

Prepayment Penalties

Agents beware – if your seller is not aware that their existing loan terms include a prepayment penalty, they will not be prepared for the significant deduction from their sale proceeds.

A prepayment penalty is a fee paid to the lender for paying a loan off prior to a specified time period. Oftentimes, there will be an allowable percentage of the principal balance that can be paid early. Any amount above will be subject to a penalty.

At the time you take the listing, have your seller look over their existing loan documents to verify this information or have them call their lender to verify whether or not their loan has a prepayment penalty. If it does have a prepayment penalty, ask if the penalty is waived when the property is been sold. Some lenders allow this exception. This is especially important if the property was recently purchased or refinanced.

Some penalties are only charged during the first two years of the note (or some other specific time period). Knowing this information when accepting an offer will allow the seller to negotiate the purchase price and the closing date to their advantage if the time frame is close to the expiration of the prepayment provision. If it is discovered during the escrow period, the seller is at a disadvantage when trying to extend the closing date and the buyer will oftentimes demand reimbursement for the extension

Disclaimer-This flyer is for informational purposes only and not to be construed as legal or tax advice. The primary aim is to help real estate agents and mortgage loan professionals with information that helps them conduct their business. Before making any decisions dealing with the subject matter found in this flyer, we recommend you seek out specific advice from a legal or tax professional.

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