

FARM LOANS AND SUPPORT · PART 10 OF 10

Buying the neighbour's block: the numbers a lender wants

By Nick Clunes · Updated 26 October 2026 · 7 minute read

SHORT ANSWER

A lender works from the bank's valuation, not the price you pay, so any gap between the two comes out of your own equity. It then checks whether the combined farm can service the extra debt, using a budget for both blocks together. Work out the deposit, the LVR and the new interest cover before you bid, and add purchase costs such as transfer duty after confirming them with your solicitor and accountant.

The neighbour has told you he's selling, and the block shares your best fence line and a creek. It might not come up again in your lifetime. Before you shake hands or register at the auction, work out what the bank will want to see, because it will look at the purchase very differently from the way you do.

Valuation is not the price

When you borrow to buy land, the bank orders a valuation. It lends against that figure, not against the price on the contract. If you pay more than the valuer's figure, the bank treats the extra as yours to fund.

That gap can be large for a block next door, because the land is often worth more to you than to anyone else. The valuer doesn't count that.

The Banking Code of Practice says a bank's processes for external valuations will be fair and transparent (paragraph 95). For commercial or agricultural property, the bank will give you a copy of a valuation you paid for (paragraph 97). Ask for it, and read the comparable sales it relied on.

The deposit comes from your equity

Your equity is what you own less what you owe. A bank will lend up to a set share of the combined security value, and each bank sets its own limit for farmland. The deposit you need is the price, plus purchase costs, less what the bank will lend.

Your existing land counts. If you own your current place outright or with low debt, its value can support the new loan. That's why the bank looks at both blocks together.

LVR on the combined farm

Your LVR is how much you owe against what the land is worth. After the purchase, the bank works it out on total debt against the value of all the security, at its valuations.

Servicing: can the combined farm carry the debt?

This is where most of the bank's attention goes. A 2020 GRDC GroundCover article said lenders are looking more closely for evidence of how an applicant could service a loan, and asking for cashflow budgets and farm business plans. A strong LVR won't save a deal the farm can't pay for.

The bank wants a budget for the combined farm, not two separate ones. That means what the extra hectares will run or grow, the extra costs they bring, and the interest and repayments on the new debt. Then it checks the new interest cover, which is how many times profit covers the interest bill.

For context, ABARES found that nearly half of broadacre and dairy farms had very little or no debt in 2022 to 23. Farms that borrow to expand are a minority, and the bank will want to see the case laid out.

Purchase costs

Transfer duty, also called stamp duty, is generally payable when you buy property. Revenue NSW has a calculator for NSW purchases, and other states have their own rates. There are also legal fees, the valuation, loan fees and any search costs.

I put an estimate for each into the budget as a placeholder. Your solicitor and accountant should confirm the real figures, and any concessions you might qualify for. How the purchase is structured, and which entity buys it, is a question for your accountant and solicitor, because I don't give tax or legal advice.

A worked example

This is an invented cattle and sheep business, and every figure is illustrative. That includes the lending limit and the interest rate, which are not any bank's policy.

The neighbour's 800 ha is offered at \$4.0 million, which is \$5,000/ha. The bank's valuer puts it at \$3.7 million, or \$4,625/ha. The existing farm is valued at \$6.0 million, with \$1.8 million of debt. Purchase costs, including transfer duty, are estimated at \$230,000 until the solicitor confirms them. The example bank lends up to 50% of the security value.

Step	Amount
Combined security value (\$6.0m plus \$3.7m)	\$9,700,000
Maximum total debt at 50%	\$4,850,000
Less existing debt	\$1,800,000
New borrowing available	\$3,050,000
Price plus purchase costs (\$4.0m plus \$230,000)	\$4,230,000
Cash or equity needed from you	\$1,180,000

If the bank had valued the block at the \$4.0 million price, the combined security would be \$10.0 million. The farm could then borrow \$3.2 million, and the cash needed would be \$1,030,000. So the \$300,000 gap between price and valuation costs this buyer \$150,000 more of their own money.

Now servicing, using an invented interest rate of 7.0%.

	Today	After purchase
Total debt	\$1,800,000	\$4,850,000
Interest a year	\$126,000	\$339,500
EBIT (profit before interest and tax)	\$420,000	\$600,000
Interest cover	3.3 times	1.8 times

The \$180,000 of extra EBIT comes from the combined budget. The new block adds a \$240,000 gross margin, less \$60,000 of extra overheads. Interest cover falls from 3.3 times to 1.8 times. The bank will compare that with its own requirements and test what happens in a poor season.

Principal repayments come on top of interest. Use the repayment schedule to see them, and the bank ratio check to test your own figures. The season stress test shows the combined farm in a dry year.

Before you bid

Get the bank's view before the auction or before you sign. Bring three or four years of financials, a statement of what you own and owe, and the combined budget and cashflow. The bank review pack checklist covers the documents.

If the numbers don't stretch, you'll know before you're committed. That's a far better place to be than finding out after the hammer falls.

When to get help

If you'd like the combined budget, cashflow and ratios built before you talk to the bank, I'll quote it as project work through the contact page. If you just want to see where your business stands first, the Farm Health Check is \$850 plus GST.

Common questions

Why won't the bank lend on the price I'm paying?

Because the bank's security is what the land would fetch on a valuer's assessment, not what one buyer was willing to pay. If you pay more than valuation, the difference comes from your own funds. The Banking Code says a bank will give you a copy of a valuation of agricultural property that you paid for.

How much deposit will I need?

It depends on the bank's lending limit against farmland, your existing debt and the value of what you already own. Each bank sets its own limits. The worked example in this guide shows how to estimate it.

What does stamp duty cost on farmland?

Transfer duty, also called stamp duty, is generally payable when you buy property, and the rates and any concessions vary by state. I put an estimate in the budget, but your solicitor and accountant should confirm the actual figure. Revenue NSW has a calculator for NSW purchases.

How long does a farm loan take to approve?

Allow plenty of time. A 2020 GRDC GroundCover article quoted a consultant saying a finance application might take three months. If the block is going to auction, talk to the bank well before the date.

Sources

1. Australian Banking Association, 2025 Banking Code of Practice (screen reader version)
2. Revenue NSW, Transfer duty
3. ABARES, Trends in farm debt: Agricultural lending data 2022 to 23
4. GRDC GroundCover, Consultants reiterate the need for careful crop production and cashflow planning (2020)

General information only, not financial, tax or credit advice. Worked examples use made-up figures.