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Interestingly, 'Seller Concessions' Can Benefit Both Buyers & Sellers

If you've been following my page 3 "Real Estate Today" column, you know that homes are taking longer to sell, and in some areas sales prices have decreased slightly.

Let's Talk Home Financing

By JIM SMITH Realtor®

Jaxzann Riggs, owner of **The Mortgage Network**, has been serving Colorado borrowers for 37+ years and she has witnessed more market fluctuations than I have in my 20 years. I asked her what "old and new" marketing and financing strategies she suggests for both buyers and sellers in this dynamic market.

Her response**:** "First, buyers need to understand their highest priorities. Is investing the smallest amount of cash their priority, or are they more interested in minimizing the monthly housing expense in the early years of the loan? If they expect to own the property for many years, having the lowest possible 30-year fixed rate may be the highest priority. Buyers who are fortunate enough to be paying cash for a home are normally looking for the lowest possible purchase price, in which case seller concessions won't matter to them."

Let's analyze each goal and how a seller concession built into a purchase contract can help you.

Goal #1: Lowest Cash to Close

If your income is good and you are not concerned about your monthly housing expense, but you don't have much cash to work with, a popular seller concession is one that ***covers your closing costs.*** That way, you only need cash for the down payment.

Goal #2: Lowest Payment in the Early Years of Your Mortgage

If your income is likely to increase in the near future, and you want to minimize your monthly housing expenses until your pay increases or you receive an expected bonus, a ***temporary interest rate buydown*** funded by a seller concession might make sense. The simplest explanation of this strategy is that the buydown subsidizes a reduced monthly mortgage for the first one or two years of the mortgage.

Goal #3: Lowest Interest Rate for the Term of the Mortgage

If this is a property that you expect to own for many years, it makes sense to ask for a seller concession that is utilized to ***buy the interest rate down*** on your mortgage for its full term.

So, the next question is, what is a reasonable dollar amount for a borrower to request from the seller as a concession? Each borrower and seller circumstance will vary, so there is no set rule, although Fannie Mae and Freddie Mac underwriting guidelines limit the seller to a contribution of 6% of the sales price (or 3% if the borrower is making a minimum down payment).

Seller concessions may only be utilized to offset closing costs, reduce the interest rate on a temporary or permanent basis, or to prepay mortgage insurance on behalf of the borrower. Seller concessions may NOT be used to reduce the down payment made by the borrower.

It might surprise a ***prospective buyer*** to understand the different impacts that a seller concession versus a price reduction can have on the monthly cost of their mortgage. And it might surprise ***sellers*** to learn that offering a concession in the form of an interest rate buydown can increase the pool of prospective buyers.

I am happy to explore buyer and seller wants, needs, and goals. Structuring a seller concession so that both buyer and seller benefit is possible once all parties agree upon the anticipated appraised value of a property. Of course, this is best done with the assistance of an experienced Realtor like me who knows how to evaluate the market trends in a particular community.

The Mortgage Network

If you are buying or selling and have questions about the different possible concessions, call Jaxzann at **303-990-2992**.