

How Credits Work through Escrow

Credits often become a topic of discussion during the Escrow Transaction, particularly when it comes to a seller offering a credit to the buyer for repairs. However, if a lender is involved in the transaction, the final decision on any credits applied rests with the lender.

Once the buyer has conducted their physical inspection, they may request repairs from the listing side. If the seller declines to perform the requested repairs, the agents may negotiate a credit to be applied towards the buyer's closing costs. Once the agents have agreed on the credit, Escrow should be notified immediately. Escrow will then create an amendment to reflect the credit and send it to the lender for approval. Sometimes, a fully executed CAR Addendum may be required in addition to the escrow amendment. Each lender is different in their requirements.

While there is no fixed cutoff, in most cases, Escrow must ensure that there are sufficient closing costs to cover the credit. If the closing costs are insufficient to cover the credit, other terms, such as a sales price reduction, may be negotiated. In transactions involving a lender, the proposed credits must be submitted to the lender by the escrow parties before the buyer signs the Closing Disclosure. While closing credits may still be applied after the disclosure has been sent, it can result in delays. Therefore, to avoid any delays, agents should promptly inform Escrow if there will be a credit, allowing Escrow to notify the lender.

The differences between Non-Recurring Closing Costs (NCC) and Recurring Closing Costs (RCC) is that Non-Recurring credits are for a one-time fee being charged through the escrow, including but not limited to Lender, Title and Escrow fees. Recurring Closing are credits that will be paid over the course of ownership of the property. Examples of RRC's are Homeowners Insurance, Taxes and Interest.

It is important to remember that Escrow does not decide what is acceptable for a credit, but only relays the information to the Lender. The Lender then decides if there are any unallowable fees and if any of the credit needs to be reduced. At which time, the agents are notified for the Buyer and Seller to renegotiate the terms.

