..."Oh you really don't need that do you?" or "Is it necessary to pull our credit reports? Please, this is 2009. Stimulate me. We are in "Full Doc" mode here people. Give me all the goodies!

Now if you're purchasing 3-10 acres in the country to build out your mini-farm, then the standard Fannie Mae Form 1003, and a few disclosures, which are typically used to purchase or refinance a home, will suffice. It's pretty easy and the bank or lender can provide the forms. You can also Google Form 1003, print it out and go.

However, if you're seeking a multi-million dollar acquisition or refinance loan, and you are operating as an entity [Corporation, LLC etc.], you'll need to package your loan application more professionally. Large loan requests typically originate from businesses operating the land for timbering, crop farming, raising livestock or some agri-business. Therefore lenders require specific documents such as... Executive Summary, Business Plan, YTD Operating Financials, Profit and Loss Projections, Aerial Photos, Environmental Reports, Due Diligence Studies, Construction Estimates and any supporting evidence depending on the business, loan purpose and location.

The lesson here is your request for financing and your loan submission documents are specific. They are a reflection of you and how you manage your affairs. If you're not packaged properly, no lender has the time to figure it out for any consideration. The famous saying..."you can take it to the bank", will not apply if your loan package is not complete.

Rule #3: Don't have time to package your loan properly? – Get Help. A good loan originator from a lender or bank will help you along the way. It is also true every good loan officer has a support system behind them including a sharp processing and underwriting staff. However, your loan officer is also focused on working other loans in their pipeline and searching for new business. That's just the way it is, so know this... If you leave it to chance that your loan officer is looking out for your best interest all the while drilling them for the lowest rate and fees, then what would you expect to

get in return? I realize everyone thinks they deserve the best deal and should debate all aspects of the loan offer, but think of it this way. If you want your loan approved fast and done right, wouldn't it be justified to pay a reasonable fee for top service?

What if your financing fell through at the last minute and now the sellers tear up the sales contract, and keep your earnest money deposit because you could not attain financing? You lost the land you so desperately wanted. You're out. I'm not saying you shouldn't shop around, I'm saying don't take the chance of losing your deal because your loan package was given sub-par service. If you don't have the time or the resources to package your loan package properly, especially on large high dollar commercial loans, then wouldn't it make sense to retain the services of a professional real estate finance loan consultant?

Rule #4: Consider Alternatives to Bank Financing. There are alternatives to financing land as a source of capital to use as down payment or total cash purchases. My good friend Dave Basinger of Basinger Financial, [Alexandria, VA 703-303-6458], says you can access capital for deposit money or to fund your land purchase from a financial tool called a Self-Directed IRA. Since you are the owner of the IRA, you're in complete control of its investment purpose. Please contact your financial advisor for further clarification.

Another source of capital may come from other investors seeking to execute a 1031 Tax Exchange. Investors may consider joining in on the ownership as silent partners. They get the tax advantage of executing the 1031 exchange, and you get the cash you need to purchase the land. However you will have to accept a co-ownership situation until other arrangements are made and also the property will need to be an investment for you as well.

Farm Credit Cooperatives can offer favorable terms of 20 and 30 years and are owned by all the borrowers in the cooperative which may offer benefits to certain farm use applications. Another alternative is asking the seller to finance the purchase on a short term basis. A recently conducted LandFLIP.com poll of over 1200 participants say that owner financing is the #1 source land investors are seeking. The sellers may not need all the proceeds from the sale initially and earning an income from holding a note may be attractive to them. And sellers rarely impose the traditional lender underwriting guidelines for qualifying.

However you choose to finance your land, work with someone who is knowledgeable and experienced in rural real estate. One who can offer guidance on agricultural-use tax exemptions, conservation easements, environmental factors and insurance sources that an out-of-state lender might not be able to. A local lender and/or investor will be familiar with land values and comparable real estate sales prices in the area which can help expedite your loan settlement. You have now been stimulated.

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Russell Ward is the ONLY person in the country training real estate investors how to control or buy country land at half-price. He is a full-time vacant land investor who has been involved in more than 600 land transactions ranging from .25 acre to 500 acres totaling over \$9,000,000. He has authored, Vacant Land Guide – How to Buy Vacant Land at Wholesale Prices. This guide is the first and only of its type on the market today. He resides in Orange Park, FL a suburb of Jacksonville, FL.

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