

BUYDOWN INSTRUCTIONS edited 2-17-23

Buydown can be done on any loan program, it must be priced in Optimal Blue, instructions below. The rates are a bit higher on these so please make sure you price them before quoting any rates. Borrowers cannot pay their own buydown fee, not even \$1, it must be paid by seller or builder and it is counted towards allowable sales concessions.

IMPORTANT TO REMEMBER

1. Be sure it is worded correctly on contract, see below (you cannot tell exact amount of buydown until you lock)
2. Do not put the buydown amount anywhere in encompass as a seller credit, or any kind of credit.
3. The disclosed rate, is the higher rate (rate before buydown)
4. Not even \$1 of the buydown can be paid for by the buyer.
5. **You cannot do a 3-2-1 buydown on a conventional loan if >90% LTV. Not enough sales concessions allowed.**
6. All disclosed payments will be at higher amount, see the sample buydown agreement.
7. If buydown is \$4900 and seller is paying a total of \$6,000, then you can put \$1,100 in the seller paid section, be careful not to accidentally put the entire amount. This is very important as it will make your cash to close wrong.

Sequence of Events:

- A. Buydown negotiated.
- B. Added to contract.
- C. Loan locked, **be sure you lock as a buydown, rates are higher.**
- D. Lock desk needs the addendum for the buydown if it's not in the contract already, lock desk prepares buydown agreement (which is separate from verbiage on contract) and it needs to be signed by buyer and seller prior to CTC.

Purchase contract should be worded like this:

Seller agrees to pay interest rate buydown for buyer up to \$10,000, any unused funds will cover buyers closing costs. (Remember on convention >90% LTV limited to 3% of SP total)

Example of how to use the excel spreadsheet, Ira sends daily, is below, note we do not know the cost to buydown until we Lock the rate, the cost changes with rate changes. You can also use the calculator in encompass under forms-show all-Temporary Buydown Calculation.

1	Loan Amount	Note Rate	PITI	Year One Rate	Year One Pmt	Year Two Rate	Year Two Pmt
2							
3	\$350,000	5.50	\$1,987.26	3.50	\$1,571.66	4.50	\$1,773.40
4							
5							
6	Year One Subsidy	\$4,987.26					
7	Year Two Subsidy	\$2,566.36					
8							
9	Total Subsidy \$\$	\$7,553.62					
10	Total Subsidy %	2.158%					

Pricing:

ARM Fixed Term(s): ☐ 7 Yr ☐ 10 Yr

Product Type(s): ☒ All ☒ Standard ☐ Affordable ☐ HARP ☐ Hero/Champion
☐ HFA/Bond ☐ HUD Specialty ☐ Reno/Rehab ☐ USDA Streamline ☐ Expanded Guidelines

Desired Price: Buydown: **2/1** (circled in red) FHA Case # Assigned: On or after 1/1/2023:

Desired Rate: 6.375 Borrower Pays MI (if required): Yes Specialty Products: No

Desired Lock Period: Automated U/W System: DU Reduced MI: No

Interest Only: No Prepayment Penalty: None

Next Page is a sample buydown agreement:

BUYDOWN AGREEMENT

EXAMPLE OF WHAT BORROWER WILL SIGN

Borrower: ~~XXXXXXXXXX~~
Co-Borrower:
Loan Number: ~~XXXXXXXXXX~~
Property Address: ~~XXXXXXXXXX~~ Kansas City MO 64131
Loan Amount: 147,283.00
Note Interest Rate: 6.750

The purpose of this agreement is to explain certain aspects of the Buydown Mortgage Loan for which you, as Borrower, have applied.

This agreement between US Mortgage Corporation and/or its assigns and the below acknowledged parties, set forth the terms of the Buydown Plan in connection with the mortgage loan secured by the property listed above.

BUYDOWN SCHEDULE

NUMBER OF PAYMENTS	TEMPORARY INTEREST RATE	BORROWER PORTION OF P&I	BUYDOWN AMOUNT	TOTAL PRINCIPAL AND INTEREST PAYMENT
12	4.750%	\$768.30	\$186.97	\$955.27
12	5.750%	\$859.50	\$95.77	\$955.27
TOTAL BUYDOWN FUND = \$3,392.88				

In order to comply with FNMA/FHLMC guidelines and protect the availability of the buydown funds, these funds shall be held in an escrow account with a financial institution which is not the original or servicing mortgagee and is supervised by a Federal or State agency. The escrow shall pay over the buydown funds as required by agreement to US Mortgage Corporation and/or its assigns. However, if, for some unforeseen reason, the escrow payments are not forthcoming, it is the Borrower's responsibility to make the total payment set forth in the mortgage note.

The buydown funds may not be used to pay past due payments of the Borrower. The buydown funds will be automatically applied during each payment period to reduce the periodic payment of principal and interest to the extent provided for in this agreement.

If the property is sold by Borrower and the mortgage is prepaid in full during the buydown period, the nondisbursed and available buydown funds shall be credited to the unpaid principal balance of the mortgage.

If the ownership of the property securing this buydown mortgage is sold or transferred during the buydown period and the terms of the buydown mortgage are assumed by the purchaser, any remaining buydown funds are to be used to reduce the mortgage payments of the purchaser in accordance with the buydown schedule.

In the event of a foreclosure of the mortgage, the balance of the buydown funds remaining on deposit with escrow shall be paid to the mortgagee acquiring title to the property and the claim for mortgage insurance benefits must be reduced by the amount in the buydown escrow account.

Except as otherwise provided in this agreement, the buydown funds are not refundable. The Borrower's only interest in the buydown funds is to have them paid over and applied to payments due under the Note along with payments made by Borrower. The Builder/Seller specifically agrees that no repayment of the buydown funds is required.

The sole responsibility of US Mortgage Corporation and/or its assigns and escrow under this agreement, shall be limited to the holding and application of the buydown funds as set forth in this agreement. Such responsibility will terminate upon the depletion of such funds or the application of the funds to the unpaid principal balance of the mortgage as provided for in this agreement.

The parties hereby acknowledge that they have read, undersigned and agree to the above:

Borrower:

Date

CoBorrower:

Date

Seller:

Date

Lender Rep:

Date