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AGENT ON THE STREET

Episode 4: Allowable v. Non-Allowable Costs

Call from the Agent: The state contract says "the seller will pay Buyer's transaction costs not to exceed $___ , which includes non-allowable costs first then allowable costs (FHA/VA)." What do the terms "allowable" and "non-allowable" mean?

The Response: "Allowable" and "non-allowable" are terms unique to FHA and VA loans (also USDA, but we don't see many of those). An "allowable" cost in a VA loan is a cost the veteran is *allowed to pay*, whereas a "non-allowable cost" *cannot be paid by the veteran*, but may be paid by the seller or the lender. It isn't always easy to know if a specific cost is allowable versus non-allowable, but in general, a cost that is "allowable" under FHA/VA rules is what we might think of as standard core loan costs (ex. 1% loan origination fee, credit report, appraisal fee, loan processing fee, title search, title insurance … you get the idea). "Non-allowable" costs are everything else (ex. prepaid property taxes, prepaid insurance, HOA transfer fees, Fed Ex, courier, buyer credit card payoff … again, you get the idea). A cost that is allowable under FHA might be non-allowable under VA. Also, as you probably know, the lender limit on seller concessions varies with loan type – this means the limits are different between FHA and VA and, even for conventional loans, limits vary depending upon whether the property is a primary residence, second home or investment property. While it is good to have a general understanding of what the terms "allowable" and "non-allowable" mean (because clients may ask), the client should be referred to his/her lender for a determination of which costs are allowable/non-allowable and/or the limits of any seller concessions.

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