

LAND VS. HOME FINANCING

A plain-English guide to why financing raw land can look very different from financing a finished home - and what buyers should ask before making an offer.

The property you are buying changes the loan you may qualify for.

THE BIG IDEA

A move-in-ready home has an established residential use and value. Raw land may still need utilities, access, septic approval, site work and construction - so lenders often underwrite it differently.

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Tennessee real estate | Land • Homes • Property

EDUCATIONAL GUIDE

Loan programs, rates, down-payment requirements and lender policies change frequently. This guide is general education only. Buyers should speak directly with a qualified lender about the specific property, intended use and current loan options.

WHY LAND LOANS FEEL DIFFERENT

Traditional home mortgages are designed around a completed residence. A land loan may finance only the dirt - and the lender has to consider whether the property can be resold, developed and used as planned if the borrower does not complete construction.

FINISHED HOME	RAW / VACANT LAND
Collateral: Existing house + land	Collateral: Primarily the land itself
Loan options: Broad mortgage market	Loan options: More lender-specific
Down payment: May be relatively low depending on program	Down payment: Often higher and highly dependent on lender/property
Term: Long-term mortgages are common	Term: May be shorter, adjustable, amortized differently or include a balloon
Underwriting focus: Borrower + home appraisal/condition	Underwriting focus: Borrower + acreage, access, utilities, intended use, marketability and future development

IMPORTANT

There is no single universal "land loan." A local bank, credit union, Farm Credit institution or other portfolio lender may have its own rules for acreage, intended use, down payment, term and balloon structure. Get the lender involved before writing an offer.

FINANCING A HOME

A buyer purchasing an existing or completed home may have access to several established mortgage categories. The best fit depends on credit, income, property type, occupancy, location and program eligibility.

- ✓ **Conventional mortgage:** A non-government-insured mortgage. Down payment and mortgage-insurance requirements vary by product and borrower profile.
- ✓ **FHA:** FHA insures loans made by approved private lenders. HUD states that eligible homebuyers may have down payments as low as 3.5% on qualifying 1-4 unit properties.
- ✓ **USDA Rural Development:** The Guaranteed Loan Program can finance eligible new or existing residential property used as the borrower's permanent residence in qualifying rural areas; USDA also advertises eligible purchase/build options with no money down.
- ✓ **Other mortgage programs:** VA, state housing-agency, first-time-buyer and lender-specific programs may also be available depending on the buyer and property.

Why a finished home is easier to finance

- ✓ The property already has a recognized residential use.
- ✓ Utilities and access are generally established.
- ✓ The lender can appraise an existing structure.
- ✓ Standard mortgage underwriting and secondary-market guidelines may apply.
- ✓ The buyer does not need to prove how the house will be built before closing.

PROGRAM DOES NOT EQUAL PROPERTY APPROVAL

Even when a buyer qualifies financially, the property itself still has to meet the chosen loan program's requirements. Acreage, condition, manufactured-home status, utilities, private roads, septic and appraisal issues can matter.

FINANCING RAW LAND

A land lender may look beyond income and credit and ask a bigger question: **What is the buyer going to do with this property?** The answer can affect the type of loan and the lender willing to make it.

Common land-financing paths

- ✓ **Raw-land loan:** Financing for undeveloped property. Terms are usually set by the individual lender and can vary significantly.
- ✓ **Improved-lot loan:** Some lenders distinguish a homesite that already has road access, utilities or other improvements from completely raw acreage.
- ✓ **Farm / agricultural real-estate loan:** Buyers purchasing qualifying agricultural property may explore lenders that specialize in farm and rural credit.
- ✓ **Seller financing:** In some transactions the seller agrees to accept payments over time. Terms, security documents and legal protections should be handled carefully with qualified professionals.
- ✓ **Cash:** Some land buyers choose cash when traditional financing is limited, then refinance or obtain construction financing later - but future financing is never guaranteed.

What a land lender may ask about

- ✓ Acreage and purchase price
- ✓ Road frontage and legal access
- ✓ Survey and title
- ✓ Utilities and septic/soil feasibility
- ✓ Zoning and intended use
- ✓ Whether the property is recreational, residential, agricultural or investment land
- ✓ How soon the buyer plans to build
- ✓ Borrower's down payment, income, assets, credit and overall debt

LAND + CONSTRUCTION FINANCING

If the real goal is to buy land and build a home, a buyer should ask about construction financing **before** buying the land separately. The structure of the deal can affect the loan strategy.

WHAT IS A CONSTRUCTION LOAN?

The Consumer Financial Protection Bureau describes a construction loan as usually a short-term loan used to cover the cost of building or rehabilitating a home. CFPB notes that construction loans generally have higher interest rates than longer-term mortgages, and funds are commonly advanced in stages as construction progresses.

Two common concepts

- ✓ **Construction-only:** A temporary loan funds the build. The borrower may need a separate permanent mortgage after construction is complete.
- ✓ **Construction-to-permanent:** A lender structures the construction phase with a planned conversion into permanent home financing, subject to that lender/program's requirements.

Expect more documentation

- ✓ Approved house plans/specifications
- ✓ Builder information and contract
- ✓ Detailed construction budget
- ✓ Appraisal based on the completed project
- ✓ Draw schedule and inspections
- ✓ Land value/equity and required cash contribution
- ✓ Site, septic, well/utility and permitting information

BUYING THE LAND FIRST?

Ask the future construction lender how existing land equity will be treated, whether there is a required seasoning period, and whether an existing land loan must be paid off or rolled into the construction financing. Policies vary by lender.

QUESTIONS TO ASK THE LENDER

- ✓ Do you finance raw land, improved lots, or both?
- ✓ Is there a maximum acreage you will finance?
- ✓ What down payment is required for this specific parcel?
- ✓ Is the interest rate fixed or adjustable?
- ✓ What is the loan term and amortization period?
- ✓ Is there a balloon payment? If so, when?
- ✓ Are there prepayment penalties or special fees?
- ✓ Do you require a survey, septic approval, soil work or utility verification?
- ✓ Does the intended use - homesite, farm, recreation or investment - change the loan?
- ✓ If I plan to build, should I use a land loan first or a construction-to-permanent product?
- ✓ Can the land purchase and future construction be combined?
- ✓ Will my land equity count toward the construction down payment?
- ✓ What appraisal method will be used for the land?
- ✓ How long is approval for this type of property?

BOTTOM LINE

For a house, buyers often start with the mortgage program. For raw land, start with the **property and the plan**: what is it, what will you do with it, and which lender finances that exact type of deal? Getting the right lender involved early can prevent a buyer from putting a contract on land that does not fit the financing they expected.

OFFICIAL SOURCES USED

CFPB - mortgage categories and construction-loan education. **HUD/FHA** - FHA home-purchase information. **USDA Rural Development** - Single Family Housing Guaranteed Loan Program. **Farm Credit Administration** - Farm Credit System and rural/agricultural credit institutions.

Current as of August 2026. Loan products, rates, underwriting rules and down-payment requirements can change. Always verify current terms with the lender financing the specific property.