

Seller Paid Closing Costs

By Dean Young – Concorde Mortgage Company

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. The seller nets the same proceeds at the closing but the buyer is able to minimize their out-of-pocket expenses.

One reason to ask for seller paid closing costs is to keep a higher purchase price on the sales contract. 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 both the down payment and closing costs. 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 seller paid closing costs, or if the appraisal is not high enough, the buyer may not have adequate cash to cover any shortfall.

There are many benefits of utilizing seller paid closing costs in your purchase contracts. Some reasons to use seller's contributions:

- Being able to buy down the interest rate for the buyer.
- Lowering the out-of-pocket money needed by buyer at closing.
- Free up Buyer's cash for a larger down payment. If the buyer is near the 80% LTV threshold for requiring monthly mortgage insurance (PMI) this can reduce or eliminate the need for (PMI) and can thereby save the borrower anywhere from \$50 to \$200 each month in PMI charges.
- Pay for prepaid items such as first year homeowner's insurance, property tax escrows, and insurance escrows.
- 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.

Key Points for Contract Wording

It is important to properly phrase the Seller Paid Closing Cost clause in the purchase contract. The following represents what should be used:

“Seller Paid Closing Costs of (\$ “X”) towards financing/closing costs, escrow accounts, etc.”

Or

“Seller Paid Closing Costs of (“X” %) towards financing/closing costs, Escrow accounts, etc.”

Other Points

The maximum amount allowed for Seller Paid Closing Costs are as follows:

FHA	6% of Sales Price
USDA-RD	6% of Sales Price
VA	4% of Sales Price
Conventional	3% of Sales Price (with 5% down) 6% of Sales Price (with 10% or more down)

Main areas by loan type that benefit from Seller Paid Closing Costs towards closing costs:

Conventional Loans –

- Helps buyer change to lender paid PMI. This can save buyer from \$55 to \$120 per month in PMI costs.
- Closing costs are not allowed to be included in conventional mortgage loan amounts. Therefore, Seller Paid Closing Costs reduces out-of-pocket cash required from buyer at 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 102.0 % of the appraised value for the loan amount.

FHA Loans –

- The FHA loan does not allow the closing costs to be included in the loan amount. Seller Paid Closing Costs can be used to cover these items.