EDUCATIONAL GUIDE FOR MICHIGAN REALTORS

Seller Concession Strategy Guide for Michigan Realtors

Seller concessions vs. price reductions — how the same seller dollars can be structured, and what limits apply. Not a quote or a recommendation.

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Plain-language summary

A **price reduction** lowers the contract price. The loan amount, a percentage down payment, and usually principal and interest are recalculated on the lower number. Property taxes and mortgage insurance can also change. The recorded sale price is typically the reduced price, which can later show up in neighborhood comps.

A **seller concession** (an interested-party contribution) is a credit toward eligible buyer costs that must be written into the purchase agreement and shown on the Closing Disclosure. It generally cannot fund the down payment. It generally cannot exceed actual eligible costs; excess is typically reduced, refunded, or, under Fannie Mae, treated as a sales concession that can lower the price used for LTV. Not every concession can be used toward every expense. Lender and program rules apply.

A **permanent rate buydown** uses discount points to lower the note rate for the life of the loan. Pricing is set by the lender and the market that day; there is no universal "1 point equals 0.25%" rule. A temporary buydown (for example a 2-1) is a different product that subsidizes the payment for a short period and is not modeled in the online tool's Option C.

Interested-party contribution limits

Confirm current text with the cited source before you rely on a limit. Conventional percentages are of the lesser of sales price or appraised value (Fannie Mae B3-4.1-02). Freddie Mac Guide 5501.5 uses comparable bands. FHA and USDA limits below are of sales price. The VA 4% cap is of reasonable value and excludes normal closing costs and market-appropriate discount points.

Program	Limit (verify current source)	Primary source
Fannie Mae conventional, principal residence or second home	Greater than 90% LTV/CLTV: 3%. 75.01–90%: 6%. 75% or less: 9%.	Selling Guide B3-4.1-02
Fannie Mae conventional, investment property	2%	Selling Guide B3-4.1-02
Freddie Mac conventional	Same 3 / 6 / 9 and 2% investment bands of value	Single-Family Seller/Servicer Guide 5501.5
FHA	Generally 6% of the sales price	HUD 4000.1, interested-party contributions
VA	4% of reasonable value for concessions. Normal closing costs and market-appropriate discount points are excluded from the cap.	VA Lender's Handbook, Chapter 8, Topic 5
USDA	6% of the sales price. Real estate commission fees are excluded from that 6% limit under current handbook and rule text.	7 CFR 3555.102(h); HB-1-3555

Eligible-cost checklist

What may be covered varies by program and lender. Typical items that *may* be eligible when they are actual, disclosed buyer costs:

- Loan origination and underwriting fees

Purchase-agreement communication checklist

- State the credit or price change in the purchase agreement or a signed amendment, with a dollar amount and what it may be applied to.

- Appraisal, credit report, flood determination
- Title, escrow, settlement, recording
- Prepaid interest, homeowners insurance, and property-tax escrows
- Discount points for a permanent buydown, when allowed and properly disclosed
- Limited HOA assessments after closing, if the program treats them as financing concessions

Typically **not** funded with a financing concession: the buyer's required down payment or minimum cash investment, cash back, and personal property. Confirm the file with the lender.

- Send the fully executed agreement and every amendment to the lender and the title or settlement company promptly.
- If the credit changes after a Loan Estimate is issued, the lender may need a change of circumstance and a revised estimate. Tolerances can be affected.
- The Closing Disclosure must reflect the final credits.
- The contract price still has to be supported by the appraisal. Appraisers report concessions. A credit does not, by itself, lower the LTV basis the way a price cut does, unless an excess amount is treated as a sales concession.

Questions to ask the lender

1. What costs on this Loan Estimate are eligible for an interested-party credit under this program?
2. What is the applicable IPC or concession cap, and is the basis sales price, appraised value, or reasonable value?
3. If the credit exceeds eligible costs, will it be reduced, refunded, or treated as a sales concession?
4. Can any of the credit be used for discount points, and what is today's actual points pricing for the requested rate?
5. What happens to LTV, mortgage insurance, and cash to close if we amend to a price reduction instead?
6. What do you need, and by when, if we amend the agreement?

Illustrative worked comparison

ILLUSTRATIVE ONLY — NOT A QUOTE, APPROVAL, OR APPRAISAL

Example assumptions: $350,000 contract price, $10,500 seller concession or price cut, conventional loan with 5% down, 6.5% note rate (example only), 30-year term, $8,000 buyer closing costs plus $4,000 prepaids, $200,000 seller payoff, 6% seller-paid commission (example only), $1,500 other seller costs, and Michigan transfer tax at $3.75 (state) plus $0.55 (county) per $500 or fraction of total value. Option C uses an example of 1 point for a 0.25% rate reduction; pricing varies by lender and day.

- **Option A, price reduction.** Contract price $339,500. Loan $322,525 (95% LTV). Principal and interest $2,038.58. Buyer cash to close about $28,975 before earnest money. Illustrative seller net about $114,710.30 (transfer tax $2,919.70).
- **Option B, credit toward eligible costs.** Contract price $350,000. Loan $332,500 (95% LTV). Fannie Mae 3% limit is $10,500 of the lesser of price or appraised value; eligible costs are $12,000, so the full $10,500 can apply. Principal and interest $2,101.63 ($63.05 more than A). Cash to close about $19,000. Illustrative seller net about $113,990.00 (transfer tax $3,010.00 plus the credit).
- **Option C, permanent buydown example.** 1 point costs $3,325 and, in this example, lowers the rate to 6.25%. Principal and interest $2,047.26. Cash to close about $22,325 if the credit covers points and remaining eligible costs. The payment is $54.37 lower than Option B; recovering the extra $3,325 of cash would take about 61 months at that difference.

These figures are rounded to the cent using standard half-up rounding and will change if any assumption changes. This guide does not recommend a best option.

Michigan seller-net notes

Michigan state real estate transfer tax is $3.75 per $500, or fraction, of total value (MCL 207.525). County tax is generally $0.55 per $500 (MCL 207.504); a higher county rate may be authorized in a county with a population of 2,000,000 or more. The state tax is imposed on the grantor; how the parties allocate tax and commission is negotiated in the purchase

agreement and should be confirmed with the closer. Compensation is also negotiated; practice has changed since 2024, and this guide does not assume a standard rate.

Sources

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4. VA Lender's Handbook (VA Pamphlet 26-7), Chapter 8: Borrower fees and seller concessions: https://www.benefits.va.gov/WARMS/pam26_7.asp
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4. CFPB: Loan Estimate explainer: https://www.consumerfinance.gov/owning-a-home/loan-estimate/
5. CFPB: What is a Closing Disclosure?: https://www.consumerfinance.gov/ask-cfpb/what-is-a-closing-disclosure-en-1983/



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