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## Special Report: How to Purchase a House with No Out-of-Pocket Closing Costs

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The U.S. Department of Agriculture (USDA) Rural Development Loan is the only national loan program that is available to all home buyers that allows for No Money Down Financing and potentially No Cash Required by the borrower to settle on the purchase of a house. These flexible loan terms are made available through the USDA Guaranteed Loan Program, which is designed to promote home ownership in rural communities for moderate income households.

### NO MONEY DOWN FINANCING

Since the USDA Rural Development Loan will finance 100% of the purchase price there is no down payment required on the loan. This means the only other remaining items that require a cash investment by the buyer, are the settlement related closing costs and escrows. USDA allows these items to be paid for or financed using flexible

guidelines that can virtually eliminate the buyer's out-of-pocket cash requirements.

### YOU MAY BE THINKING THAT THIS SOUNDS TOO GOOD TO BE TRUE?

Guess what, it's not. If you are buying a house:

- In a USDA designated rural area; and
- Your household income is less than USDA's established maximum County Guidelines; and
- You meet USDA's underwriting guidelines for loan approval

You may be able to purchase a house, with only having to use approximately \$700 to \$800 of your out-of-pocket cash to pay for the price of the Appraisal Report.

### ARE YOU SAYING THAT THERE AREN'T ANY CLOSING COSTS?

No. Just like every purchase transaction there are always closing costs. However, the USDA Loan Program allows for the closing costs to be either (1) paid for by the seller, (2) paid for by the lender, (3) under certain circumstances financed into the mortgage loan, or (4) a combination of the above.

To understand how this works, reference the following scenarios based on a purchase price of \$200,000 and for this example \$10,000 in theoretical closing costs, which can include such items as lenders fees, settlement/title fees, taxes, escrows, homeowner's insurance, warranties, etc.

## SCENARIO 1 - SELLER AGREES TO PAY ALL CLOSING COSTS

The USDA Loan Program allows up to 6% of the purchase price to cover your closing costs. By working with a knowledgeable Lender and Realtor you should know upfront how much the settlement costs will be to purchase a house. When making the offer to purchase a home the sales contract will be written to include the requirement that the seller agrees to pay up to a specific dollar amount to cover these costs.

### Example - scenario #1

- Purchase Price: \$200,000
- Contractually Agreed Seller Contribution Toward Closing Costs: \$10,000
- Mandatory USDA Guaranty Fee: \$2,020
- Financed Loan Amount: \$202,020 (Purchase Price + USDA Guaranty Fee)
- Settlement Closing Costs: \$10,000
- Cash Required by Borrower At Settlement: \$0 (Seller Contribution - Settlement Closing Costs)

## SCENARIO 2 - LENDER AGREES TO PAY A PORTION OR ALL OF THE CLOSING COSTS

Every county and property have different closing cost requirements. The lender may be able to pay a portion of the closing costs by charging a higher interest rate. This will result in a greater lender credit, which will offset, some or all, of the borrowers closing costs. Typically, for every 1/4 point increase in rates, the lender will increase the lender credit, by 1/2 to 1 percent of the loan amount, that can be applied toward the buyers overall closing costs.

## SCENARIO 3 - HOUSE APPRAISES FOR MORE THAN THE PURCHASE PRICE

The USDA Loan Program is the only loan program that allows for the difference between the appraised property value and the contract sales price to be applied toward the settlement closing costs. The maximum loan amount, excluding the USDA Guaranty Fee, can be the combination of the purchase price plus the settlement closing, up to the appraised property value.

### Example - scenario #3

Example:

- Purchase Price: \$200,000
- Contractually Agreed Seller Contribution Toward Closing Costs: \$0
- Appraised Value of Property: \$210,000
- Mandatory USDA Guaranty Fee: \$2,020
- Settlement Closing Costs: \$10,000
- Financed Loan Amount: \$212,020 (Purchase Price + Closing Cost + USDA Guaranty Fee)
- Cash Required by Borrower At Settlement: \$0 (Financed Closing Cost - Settlement Closing Costs)

## SCENARIO 4 - COMBINATION OF MULTIPLE SCENARIOS

If the seller paid closing costs aren't enough to pay all closing costs and the property appraises for more than the sales price the home buyer can use a combination of seller paid closing cost assistance, lender paying a portion of the closing cost, and/or finance the remaining closing

cost up to the appraised property value.

## Example - scenario #4

Example:

- Purchase Price: \$200,000
- Contractually Agreed Seller Contribution Toward Closing Costs: \$5,000
- Settlement Closing Costs: \$10,000
- Appraised Value of Property: \$210,000
- Mandatory USDA Guaranty Fee: \$2,020
- Financed Loan Amount: \$207,020 (Purchase Price + Closing Costs Not Paid for By the Seller + USDA Guaranty Fee)
- Cash Required by Borrower at Settlement: \$0 (Financed Closing Cost + Seller Contribution - Settlement Closing Costs)

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