Using Seller Credits to Cover VA Loan Costs

When a veteran buys a home with a VA loan, the closing costs can add up fast. Beyond the down payment, there are lender fees, third-party charges, and the VA funding fee itself. Fortunately, seller credits offer a way to shift much of that burden away from the buyer. A seller credit is essentially a concession from the seller to the buyer at closing, reducing the buyer's cash-to-close amount without changing the purchase price. This article explains how seller credits can be used to cover eligible VA loan costs and what to watch for at each step.

What Are Seller Credits?

A seller credit is an agreement where the seller contributes money toward the buyer's closing costs. It shows up as a line on the Closing Disclosure, lowering what the buyer must bring to closing. The credit is not a cash payment; it is subtracted from the seller's proceeds. The buyer's lender requires that the credit be applied to allowable items, and not all expenses qualify. Understanding which costs can be covered is the first step in using this tool effectively.



Eligible VA Loan Costs a Seller Credit Can Cover

The VA allows seller credits to pay for many of the standard closing costs. These include the VA funding fee, which is a one-time charge from the Department of Veterans Affairs that helps sustain the loan program. The credit can also cover the origination fee, discount points, appraisal fee, title charges, prepaid expenses such as property taxes and homeowners insurance, and other customary costs. However, the credit cannot be used for the buyer's down payment or for any amount that would create an equity shortfall below the minimum required by the lender. The key is that the credit must be applied to actual, legitimate closing costs.

Step 1: Identify Which Costs You Want Covered

Before you enter negotiations, list all the costs you expect to pay at closing. Your Loan Estimate will itemize lender fees, third-party services, and taxes. The VA funding fee is usually a percentage of the loan amount, and it is one of the larger expenses for many buyers. Highlight each cost that can be paid by a seller credit. Your lender can confirm which items are eligible. This list will guide your negotiation with the seller.

Step 2: Negotiate the Seller Credit Amount

The maximum seller credit a lender will allow depends on the loan type, the property's appraised value, and the buyer's down payment. For a VA loan with no down payment, the credit cannot exceed 4% of the loan amount if the buyer is putting zero down. But if the buyer is making a down payment, the limit can be higher. You and your real estate agent should discuss with the seller what amount of credit they are willing to offer. The credit is often expressed as a percentage of the purchase price or as a flat dollar amount. Be realistic: sellers may be less willing to give a large credit in a hot market or if the home is already priced competitively.

Step 3: Apply the Credit to the Right Line Items

Once the credit amount is agreed upon, the lender's closing agent or title company will allocate the credit to specific costs. The VA funding fee, title charges, appraisal fee, and prepaid expenses are common recipients. The credit must be applied to allowable costs; it cannot be used to reduce the loan amount or to cover a down payment shortage. Your lender will provide a revised Closing Disclosure showing how the credit is applied. Review it carefully to ensure every dollar of the credit goes toward eligible expenses and that the remaining cash-to-close is accurate.

Step 4: Watch for the Impact on Your Cash to Close

The whole point of a seller credit is to lower the cash you need to bring to closing. After the credit is applied, your cash-to-close should be lower than it was on the initial Loan Estimate.

But be aware that the credit does not reduce the total cost of the home; it simply shifts who pays certain fees. Your monthly payment and loan amount remain the same. The credit only affects the amount you pay at the closing table. If the credit covers all your eligible costs, you may even receive a small refund of earnest money deposits. However, any leftover credit cannot be refunded to you as cash; it must be applied to non-allowable costs or reduce the purchase price.

Step 5: Confirm the Credit Does Not Create a Loan Limit Issue

The VA has rules about seller concessions that can affect the loan amount. If the seller credit exceeds certain thresholds, the lender may need to reduce the loan amount or require a higher down payment. For example, concessions over 4% of the purchase price can require the loan to be re-underwritten. Your lender will check this as part of the underwriting process. It is wise to discuss the credit amount early with your loan officer so that surprises do not arise at closing. A credit that is too generous could actually harm your ability to close the deal, so work with someone who understands VA guidelines.



Step 6: Ensure the Credit Does Not Violate VA Occupancy or Property Requirements

Seller credits cannot be used to cover repairs or improvements that the VA requires for the property. If the appraisal calls for certain repairs, the seller must either complete them or credit the buyer for the cost, but that credit is separate from the general seller credit. Mixing the two can cause confusion and may delay closing. Keep the credit for closing costs distinct from any repair credits. Your real estate agent and lender should document each credit separately on the purchase agreement and on the Closing Disclosure.

Common Pitfalls to Avoid

One common mistake is assuming all closing costs can be covered. The VA funding fee, origination fee, and discount points are eligible, but some fees like the buyer's own property inspection or pest inspection may not be. Another pitfall is not having the credit amount confirmed in writing. Always get the seller credit spelled out in the purchase agreement as a specific dollar amount or percentage. A vague "seller to pay some closing costs" can lead to disputes later. Also, be careful about the timing: the credit must be applied before the loan is funded. If the lender discovers an unapplied credit after closing, it can cause problems for the buyer.

How a VA Mortgage Specialist Can Help

Navigating seller credits and VA loan costs requires attention to detail. The rules vary by lender and by the specifics of your loan. A professional who works with VA loans daily can help you structure the credit to maximize its benefit. For example, Carlos Scarpero, VA Mortgage Specialist, NMLS 1674385 can review your Loan Estimate and explain how the credit will affect your cash-to-close. Having an expert on your side makes the process clearer.

Final Checklist for Using Seller Credits

- Identify all eligible closing costs, including the VA funding fee, title charges, and prepaid expenses.
- Negotiate the credit amount based on the lender's limits and the seller's willingness.
- Confirm the credit is applied only to allowable items on the Closing Disclosure.
- Verify that the credit does not exceed the VA concession limits for your loan.
- Document the credit in the purchase agreement and keep a copy for your records.

Seller credits are a powerful tool for reducing the upfront costs of a VA loan. They can cover the VA funding fee and many other expenses, making homeownership more accessible for veterans. By following the steps above and working with knowledgeable professionals like Carlos Scarpero, VA Mortgage Specialist, NMLS 1674385, you can use seller credits effectively and avoid common mistakes.