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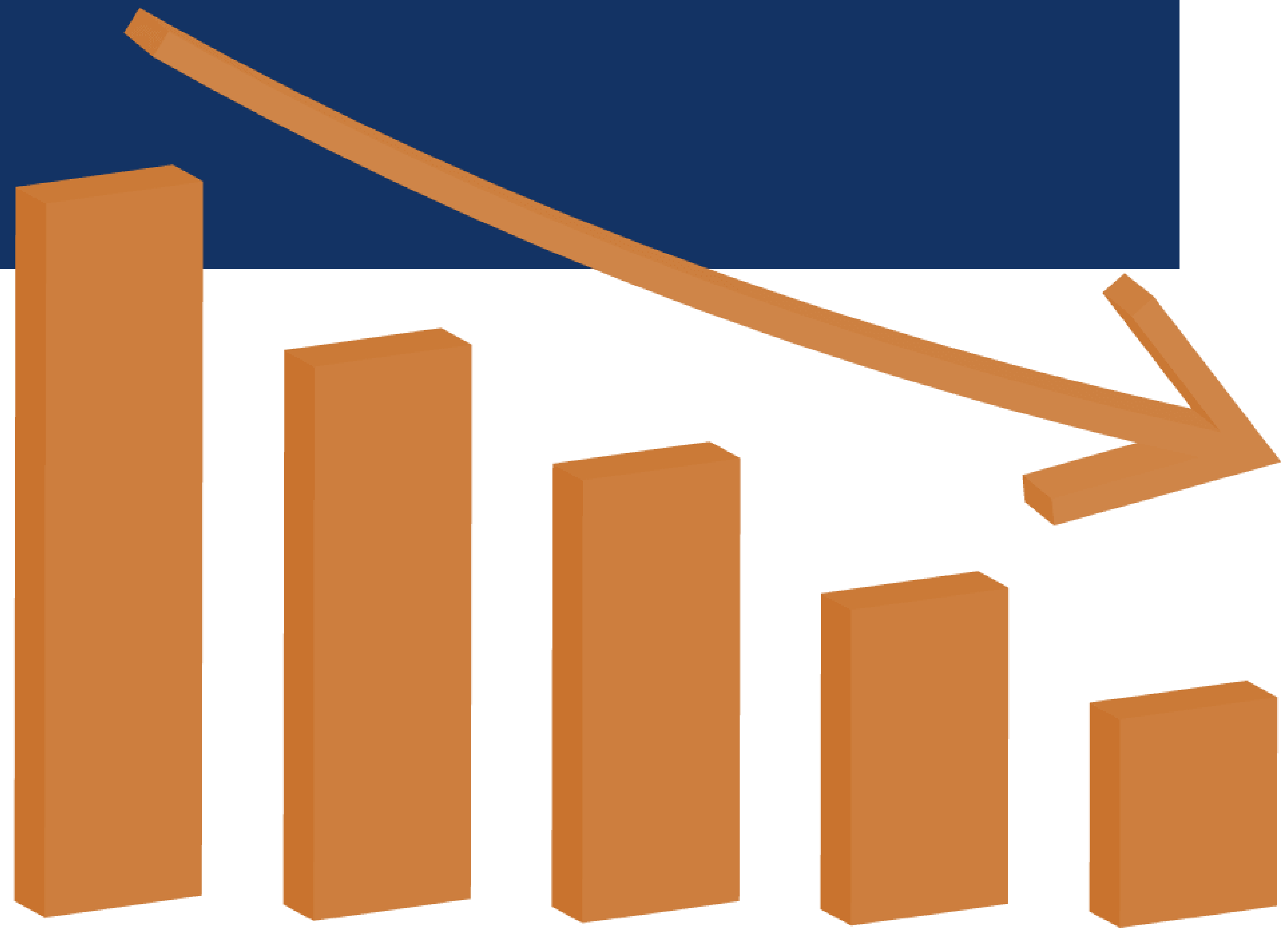
Making Lives Better

Temporary Buydowns



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What is a Temporary Buydown?

A temporary buydown is an upfront interest payment that lowers the interest on a fixed-rate mortgage for the first or second year of the mortgage, after which the interest rate reverts to the full note rate for the remainder of the loan.

Benefits:

- Lower initial monthly payments
- Increased affordability
- Easier transition into homeownership
- Helps offset higher interest rate environments
- Can be funded through seller concessions

Available Programs

Available on:

- FHA
- VA
- Conventional (FNMA)
- USDA
- Non-QM

Available Buydown Structures

✓ 2-1 Buydown
✓ 1-0 Buydown

Agency Requirements:

- 580 minimum FICO

Non-QM Requirements:

- 680 minimum FICO
- Max LTV: 80%
- Max DTI: 50%
- 30-year fixed only
- 2-1 Buydown only

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2-1 Buydown

The 2-1 Temporary Buydown reduces the buyer's interest rate by 2% for the first year of their loan and 1% for the second year.

EXAMPLE: Sale price: $450,000 | Down payment: $90,000 | Loan amount: $360,000 | 30-year fixed rate: 6.5% | Annual percentage rate: 6.619%

Scenario: 2-1 buydown			Year	Rate	Total Monthly payment	Payment by Borrower	Monthly Buydown	Annual Buydown
Loan Amount	$360,000		1	4.50%	$2,275.44	$1,824.07	$451.38	$5,416.53
Note rate	6.50%		2	5.50%	$2,275.44	$2,044.04	$231.40	$2,776.85
Monthly rate	0.54%		3-30	6.50%	$2,275.44	$2,275.44	$0.00	$0.00
Term	360						Total Buydown funds	$8,193.39

1-0 Buydown

The 1-0 Temporary Buydown reduces the buyer's interest rate by 1% for the first year of their loan.

EXAMPLE: $450,000 | Down payment: $90,000 | Loan amount: $360,000 | 30-year fixed rate: 6.5% | Annual percentage rate: 6.619%

Scenario: 1-0 buydown			Year	Rate	Total Monthly payment	Payment by Borrower	Monthly Buydown	Annual Buydown
Loan Amount	$360,000		1	5.50%	$2,275.44	$2,044.04	$231.40	$2,776.85
Note rate	6.50%		2-30	6.50%	$2,275.44	$2,275.44	$0.00	$0.00
Monthly rate	0.54%							
Term	360						Total Buydown Funds	$2,776.85

How Are Buydowns Funded?

Seller-Funded Buydowns

The temporary payment reduction is funded through seller contributions at closing.

Sources of Funds

- Seller Concessions
- Builder Incentives
- Interested Party Contributions (IPC)

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Important Note

The funds are placed into a buydown account and used to supplement the borrower's monthly payment during the buydown period.

What Happens to Buydown Funds Under Certain Circumstances

1. **If the home goes through foreclosure:**
   If the home goes through foreclosure, the balance remaining in the buydown account will be used to reduce the mortgage debt.

2. **If the mortgage loan is paid in full:**
   If the mortgage is paid in full during the buydown period, any unused buydown funds will be deducted from the final payoff amount due.

3. **If the property is sold:**
   If the property is sold, the remaining funds will be deducted from the final payoff amount due.

Temporary Buydowns

- The buydown plan must be a written agreement between the party providing the funds and the borrower. To be signed at closing.
- Borrower-funded buydowns are **NOT** eligible
- Underwriting will qualify the borrower based on the full note rate without consideration of the bought-down rate
- MLB's Temporary Buydown Calculator – Link

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MORE INFO

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