Buying a House During a Govt. Shutdown? Double Check Before Removing Your Loan Contingency.

October 10, 2025 - If you are in the process of purchasing a home, you probably have some contingencies that you have to remove before closing. These include contingencies for things like completing your inspections, an appraisal of the property and signing off on your home loan. The laws vary from state to state, but in most cases if you cancel the purchase while your contingencies are in place, you can get your initial deposit on the property back and you don't run the risk of getting sued by the seller. But once you remove your contingencies, that all changes. The during any government shutdown, some of the requirements for getting a loan may be unavailable to you. If you have removed your contingencies, that could create real issues for you.

There are a wide variety of government services that lenders rely on to complete a loan. They include IRS and Social Security Administration processing for income verification. Federally guaranteed loans including VA, FHA and even USDA, can be delayed or even paused until the shutdown ends. If you are purchasing a property in which federal government permitting (usually EPA) is involved, those permits are highly unlikely to be issued during any shutdown.

But the one single item that is most likely to impact the highest number of home purchasers is the ability to obtain flood insurance. If you are purchasing a property that is in potential flood zone... and there are millions of these properties across the United States... buyers are unlikely to be able to obtain it during the shutdown. And that's a real problem. Traditional lenders won't fund loans on these properties without that insurance.

If you are in the process of purchasing a home, the first thing you should do is speak with both your lender and your Realtor to ask if the shutdown has the potential to impact your loan. If the answer is yes, you need to act quickly. If your loan contingency is still in place, have your agent contact the seller's agent and prepare the paperwork to request an extention of that contingency. Most sellers are likely to agree to this because they are going to face this issue with most other buyers.

If you have already removed your loan contingency, you should follow the same procedure but you need to know that the seller is under no obligation to agree. And under those circumstances, there is a possibility that if you can't close on your home when you agreed to in your initial sales contract, you could actually lose your deposit. Even worse, depending upon the state you live in and the terms of your agreement, you could get sued for even more money.

We're not trying to be alarmist here. Most sellers are reasonable people and will understand your dilemma. Consequently, most sellers are likely to agree to an extension of the process until the government reopens. But as any Realtor who has worked in the industry for any period of time can tell you, there are unreasonable sellers out there and they are more common than you might think.

In these cases, you do have some options. The first of these is to find a hard-money lender. These are lenders that will make loans that are higher risk. But these also involve much higher interest rates. Even so, using this type of lender is probably preferable to losing your deposit or facing a law suit. Another option may be to go to friends and family to see if you can raise the cash for the purchase, even if it is on a short-term basis. In both of these cases, you can always refinance after the government reopens.

If neither of these things work for you, and you do have to cancel the purchase, depending upon the terms of your sales contract, there is still a pretty good chance that you'll get your money back but it may take some time. In California, for instance, the first step would be mediation. This is non-binding on both parties but may be able to resolve the issue. If it doesn't, most contracts in California include a binding arbitration clause. And most arbitrators are likely to side with the buyer given the circumstances described here. They're going to understand that this is a circumstance that buyers can't control. But there is a caveat here. If you are purchasing a home that is owned by a corporation, how you'll do in arbitration is more of a crap-shoot because of the way that arbitrations are structured. Just know, there are no guarantees.

The bottom line here is that if you haven't removed your loan contingency, and your loan can be impacted by this shutdown, you need to ask for a contract extension now. And if you have removed it, you need to be as proactive as possible by asking for an extension, and at the same time, coming up with a backup-plan in the event you can't get one.

by Jim Malmberg

Note: When posting a comment, please sign-in first if you want a response. If you are not registered, click here. Registration is easy and free.

Follow ACCESS