

Seller Paid Closing Costs and the USDA Rural Development Loan Program

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Asking a seller to pay some closing costs is one of the best-kept secrets in the home-buying process. That's when the seller pays some or all of the money needed for the buyer's closing costs. It can mean the difference between a sale of a home and no sale.

Seller paid closing costs concessions are negotiated when the original purchase contract is written. Many times it is better for the buyer to have all or a portion of their closing costs paid by the seller rather than having a reduction of the purchase price. It is normal to adjust the purchase price of the home to allow for the seller to pay closing costs. The seller nets the same proceeds at the closing but the buyer is able to minimize their out-of-pocket expenses.

Because of government oversight, appraisers are very conservative with the appraisal value. A copy of the sales contract is required to be included when the appraisal order is made. Although it is not true every time, the appraiser usually tries to value the appraisal fairly close to the purchase contract price.

Seller paid closing costs can seal a home purchase in some cases where the buyer does not have enough cash for money that may be required at the closing. Closing costs are allowed to be rolled into the USDA loan if the appraisal value is high enough. Many people have income to qualify for the payment on a home mortgage but encounter challenges in gathering the necessary cash to cover closing costs. Often people worthy of a mortgage don't have ready cash sitting around at the moment they find their dream home.

The purchase price vs. appraisal value is critical in the USDA Rural Development loan. The buyer **can** include the closing costs and the upfront PMI premium into the loan **IF** the appraisal value is high enough. The typical RD buyer doesn't usually have excess cash reserves. If you don't have the seller pay closing costs the buyer may not have adequate cash to cover funds required for closing.

USDA RD Loans –

- Can raise contract price baseline. Allows more "wiggle" room when trying to include guarantee fee and closing costs in loan amount. USDA only allows up to 101 % of the appraised value for the loan amount.
- Maximum allowable Seller Paid Closing Costs - 6% of Sales Price
- You can use these fund to pay for prepaid items such as first year homeowner's insurance, property tax escrows, and insurance escrows.
- You also can pay for Mortgage Broker's fees or Lender's Fees.

Seller paid closing cost is easy to implement. There are no negative tax consequences to the seller except for a negligible real estate transfer tax in some areas. Seller Paid Closing Costs must be fully disclosed in the sales contract. The seller can net the same amount for their home if the purchase contract is worded correctly.

Don't let the idea of seller paid closing costs scare you. The experienced mortgage brokers at Concorde Mortgage can help you figure out the best way to put a deal together. We're able to help you understand the details well enough to be comfortable with the purchase structure.