

Seller Contribution

Seller contribution toward a buyer’s closing costs is frequently misunderstood. It is a powerful option for a buyer to consider. It can make a significant difference in the dollars remaining after the home purchase completes. Those dollars can be used for desired home improvements, or just remain part of the buyer’s assets after closing for “fall back” money for any surprises.

For some clients, this is an issue that is irrelevant; they have plenty of money to make their desired down payment, pay closing costs, and still have ample funds leftover. But for some clients, this strategy is a “must have”. Without it, they simply could not purchase a home.

DEFINITION: Seller Contribution is an amount designated in the contract that can be used to pay title company fees, survey, property taxes, home insurance, appraisal, lender fees, etc at closing. It can only be used to pay buyer’s closing costs and pre-paid costs (property taxes and insurance for escrow accounts). It cannot be used to pay the down payment.

Closing costs are always an issue. There are simply costs involved in buying a home. In some cases, the lender can pay some costs for a buyer. But this involves accepting a higher interest rate in order for the lender to be able to pay costs for a buyer.

The numbers below illustrate the impact a Seller Contribution can have for a buyer:

Overview of Seller Contribution

WITHOUT SELLER CONTRIBUTION	
Negotiated Sales Price	\$ 200,000
Closing Costs Paid By You	\$ 6,000
Down Payment - 5% in this example	\$ 10,000
Cash Due at Closing from You	\$ 16,000
Loan Amount:	\$ 190,000
Assumed Mortgage Rate:	5.00%
Base Mortgage Payment - 30 yr loan	\$ 1,019.96

WITH SELLER CONTRIBUTION	
New Sales Price	\$ 206,000
Closing Costs Paid By You	ZERO
Down Payment - 5% in this example	\$ 10,300
Cash Due at Closing from You	\$ 10,300
Loan Amount:	\$ 195,700
Assumed Mortgage Rate:	5.00%
Base Mortgage Payment - 30 yr loan	\$ 1,050.56

Increase Sales Price and have Seller pay Closing Costs through a Seller Contribution

RESULTS	
WITH Seller Contributions Saves:	\$ 5,700.00
WITH Seller Contribution increases monthly payment by:	\$ 30.60

Benefit:

Monthly payment only increases slightly, you keep approximately \$6,000 for other improvements, furniture, investments, etc.

Note:

Home must appraise for the full sales price.

Closing Cost Estimate shown above is purely for example purposes. Actual closing costs will be determined through decisions you make with your Mortgage Planner, and the various options you select for your financing strategy.

STRATEGY FOR NEGOTIATING A SELLER CONTRIBUTION:

In some cases, making an offer with a seller contribution request confuses negotiations. The seller might like the price offered, but not like the seller contribution (which reduces their net amount received at closing). They may then respond with a counter offer where two items are being negotiated at the same time – final sales price AND seller contribution.

First, I always recommend discussing the negotiation strategy with the buyer's Realtor. In some cases, the initial offer must include any request for seller contribution. In other cases, it can be added later.

Below are suggested steps that often work favorably in dealing with Seller Contribution offers. While this strategy adds slightly to the process – it helps a buyer and their Realtor learn what is really important to the Seller.

- Step 1 – determine price to offer, the buyer's Realtor will probably help in this determination based on other factors in the marketplace. Make no mention of Seller Contributions in that offer – none at all
- Step 2 – Counter offers may happen, negotiation might stall on the home, or hopefully the buyer will reach the lowest price that the seller is willing to take. This sets the “**Base Line Price**”
- Step 3 – After that offer is accepted, the buyer is still in their Option Period – usually with only \$100 to \$500 at risk (the option fee) – the seller is excited because they have come to an agreement – then at this stage the buyer's Realtor tells the Listing Agent that the buyer has been working on the details of the financing and have decided the buyer would like to arrange a seller contribution to help with closing costs.
- Step 4 – Done typically at same time as Step 3 – Buyer's Agent presents Counter Offer or Addendum at the same baseline price plus whatever Seller Contribution the Buyer wants/needs and is deemed OK per the loan program guidelines and the needs of that Buyer.
- Step 5 – Listing agent tells seller – seller sees he is still getting same “**Base Line Price**” – but is just helping the buyer roll in some closing costs – so no skin off their back – as long as house appraises for that amount – everyone is happy.

*** Special Notes –

There are some exceptions where this strategy will not work – properties that are in very high demand, a market that is an extremely strong seller's market, some short sales and foreclosures, and a few other situations. But overall this strategy will work the majority of the time.

Why not ask for it all in one step?

We must assume the seller is not real estate savvy – and cannot assume that they understand the negotiation strategies and financing strategies a buyer is utilizing.

Also, some sellers or their Realtors see a request for a seller contribution as a sign a potential buyer is not a strong borrower – some may think “*they have to add money to the loan to even be able to buy this house; they must not be a good potential buyer*”. That is a fallacy. There are times I have advised clients with very large asset accounts to consider this strategy – this keeps their money working for them – but Sellers and their Realtor don't always think like this. So, by making the request for Seller Contributions after the negotiations are basically over – this gets that Seller to reveal their base line, puts a buyer in the best light possible during the initial offer, and usually the seller is “attracted” to that buyer they have accepted the offer from.

If we can help in your own home purchase financing, or refinance financing, and help you develop your own strategy for offers, give me a call, or shoot me an e-mail!

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