

VA Lenders Handbook (VA Pamphlet 26-7), Chapter 8, Topic 5 — Seller Concessions

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5. Seller Concessions Change Date November 08, 2010, Change 15 • This section has been updated to make minor grammatical edits. a. Definition For the purposes of this topic, a seller concession is anything of value added to the transaction by the builder or seller for which the buyer pays nothing additional and which the seller is not customarily expected or required to pay or provide. b. Seller Concessions Seller concessions include, but are not limited to, the following: • payment of the buyer's VA funding fee • prepayment of the buyer's property taxes and insurance • gifts such as a television set or microwave oven • payment of extra points to provide permanent interest rate buydowns • provision of escrowed funds to provide temporary interest rate buydowns, and • payoff of credit balances or judgments on behalf of the buyer. Seller concessions do not include payment of the buyer's closing costs, or payment of points as appropriate to the market. Example: If the market dictates an interest rate of 7½ percent with two discount points, the seller's payment of the two points would not be a seller concession. If the seller paid five points, three of these points would be considered a seller concession. c. The Problem In some localities, builders or sellers offer concessions as a competitive tool. In extreme cases, the concessions may entice unwary and unqualified veterans into home mortgages they cannot afford. The concessions may disguise the veteran's inability to qualify for the loan. Continued on next page VA Pamphlet 26-7, Revised Chapter 8: Borrower Fees and Charges and the VA Funding Fee 8-13 5. Seller Concessions, Continued d. The Four Percent Limit Any seller concession or combination of concessions which exceeds four percent of the established reasonable value of the property is considered excessive, and unacceptable for VA-guaranteed loans. Do not include normal discount points and payment of the buyer's closing costs in total concessions for determining whether concessions exceed the four percent limit. VA Pamphlet 26-7, Revised Chapter 8: Borrower Fees and Charges and the VA Funding Fee 8-14

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