Making Sense of Seller Paid Closing Costs

If your contract doesn't specifically talk about closing costs, you will be responsible for paying all of the costs listed on the closing cost worksheets we've sent your way. That said, as a part of your negotiations, you and the seller might agree that the seller will pay some of these costs for you. Let's explore what this looks like.

Lenders' Rules

Exactly what the seller will pay toward your closing costs is something you and the seller will negotiate. However, your loan has some rules limiting how much your seller can pay on your behalf.

- **FHA and USDA –** The maximum credit is 6% of the price.
- **VA –** The maximum credit is 4% of the price, however, that figure is a bit misleading. On top of that, there are a number of traditional buyer costs that the VA does not permit a Veteran to pay. The seller will generally need to pay these costs. If the seller is agreeable, they are generally permitted to pay all closing costs on a VA loan.
- **Conventional conforming –** With less than 10% down, the maximum credit is 3% of the price. At 10% down or more, the maximum is 6%.
- **Jumbo –** For loans exceeding $417k, generally the limit is 3% of the price, regardless of your down payment.
- **Investment properties –** 2% of price limit, regardless of down payment.

Also, remember that your loan amount will be based on the lesser of your appraised value or the sales price. The property you are buying must, in the opinion of an independent appraiser, be worth the price you are paying. Ask your Realtor if the property seems likely to appraise for the price you've offered.

Don't Leave Cash on the Table

No matter what the seller has agreed to pay, their contributions will be limited to the lesser of the amount they agree to pay in the contract, the amount the loan program allows or the actual amount of the costs.

So what happens if your actual costs are less than the amount the seller has agreed to pay? The good news is the seller will pay 100% of your closing costs. The bad news is the seller will get to keep any amount of credit that exceeds your actual costs.

So How Do The Numbers Stack Up?

From the Seller's Perspective – in words:

To a seller things are pretty simple, a credit to your closing costs and a price reduction are essentially the same thing. A dollar that they concede to you, no matter the form it takes, is a dollar less that the seller will put in their pocket at closing.

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From the Seller's Perspective – in numbers:

Sales Price	$200,000	$200,000	$206,000
Seller Credit	- $0	-$6,000	-$6,000
Net to Seller	= $200,000	=$194,000	= $200,000

From Your Perspective – in words:

From your perspective, there can be a big difference between a price reduction and a credit to costs. Paying a higher price for the home while asking the seller to pay closing costs means less cash from you at closing. The effect depends on the percent you put down:

- With 5% down (95% financing), raising the price $1000 in exchange for a $1000 seller credit reduces your cash to close by $950.
- With 20% down (80% financing), that'd be an $800 reduction.

Of course, the higher amount financed will also bring a slightly higher monthly payment, which varies depending upon the note rate of your loan. As an example, an extra $950 at a 5% note rate increases your payment by $5.10/mo.

From Your Perspective – in numbers:

Sales Price	$200,000	$200,000	$206,000
Closing Costs	+ $7,000	+ $7,000	+ $7,000
Seller Credit	- $0	- $6,000	-$6,000
Loan Amount	- $190,000	- $190,000	- $195,700
Cash from You	= $17,000	= $11,000	= $11,300
Payment @ 5%	$1,020	$1,020	$1,051

The Takeaway – Check with Us!

If you don't mind a modestly higher monthly payment, you can significantly reduce the amount of cash you need to pay at closing by negotiating for a credit from your seller. The maximum amount the seller can pay is limited by loan rules and can never exceed your actual costs. Your maximum loan amount is also limited by the appraised value.

Before you write your offer, check with us! Tell us the 1) price you plan to offer, 2) the amount of property taxes and HOA dues for the home and 3) your anticipated closing date. With this information we can estimate closing costs and help you write an offer that fits your budget and the rules for your loan.

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