



Know the maximum allowable seller concessions before you write the contract

Most of us in Arizona are aware maximum allowable seller closing cost contributions vary by loan type. But did you know the maximum allowable seller contributions vary dramatically on Conventional Mortgages? It's true! The buyers down payment AND occupancy type (owner occupied, a second home or an investment property) will determine the maximum allowed. Knowing the following before you write a contract will keep you and your buyers happy.

I've seen several conventional mortgage transactions over the last few months with the seller contributions exceeding the maximum allowed by Fannie Mae. **Investment properties have the lowest threshold with the maximum allowable seller contribution of 2%.**

Imagine this scenario ~ Short sale takes 3 months to get approved. The executed Arizona contract calls for the seller to pay 3% of the closing costs. The buyer is buying a house that is an investment property and therefore the maximum seller contribution is 2%. You can see where this is going...not a fun phone call to make!

Below is a summary of the maximum seller concessions by loan type for Conventional, FHA Loan, and VA Home Loan.

Conforming Conventional Mortgage:

- **2%** of the purchase price for a mortgage secured by an **investment property**
- **3%** of the purchase price for a mortgage secured by a principal residence or second home if the Loan to Value ratio is **greater than 90%**
- **6%** of the purchase price for a mortgage secured by a principal residence or second home if the Loan to Value ratio is in the **range from 76%-90%**
- **9%** of the purchase price for a mortgage secured by a principal residence or second home if the Loan to Value ratio is **75% or less**

FHA Loan:

- Seller can contribute up to 6% of the purchase price toward closing costs and pre-paid items with a FHA Loan. **HUD is considering a reduction from 6% to 3% however a formal announcement and official guideline change has yet to occur.**

VA Home Loan:

- Seller can contribute 100% of the buyers "normal" closing costs and pre-paid items. The max seller contribution beyond "normal" closing costs is 4%. Keep in mind there are fees a buyer obtaining a VA Home Loan cannot pay such as document preparation, underwriting, tax service, processing fees and escrow fee.

Be safe this Super Bowl weekend! Go Packers!!!

~Kelly

***Quote of the week: People forget how fast you did the job – but they remember how well you did it.
~ Howard W. Newton***

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