

NEW CONSTRUCTION - LAND OWNED FOR LESS THAN TWO YEARSMaximum Mortgage Amount

When the land was owned for less than two years, the mortgage may not exceed 97 percent of the lesser of Purchase Price or appraised value, subject to the following restrictions:

1. In no case may the Borrower borrow more than the construction costs plus the land loan pay off plus settlement costs.
2. Land equity may be used to meet the minimum 3 percent down payment requirement.

## EXAMPLE A:

Borrower purchased land less than two years ago for \$10,000. The borrower owes \$5,000 on land. Construction costs \$49,500.

<u>Total Acquisition Cost</u>		<u>Funds Required</u>	
Cost of Land	\$10,000	Balance owned on Land	\$ 5,000
Construction Cost	<u>49,500</u>	Construction Cost	49,500
	\$59,500	Settlement Costs	<u>2,000</u>
		Total	\$56,500

The maximum mortgage is limited to the lesser of \$57,715 (97 percent of the lesser of total acquisition cost or appraised value) OR the total of the balance owed on land (\$5,000) plus construction costs (\$49,500) plus settlement costs (\$2,000). In this example, the maximum mortgage would be \$56,500.

## EXAMPLE B:

Borrower purchased land for \$10,000 less than two years ago and now owns it free and clear. Construction costs \$49,500.

<u>Total Acquisition Cost</u>		<u>Funds Required</u>	
Cost of Land	\$ 10,000	Balance owned on Land	\$ 0
Construction Cost	<u>49,500</u>	Construction Cost	49,500
	\$59,500	Settlement Costs	<u>2,000</u>
		Total	\$51,500

In no event may the maximum mortgage be more than \$57,715 (97 percent of the lesser of total acquisition cost or appraised value). In this example, the mortgage is limited to \$51,500.

## EXAMPLE C:

Borrower purchased land less than two years ago for \$10,000. The Borrower owes \$8,000 on land. Construction costs \$49,500.

<u>Total Acquisition Cost</u>		<u>Mortgage Requested</u>	
Cost of Land	\$10,000	Balance owned on Land	\$ 8,000
Construction Cost	<u>49,500</u>	Construction Cost	<u>49,500</u>
	\$59,500	Total	\$57,500

In this situation, the maximum loan would be \$57,715 (97 percent of the lesser of total acquisition cost or appraised value). The Borrower would need cash for the difference in order to meet the minimum 3 percent down payment requirement and the settlement costs.

Underwriting the Loan

When underwriting the loan, the land is valued at cost or the current appraised value, whichever is less. Also the appraiser's "as completed" value for the completed property must be taken into consideration.

## EXAMPLE A:

Borrower purchased land for \$10,000 less than two years ago. The Borrower owes \$5,000 on land. Construction costs \$49,500.

<u>Total Acquisition Cost</u>		<u>Appraised Value</u>		<u>Maximum Mortgage</u>	
Cost of Land	\$10,000	Land	\$10,000	Balanced owed on Land	\$ 5,000
Construction Cost	<u>49,500</u>	Building	<u>49,500</u>	Construction Costs	49,500
	\$59,500	Total	\$59,500	Settlement Costs	<u>2,000</u>
				Total	\$56,500

For underwriting purposes, this would be a 97 percent loan-to-value ratio loan. Private mortgage insurance (PMI) is required.

## EXAMPLE B:

Borrower purchased land for \$10,000 less than two years ago and now owns it free and clear. Construction costs \$49,500.

<u>Total Acquisition Cost</u>		<u>Appraised Value</u>		<u>Maximum Mortgage</u>	
Cost of Land	\$10,000	Land	\$10,000	Balanced owed on Land	\$ 0
Construction Cost	<u>49,500</u>	Building	<u>49,500</u>	Construction Costs	49,500
	\$59,500	Total	\$59,500	Settlement Costs	<u>2,000</u>
				Total	\$51,500

The maximum mortgage is \$51,500 since the land is owned free and clear. This would be a 86.5 percent loan-to-value ratio loan. PMI is required.

## EXAMPLE C:

Borrower purchased land less than two years ago to \$10,000. They owe \$8,000. Construction costs \$49,500.

<u>Total Acquisition Cost</u>		<u>Appraised Value</u>		<u>Maximum Mortgage</u>	
Cost of Land	\$10,000	Land	\$10,000	Balanced owed on Land	\$ 8,000
Construction Cost	<u>49,500</u>	Building	<u>49,500</u>	Construction Costs	49,500
	\$59,500	Total	\$59,500	Settlement Costs	<u>2,000</u>
				Total	\$59,500

Maximum mortgage would be \$57,715 (97 percent of the lesser of total acquisition cost or appraised value). Borrower would need cash for the difference in order to meet the minimum 3 percent down payment requirement and the settlement costs. PMI is required.

## EXAMPLE D:

Parents deeded lot to their son for "love and affection" within last two years. Appraised value of lot \$15,000. Construction cost \$49,500.

<u>Total Acquisition Cost</u>		<u>Appraised Value</u>		<u>Maximum Mortgage</u>	
Appraised Value of Land	\$15,000	Land	\$15,000	Balanced owed on Land	\$ 0
Construction Cost	<u>49,500</u>	Building	<u>49,500</u>	Construction Costs	49,500
	\$64,500	Total	\$64,500	Settlement Costs	<u>\$2,000</u>
				Total	\$51,500

In this situation the maximum mortgage is \$51,500. This would be a 79.8percent loan-to-value ratio loan. PIM is not required. Equity in lot would be considered toward down payment.

## EXAMPLE E:

Borrower purchased land for \$10,000 less than two years ago and now owns it free and clear. Construction costs \$49,500. Land appraised at \$7,500.

<u>Total Acquisition Cost</u>		<u>Appraised Value</u>		<u>Maximum Mortgage</u>	
Land	\$ 10,000	Land	\$ 7,500	Balanced owed on Land	\$ 0
Construction Cost	<u>49,500</u>	Building	<u>45,500</u>	Construction Costs	49,500
Purchase Price	\$59,500	Total	\$53,000	Settlement Costs	<u>2,000</u>
				Total	\$51,500

The maximum mortgage would be \$51,410 (97 percent of the appraised value, \$53,000). PMI is required.

NEW CONSTRUCTION - LAND OWNED FOR TWO OR MORE YEARSMaximum Mortgage Amount

When the land was owned for more than two years, the mortgage amount may not exceed the lesser of Total Acquisition Cost or 97% of the appraised value, subject to the following restrictions:

1. In no case may the Borrower borrow more than the construction costs plus the land loan pay off plus any or all settlement costs
2. Land equity may be used to meet the minimum 3 percent down payment requirement.
3. In no case may the construction costs plus balance due on the land exceed the New Construction Purchase Price Limit for that county.

**EXAMPLE A:**

Borrower purchased land more than two years ago and the current value is \$10,000. The borrower owes \$5,000 on land. Construction costs \$49,500. Total Settlement costs are \$2,000.

<u>Total Acquisition Cost</u>		<u>Funds Required</u>		<u>Appraisal</u>	
Balance of Land	\$ 5,000	Balance of Land	\$ 5,000	Land	\$10,000
Construction Cost	49,500	Construction Costs	49,500	Construction Cost	<u>49,500</u>
Settlement Costs	<u>2,000</u>	Settlement Costs	<u>2,000</u>	Total	\$59,500
	\$56,500	Total	\$56,500		

The maximum mortgage is limited to the lesser of the Total Acquisition Cost OR 97% of the appraised value. In this example, the maximum mortgage would be \$57,715.

**EXAMPLE B:**

Borrower purchased land more than two years ago and now owns it free and clear. The land value equals \$10,000, construction cost are \$49,500.

<u>Total Acquisition Cost</u>		<u>Funds Required</u>		<u>Appraisal</u>	
Balance of Land	\$ 0	Balance of Land	\$ 0	Land	\$10,000
Construction Cost	49,500	Construction Costs	49,500	Construction Cost	<u>49,500</u>
Settlement Costs	<u>2,000</u>	Settlement Costs	<u>2,000</u>	Total	\$59,500
	\$51,500	Total	\$51,500		

In this example, the mortgage is limited to \$51,500.

**EXAMPLE C:**

Borrower purchased land more than two years ago and is valued at \$10,000. The Borrower owes \$8,000 on land. Construction costs \$49,500.

<u>Total Acquisition Cost</u>		<u>Funds Required</u>		<u>Appraisal</u>	
Balance of Land	\$ 8,000	Balance of Land	\$8,000	Land	\$10,000
Construction Cost	49,500	Construction Costs	49,500	Construction Cost	<u>49,500</u>
Settlement Costs	<u>2,000</u>	Settlement Costs	<u>2,000</u>	Total	\$59,500
	\$59,500	Total	\$59,500		

In this situation, the maximum loan would be \$57,715 (97 percent of the lesser of total acquisition cost or appraised value). The Borrower would need cash for the difference in order to meet the minimum 3 percent down payment requirement and the settlement costs.

Underwriting the Loan for LTV

When underwriting the loan, the land is valued at the current appraised value. Also the appraiser's "as completed" value for the completed property must be taken into consideration.

## EXAMPLE A:

Borrower purchased land more than two years ago. The Borrower owes \$5,000 on land, Construction cost \$49,500. Value of land equals \$10,000.

<u>LTV Purchase Price</u>		<u>Appraised Value</u>	<u>Requested Mortgage Amount</u>	
Value of Land	\$10,000		Balanced owed on Land	\$ 5,000
Construction Cost	<u>49,500</u>		Construction Costs	49,500
	\$59,500	\$59,500	Settlement Costs	<u>2,000</u>
				\$56,500

The Maximum **Eligible** Mortgage amount is \$56,500. For underwriting purposes, this would be a 95 percent loan-to-value ratio loan. Private Mortgage Insurance (PMI) is required.

## EXAMPLE B:

Borrower purchased land more than two years ago and now owns it free and clear. Value of land equals \$10,000.

<u>LTV Purchase Price</u>		<u>Appraised Value</u>	<u>Requested Mortgage Amount</u>	
Value of Land	\$10,000		Balanced owed on Land	\$ 0
Construction Cost	<u>49,500</u>		Construction Costs	49,500
	\$59,500	\$59,500	Settlement Costs	<u>2,000</u>
				\$51,500

The Maximum **Eligible** Mortgage amount is \$51,500 since the land is owned free and clear. This would be a 86.5 percent loan-to-value ratio loan. PMI is required.

## EXAMPLE C:

Borrower purchased land more than two years ago and is valued at \$10,000. They owe \$8,000 on land. Construction costs \$49,500.

<u>LTV Purchase Price</u>		<u>Appraised Value</u>	<u>Requested Mortgage Amount</u>	
Value of Land	\$10,000		Balanced owed on Land	\$ 8,000
Construction Cost	<u>49,500</u>		Construction Costs	49,500
	\$59,500	\$59,500	Settlement Costs	<u>2,000</u>
				\$59,500

Maximum **Eligible** Mortgage amount would be \$57,715. Borrower would need cash for the difference in order to meet the minimum 3 percent down payment requirement and the settlement costs. PMI is required.

## EXAMPLE D:

Parents deeded lot to their son for "love and affection" over two years ago. Appraised value of lot \$15,000. Construction costs \$49,500.

<u>LTV Purchase Price</u>		<u>Appraised Value</u>	<u>Requested Mortgage Amount</u>	
Value of Land	\$15,000		Balanced owed on Land	\$ 0
Construction Cost	<u>49,500</u>		Construction Costs	49,500
	\$64,500	\$64,500	Settlement Costs	<u>2,000</u>
				\$51,500

In this situation the Maximum **Eligible** Mortgage amount is \$51,500. This would be a 79.8 percent loan-to-value ratio loan. No PMI would be required.

## EXAMPLE E:

Borrower purchased land more than two years ago and now owns it free and clear. Construction costs \$49,500. Land appraised at \$7,500.

<u>LTV Purchase Price</u>		<u>Appraised Value</u>	<u>Requested Mortgage Amount</u>	
Value of Land	\$ 7,500		Balanced owed on Land	\$ 0
Construction Cost	<u>49,500</u>		Construction Costs	49,500
	\$57,000	\$52,500	Settlement Costs	<u>2,000</u>
				\$51,500

The Maximum **Eligible** Mortgage amount would be \$50,925 (97 percent of the appraised value, \$52,500). PMI is required.