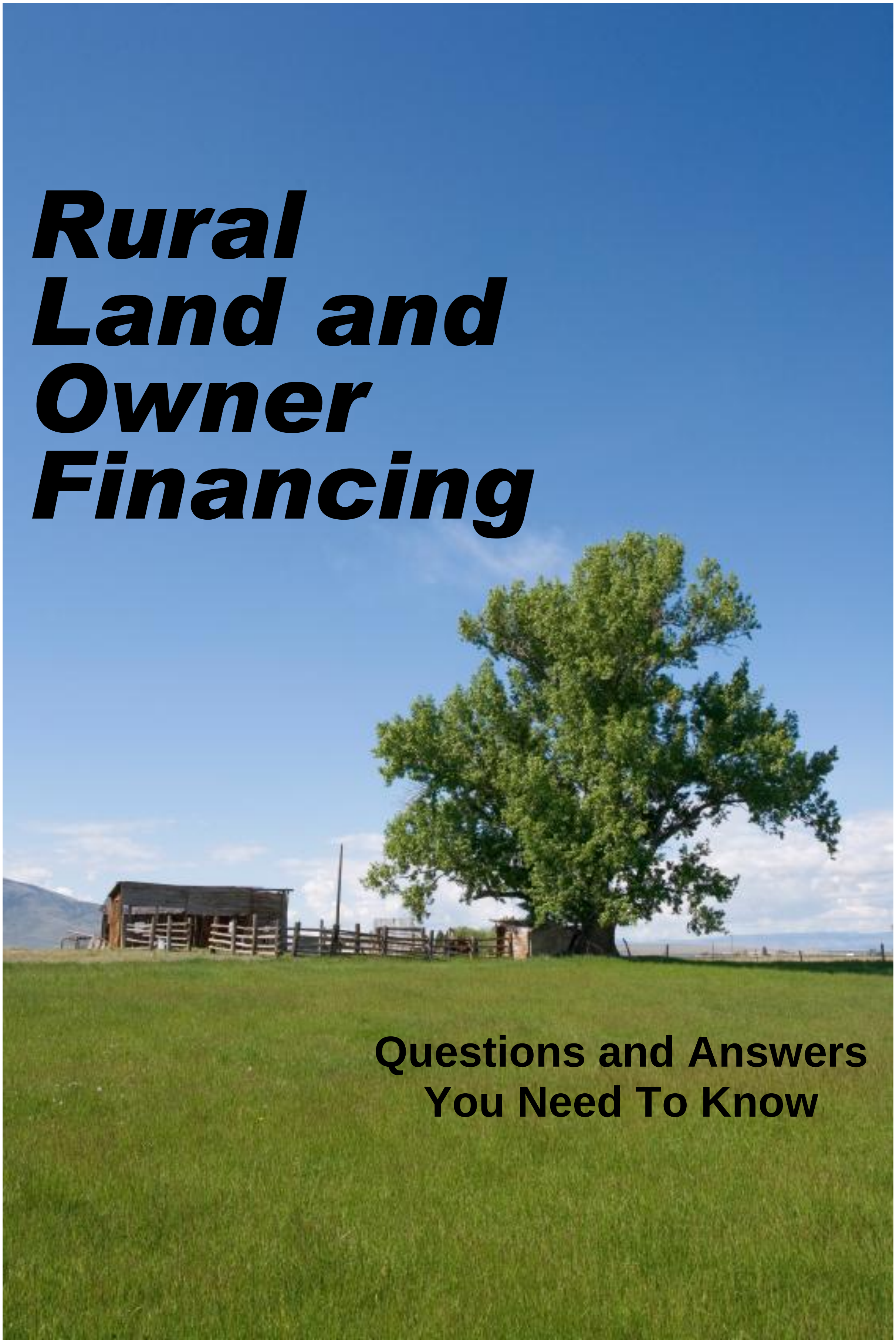

Rural Land and Owner Financing

Questions and Answers You Need To Know

Contents:

Introduction:

Many people have dreamed of owning a little piece of land out in the country. Maybe your dream is a mini farm, a hunting cabin or a place to put your dream home. Owning your own rural land can be very rewarding but if you're not careful it can also become a nightmare. This guide was designed to be an educational resource for those interested in purchasing rural land with owner financing. When dealing with land owners ("Sellers") it is important to have good communications. In order to have good communication, you will need to know what questions to ask. We have divided this guide into 3 sections:

- The first section, **"Top 10 questions people ask,"** These are the most common questions people ask about rural land and owner financing.
- The second (and most important) section, **"Top 10 questions you should be asking,"** These are the questions that most people don't know to ask but that are very important.
- The third, and final section, is a "**Terms and Definitions List,"** related to land ownership and owner financing.

Who we are:

This educational e-book was put together by the managing partners of Country Places, Inc. Country Places has been developing and selling rural land for over 30 years. We currently own land throughout the southern United States (Tennessee, Kentucky, Alabama, Virginia and South Carolina). We have sold thousands of acres to hundreds of people and have encountered just about every situation you can imagine. During this time period, our niche has been selling rural land with easy owner financing. We, at Country Places, have taken great strides to ensure that our properties, our owner financing program and, most importantly, our customers, are handled with the highest level of integrity.

As you read below, you will notice that some of the questions in this guide are in green text. **The green text indicates what *our* (Country Places) practice or policy is regarding that particular question.** Other text will appear in orange. Since East Tennessee is Country Places' main focal area, we have noted policies/procedures that apply in Tennessee. **These questions/comments are region (state, county) specific and will be in orange text.** Rural areas of Tennessee are much easier to deal with than most other states, so please check with the government regulations that apply in the area where you intend to purchase land.

We hope this guide will be of great help to you in fulfilling your dream of finding and owning your own piece of rural America.

Top 10 Questions People Ask:

1.) How does Owner Financing work?

In recent years, it has become more and more difficult to secure a traditional mortgage loan for rural or vacant land from a financial institution. Many banks refuse to grant loans for rural property, or the requirements to secure the loan are so stringent (e.g., 20-40% down payment), that most individuals can't qualify for the loan. When this is the case, **Owner Financing** may be a good alternative worthy of consideration. It has enabled many individuals who were denied traditional loans to fulfill their dream of property ownership.

Basically, Owner Financing is when the Seller of the property agrees to allow the Buyer of the property to make payments directly to him/her, thus assuming the role of the Lender. Most Owner Financing is done on a **Land Contract** basis, or sometimes called a **Contract for Deed**. With Owner Financing, the Seller holds the **Deed** until the property has been paid in full. At that time, the terms of the contract have been fulfilled and the Deed is transferred into the Buyer's name. The transaction is finalized and the Seller no longer has claim to the land.

2.) What is the approval process for Owner Financing?

Most Sellers will have his/her own application or personal information form to be completed by the potential Buyer. A background or **Credit Check** may also be required*. Don't worry if you don't have a perfect, top-notch credit record. Having previous credit problems, even bankruptcy, usually isn't a deal breaker. Some Sellers may even bypass the credit check and simply ask for a personal meeting where they can get a "gut feeling" about doing business with the potential Buyer. The important thing is to have good, honest communication between the Buyer and Seller. People naturally prefer to deal with people they like and trust. Remember, this could be the beginning of a long-term relationship between you and the Seller.

Down Payment. As in most cases, "money talks" -- if you have an initial down payment to apply to the purchase, a Seller may be more willing to overlook previous credit problems.

*** Country Places, Inc. does not run a credit check and strives to make their Owner Financing a simple, pleasant experience.**

3.) How much money will I need to put down?

The amount required to pay down will depend on the individual seller.***** The **Down Payment** may or may not be negotiable. It's a good idea to find out how much the Seller will require up front and whether or not it's within your budget. Find out this amount before you get too involved and emotionally attached to the property.

*** Country Places, Inc. requires a minimum down payment of $400 to cover closing fees on vacant land ($600 if there is a structure on the property). More expensive properties and properties with houses or cabins may require higher down payments.**

4.) What can I do with the property? What can't I do with the property? What are the restrictions on the property?

When considering a property, you need to consider what you want to do with the property (e.g., home site, camping, hunting, mini farm, etc.). Are you looking for a location to build your dream home or are you looking for a weekend retreat? Regardless of your intended use, you will need to find out what **Restrictions** have been placed on the property.

Restrictions can be in the form of **Zoning Restrictions** placed by county, state and/or local governments, such as commercial, residential, industrial, agricultural area, single-family dwellings only, farm animals prohibited, etc. The best place to start, is to contact the office of your local planning/zoning commission. They can tell you what the property is currently zoned and any restrictions that apply.

Restrictions can also be **Deed or Contract Restrictions**. These are restrictions that have been placed on the property by a previous or current owner (perhaps the Seller himself). Deed restrictions can be researched through the local county government usually the Registrar of Deeds. Contract restrictions will be included as part of the contract between you and the Seller.
Common restrictions include:

- dwelling restrictions (type and number of dwellings allowed per property)
- animals restrictions (type and number of animals allowed per property)
- nuisance restrictions (visual, noise, etc.)

As with any business dealing, it is important to have good, clear and open communications between the Buyer and Seller. Let the Seller know upfront your intended use of the property so any potential issues can be discussed in advance to avoid surprises. Some questions to consider:

- Can I have a business on this property?
- Can I park an RV/Camper on this property?
- Can I excavate the property (dig, add ponds, roads, etc.)?
- Can I divide the property? (sell off a portion)
- Can I remove trees/timber without prior approval?
- Can we build on the property?
- Can I hunt or use a firearm on the property?

5.) Can I build more than 1 house on the property?

Many people are looking for properties that they can share with their children or other family members. Don't assume you can build multiple dwelling on a property. You will need to check with the local county planning commission for their rules. The Seller***** of the property may also restrict the number of dwellings allowed on the property.

*** On most properties, Country Places, Inc. allows for a maximum of two dwellings.**

6.) Do I have to pay off the property before I start building?

Some Sellers***** will require you to pay off a certain percentage or even the entire balance of the loan before you begin to alter the land or build a structure. Some Sellers may also require you to have a structure built in a certain time frame. For example: house must be completed within 1 year of construction start date.

*** Country Places, Inc. allows you to build and use your property immediately; you don't need to pay it off first.**

7.) What utilities are available?

When considering rural land, you will want to find out what utilities are available and what the hook-up fees are. In almost all cases, if the presence of a utility is non-existent, the expense for establishing its presence will be at the Buyer's expense. The following are standard utilities to ask about:

- **Electric:** Most electric companies will run power lines for a certain distance at no charge. After their maximum distance, the customer (the Buyer) is required to pay a per foot fee. The customer will be responsible for setting the temporary and/or permanent service box for connection of the power line.
- **Water:** If municipal water is available, the Buyer will usually have to pay a fee to set a water meter and tap into the existing line. If the water lines run on the side of the street opposite from the property, expect to pay a higher amount since the water company will have to bore under the road to get to your property. The water company will not install water lines from the meter to the dwelling, the customer (Buyer) is responsible for the establishment and connection of that line.
- **Telephone:** Depending on how "rural" your property location is, you may have to ask, "Is telephone service available in this area?" If so, find out how much it will cost you to connect to the existing lines. If traditional land lines are not available, a good alternative to as about is the availability of wireless service. Ask which, if any, wireless carriers* have reception in your area.
- **Sewer:** Municipal sewer hook-up is rare in rural locations. Most counties will require a septic system that can cost the Buyer between $1,500 and $4,000. There are other low cost options available like composting toilets, incinerating toilets, etc. However, you will need to check with local health officials for the regulations that apply to your area. *(See also, "Does this property perk?" below.)*
- **Internet:** If telephone service is available in your area, then you should be able to, at a minimum, get dial-up Internet service. Most will want faster service though and should ask if DSL (or high-speed**) Internet service is available?

*** In Tennessee, Verizon Wireless seems to be the best provider of wireless reception in rural areas.**
**** Most rural areas of Tennessee do have high-speed Internet service.**

8.) What are the taxes on the property?

Property tax is based on the County Tax Rate or **Millage** (current value of the property plus any improvements that have been made to the property). These values are determined by the local Tax Assessor's office*. Up-to-date tax records are kept on file at the local county records office. At Closing, the Seller is required to pay their pro-rated portion of the current year's taxes and any past due taxes. After closing, the Buyer is responsible for payment of their pro-rated portion of the current year's taxes and any years thereafter. The due dates of property taxes vary; check with your local Tax Assessor's office.

*** Tennessee property taxes vary from county to county, but range from $8 to $15 per acre per year.**

9.) What is the address of this property? How do I obtain an address?

Properties that you are interested in may or may not have an existing address assigned to them. An address can be easily be obtained by contacting the 9-1-1 board of the local Sheriff's Department.

10.) How close is the nearest town or shopping area?

As simple as this question may be, the importance of its asking, and the answers given, is immeasurable. Although many Buyers of rural land may be seeking isolation and/or privacy, that doesn't mean they want to be completely cut-off from civilization (especially, if they have any type of medical issues).

Before you become too emotionally attached to a particular piece of rural property, be sure to know its location and understand its proximity to other things that may be of importance to you.

- How far is the nearest hospital?
- Is 9-1-1 service available in this area? What is the approximate response time?
- Is there a Walmart or similar discount store nearby?
- How far is it to the closest grocery store?
- Where is the nearest pharmacy?

Top 10 Questions You SHOULD Be Asking:

1.) Has the property been surveyed?

It is very important that any land you are considering for purchase have a current **Survey,** prepared by a licensed, state-approved surveyor, on file at the county courthouse. A current survey will ensure that all property corners and boundary lines are properly marked. Legal issues related to properties can be very costly without the proper documentation. Having a current survey will help to eliminate size/acreage discrepancies and potential property line disputes. Surveys can be expensive, but are well worth the money. Ask that the Seller absorb this cost before signing the contract*****. But, even if you (the Buyer) have to absorb the cost yourself, having a current survey is protection that you need.

*** All properties sold by Country Places Inc. have up-to-date surveys completed by reputable and state-licensed surveyors, a copy of which is provided at the time of closing.**

2.) Does the property perc for a septic system?

If you plan on building a home and installing a **Septic System** you will need to verify that the land will pass a septic system soil percolation test ("**perc**")*****. Many people have purchased what they thought was their dream property only to find out that the property would not be approved for a septic system. If you are not able to get approval for a septic system, then you will not be able to build a home on the property. Some areas of the country are very strict regarding septic systems and it can be very costly to have a system installed*.

*** Country Places, Inc. guarantees that their property <u>will</u> perc (pass septic system approval). If a property does not perc (septic system approval denied), then Country Places will refund the down payment and void the contract. However, the permit <u>must</u> be applied for within 30 days of closing and Country Places may opt to hire a soil scientist to obtain septic system approval.**

*** Tennessee requires a septic permit ($500) that can be obtained through the Groundwater Protection Agency at the local county offices. Most septic systems in Tennessee cost between $1,500 and $3,000 depending on size.**

3.) Does this property have road frontage or a legal way to access the property?

It is important to make sure that your property has road frontage or an official **easement** that allows access to the property. Make sure that any easements are documented on the survey and/or a legal description of the property*. Is the property on a **public road** or **private** (owner-maintained) **road**? Both road types (public or private) have pros and cons.

Public roads have the advantage of being maintained by local authorities. However, some people prefer to keep the road leading to their property private so they can install gates and personally manage public access to their property. However, the upkeep of private roads are at the expense of the property owner (owner-maintained). And, for property under Land Contract, that means it is the Buyer's responsibility, both physically and financially, to upkeep legal access. Some areas also require a **Driveway Permit**. Check with local authorities before installing a driveway.

4.) Do mineral rights come with this property?

Some properties will <u>include</u> the Mineral Rights and some properties will <u>exclude</u> the Mineral Rights. **Mineral Rights** or **Mineral Interest** give the owner of those rights control over the minerals under the surface of the land (i.e., coal, oil, gas and minerals). Note, the owner of the mineral rights is not necessarily the owner of the land (neither the Buyer or the Seller*****); it may be a third-party or corporation who previously purchased the mineral rights from a former land owner.

Mineral rights are usually a non-issue on tracts less than 10 acres. However, If it is important that you own the mineral rights to a property, then you should research past Deeds for the land at the local county offices (Registrar of Deeds) to determine if the mineral rights are included with the land purchase. If the land you purchase does <u>not</u> include the mineral rights, then the owner(s) of the mineral rights may be allowed to drill or mine on your property. However, do your research; even if you don't own the mineral rights, there are state laws that protect you and your property, and even allow you to receive royalties from any minerals taken from the property.

*** Country Places does not keep any mineral rights. All mineral rights are conveyed to the new owner unless they were already owned by another entity.**

5.) Can I sell the property?

Any policy regarding the Buyer's selling of the property would be contained in the Land Contract or as part of your closing documents. But, regardless of whether you purchased the land using owner financing or any type of conventional financing, the fact remains that the original loan balance must be paid in-full (thus, fulfilling the terms of your contract with the lender).

If the re-selling of your property is a consideration, it is best to secure a loan that is assumable*. An **assumable loan** allows the new potential buyer to assume your existing loan by simply taking over payments of same. It's easier to sell your land if your loan is assumable.

*** Country Places' loans are assumable. New owners must pay an assumption fee of $150 and be approved by Country Places, Inc.**

6.) If I choose to pay more than my monthly payment, what effect does the extra money have on my loan?

Regardless of whether you are using owner financing or traditional financing through a mortgage lender, you need to verify how additional money paid (any amount over your standard monthly payment) is applied to your loan balance*****. What you want is for the additional amount to go toward the **Principal**. This will not only help to payoff your loan earlier, but will help by lowering your interest paid. Make sure that there are no prepayment penalties or hidden fees for making extra payments. Ask to see the contract and read through it carefully prior to signing.

*** It is the policy of Country Places to apply any additional (over standard monthly payment) amount directly to the principal balance. There are no extra fees or penalties applied for prepayment of a loan.**

7.) What happens if I'm late with my payment?

Sometimes bad things happen to good people and they get behind on their bills. Make sure your contract includes a **grace period** for your payment due date.

Also, be sure that you know the cut-off date for your grace period and the l**ate-fee penalty** amount to be applied for payments received beyond that date*. Further, know the time period you have to bring your balance current before steps toward **foreclosure** take place. Some Sellers' contracts will allow them to re-assume rights to the property, even if the Buyer is delinquent for a very short period of time. If, for some reason, you just can't keep the property and are forced to **default** on the loan, be sure you understand what will happen (financial penalty, credit reporting, etc.).

Again, this is an area where good, open, honest communications with your Seller will prove to be beneficial. Keep good records of all your phone calls, emails, personal conversations and payments. Periodically verify your loan balance with the Seller or bank to be certain that both the Buyer and Seller are in agreement on the status of the loan.

*** Country Places' will work with Buyers on a case-by-case basis to assist them in their efforts to meet their financial obligation with regards to the purchase of their property.**

8.) Is this a balloon loan?

Many Sellers will be willing to offer owner financing, but only as a Balloon Loan/Note*. A **Balloon Loan/Note** is a loan that offers low, monthly payments for a set period of time, then on some specified date (usually 3, 5 or 7 years after the signing of the Contract), requires that the balance be paid in-full as one, lump-sum payment. Because they are based on a 30-year **amortization**, monthly payments for Balloon Notes are usually low, and therefore attractive. The idea is to let you buy the property now, assuming that in time, the property will appreciate in value and you should be able to get another mortgage now that you have **equity** in the property. Unfortunately, that's not always the case. Another thing to beware of: A Seller may promise to renew the Buyer's financing when the balloon payment comes due, but if they do it at all, rest assured, it will be at their terms and the Buyer (YOU) will have no bargaining power. Always get agreements and promises in writing. Unfortunately, this is an area where verbal agreements and a handshake don't mean much.

*** Country Places' loans are NOT balloon loans/notes. We will NOT do a balloon loan/note. Our customers choose the term of their loan (up to 30 years).**

9.) What are the interest rates and will I have options to refinance at a lower rate?

Interest rates can greatly affect the monthly payment amount and how much gets applied to the principal balance each month. Make sure that you get a **Fixed Interest Rate*,** not an **Adjustable Rate Mortgage (ARM)**. Some Sellers may be willing to give a lower interest rate if you pay a larger down payment. Some Sellers may agree to allow you to refinance the loan at some point in the future, and allow you, at that time, to change terms and apply down payments.

*** Country Places, Inc. ONLY uses Fixed Interest Rates. Our interest rates range from 6.25% to 10.25% and are based on the Buyer's down payment amount (if any). We allow you to refinance at any time and we will lower your interest rate if you are applying a down payment (every 5% down lowers the interest rate by 1% APR).**

**10.) If Owner Financing is being offered, do I have to use it?
What other options do I have?**

Although Owner Financing is a great alternative to those who may not be able to secure financing through a traditional lender, it is not necessary to buy land using Owner Financing when it's offered. A Seller is simply offering it as a convenience to the Buyer. The Seller actually has less risk involved when other financial means are utilized. Below are some other financing/purchase options for consideration:

Secure a traditional mortgage loan through a bank, credit union or other financial institution:

In recent years many financial institutions have adopted the policy of not lending money for land only purchases. However, there are some that still do. But, they consider these loans to be of higher risk, so the loan approval requirements for such loans are much higher, than for a traditional mortgage loan. So high, in fact, that it makes it difficult for most people to qualify for the loan. Here are a few things that you can expect the financial institution to be looking for:

- An outstanding credit score that includes previous mortgage loan history

- A minimum down payment of 25% or more of the sale price
- A favorable debt-to-income ratio with proof of set income
- Maximum loan term of 15 years
- Interest rates in the 7% to 10% range

Using your 401k/IRA to purchase land*.

Many people are unaware that you can use an IRA/401k to purchase land. In 1975, the IRS made changes allowing for broader investment options. If you have an IRA or a 401k you may be able to use a **Self-Directed IRA program** to purchase land. Using this option allows you to purchase the land using your 401k funds and keep your IRA money in its tax-sheltered state. With the ongoing uncertainty of the stock market and traditional investments, many people are looking for other investment options. Converting your 401k/IRA to land might be a good alternative.

*** Contacts Country Places, Inc. for additional information about using your 401k/IRA as a Self-Directed IRA to purchase land.**

Securing a Home Equity Loan or Home Equity Line Of Credit (HELOC).

If you have enough equity in your current home, you may be able to secure a low interest rate loan or establish a line of credit from your financial institution, and then pay cash for your land purchase. Sometimes a discounted price is offered on property when it is purchased using cash*

*** Country Places, Inc. may offer a discount on some properties if a customer is opting to pay cash for the land.**

Terms and Definitions List

Land Contract/Contract for Deed(owner financing): A 'land contract' (sometimes known as a “contract for deed” or an “installment sale agreement”) is a contract between a seller and buyer of real property in which the seller provides financing to buy the property for an agreed-upon purchase price and the buyer repays the loan in installments. Under a land contract, the seller retains the legal title to the property, while permitting the buyer to take possession.

Deed: Property deeds are legal instruments that are used to assign ownership of real property. Words used to convey property transfer may be grant, assign, convey or warrant, but they basically all do the same thing, they transfer the interest of the person selling the property to the person buying the property.

Survey: **l**and surveying is the technique, profession, and science of accurately determining the terrestrial or three-dimensional position of points and the distances and angles between them. These points are usually on the surface of the Earth, and they are often used to establish land maps and boundaries for ownership or governmental purposes.

Septic system: a small-scale sewage treatment system common in areas with no connection to main sewage pipes provided by local governments or private corporations. In North America, approximately 25% of the population relies on septic systems; this can include suburbs and small towns as well as rural areas.

Perc: A percolation test often called a perc test) is a test to determine the absorption rate of soil for a septic drain field or "leach field". The results of a percolation test are required to properly design a septic system. In its broadest terms, percolation testing is simply observing how quickly a known volume of water dissipates into the subsoil of a drilled hole of known surface area. While every jurisdiction will have its own laws regarding the exact calculations for the length of line, depth of pit, etc., the testing procedures are the same.

Easements: An easement is a certain right to use the real property of another without possessing it. It is "best typified in the right of way which one landowner, A, may enjoy over the land of another, B. Easements are helpful for providing pathways across two or more pieces of property. An easement is considered as a property right in itself at common law and is still treated as a type of property in most jurisdictions.

Mineral Rights or Mineral Interest: Ownership of mineral rights (more properly "mineral interest") is an estate in real property. Technically it is known as a mineral estate and often referred to as mineral rights. It is the right of the owner to exploit, mine, and/or produce any or all of the minerals lying below the surface of the property.

The mineral estate of the land includes all unusual organic and inorganic substances forming a part of the soil which possess a useful property giving them special value. An exception would be sand, gravel, limestone, subsurface water, etc. which are normally considered part of the surface estate.

Assumable loan: A mortgage loan that allows a new purchaser to undertake the obligation of the loan with no change in loan terms.

Default: In finance, default occurs when a debtor has not met his or her legal obligations according to the debt contract, e.g. has not made a scheduled payment, or has violated a loan covenant (condition) of the debt contract. A default is the failure to pay back a loan.[1] Default may occur if the debtor is either unwilling or unable to pay their debt.

Balloon loan: is a mortgage which does not fully amortize over the term of the note, thus leaving a balance due at maturity (usually 5 or 7 years). The final payment is called a balloon payment because of its large size.

Amortization: amortization is the process by which your loan principal decreases over the life of your loan. With each mortgage payment that you make, a portion of your payment is applied towards reducing your principal and another portion of your payment is applied towards paying the interest on the loan. An amortization table shows this ratio of principal and interest and demonstrates how your loan's principal amount decreases over time.

Equity: Is the market value of a homeowner's unencumbered interest in their real property -- that is, the difference between the home's fair market value and the outstanding balance of all liens on the property. The property's equity increases as the debtor makes payments against the mortgage balance, and/or as the property value appreciates. In economics, *home equity* is sometimes called real property value.

Self Directed IRA: A Self-Directed Individual Retirement Arrangement is an IRA that requires the account owner to make investment decisions and investments on behalf of the retirement plan. IRS regulations require that either a qualified trustee, or custodian hold the IRA assets on behalf of the IRA owner. Real estate may be purchased by the IRA. Real estate may include residential and commercial properties (U.S. & Internationally), farmland, raw land, new construction, property renovation, development, and passive rental income.