

What Closing Costs Can the Seller Pay?

Many buyers (particularly first-time buyers) are short the cash they need for the down payment and closing costs. One way to overcome this cash shortage is for the seller to pay a portion of the closing costs. How much the seller is allowed to contribute depends on the type of mortgage loan.

Conventional Loans

On a conventional loan, the seller can only pay non-recurring costs. These do not include pre-paid items or items to be paid in advance (such as mortgage insurance or hazard insurance). The seller's contribution is limited to the amount the buyer is putting down. If the buyer puts 10 percent or more down, the seller may contribute up to 6 percent. If the buyer puts less than 10 percent, the most the seller may contribute is 3 percent.

VA Loans

On a VA loan, the seller may pay all the closing costs (this is known as a "VA-No-No" - the buyer pays no down payment and no closing costs). Sellers who agree to pay the closing costs often put a ceiling on the amount they will pay.

FHA Loans

On a FHA loan, the seller may pay all the closing costs. However, the buyer must make a minimum 3 percent investment in the property - whether as part of the closing costs, a down payment or pre-paid items. The 3 percent can be from the buyers own funds or from a family member's gift.

Asking the Seller to Pay a Portion or All of Closing Costs

The seller's willingness to contribute to closing costs is often driven by market conditions and the way in which the request is made to the seller.

As your real estate agent, I will help you prepare an offer that balances the purchase price and request for closing cost assistance with the dynamics of the current marketplace. For instance, in a seller's market we may increase the offered purchase price to offset the request for closing cost assistance.

***Remember* - When you ask the buyer to pay a portion or all of your closing costs, in essence you are financing the closing costs. This is because the seller's contribution is typically offset by a higher purchase price. And it is this higher purchase price that is financed with your mortgage loan.**