

30 Year Fixed Temporary Buydowns Overview



OBJECTIVES



01 Define a temporary interest rate buydown

02 Identify who provides the funds for a buydown

03 Review the treatment of buydown funds

04 Provide a list of eligible/Ineligible/restricted transaction types and OpenClose Loan Product

05 Examine qualifying the borrower

06 Explain the terms of the buydown

What is a Temporary Buydown?

- The interest rate that a borrower pays on a mortgage is reduced for a number of years at the beginning of the term. Our program allows 3 options: a 3-2-1 buydown, a 2-1 buydown, or a 1-0 buydown.
- It's a result of a lump sum of money (sometimes called a "subsidy") deposited into a buydown account
- A portion is released each month to reduce the borrower's payments.
- A good fit for borrowers who have the capacity for higher earnings within a few years of obtaining a mortgage.





Who Provides the Funds for a Buydown

May be provided by various parties, such as:

- ✓ the borrower's employer,
- ✓ the property seller, or
- ✓ other interested parties to the transaction.
- ✓ Can NOT be paid by the borrower or lender

Interested Parties to the Transaction

When the source of the buydown funds is an interested party to the property sale or purchase transaction, Fannie Mae's interested-party contribution limits apply. (See FNMA [B3-4.1-02, Interested Party Contributions \(IPCs\)](#) and [FHLMC 5501.5 Interested Party Contributions](#))

Treatment of Buydown Funds

Requirements

Buydown accounts must be established and fully funded by the time the lender submits the mortgage to Fannie Mae or Freddie Mac for purchase or securitization.

Funds for buydown accounts must be deposited into custodial bank accounts. Note: Buydown funds cannot be included in accounts with the lender's other corporate funds.

The borrower's only interest in buydown funds is to have them applied toward payments as they come due under the note.

Buydown funds are not refundable unless the mortgage is paid off before all the funds have been applied.

Buydown funds cannot be used to pay past-due payments.

Buydown funds cannot be used to reduce the mortgage amount for purposes of determining the LTV ratio.



Eligible Transaction Types & Product Type

Fannie Mae

Loan Product : FNMA 30 Year Fixed 3/2/1 buydown, or FNMA 30 Year Fixed 2/1 buydown, or FNMA 30 Year Fixed 1/0 buydown

Transaction Type	Eligibility
Principal residence 1-4 Units	Eligible
Second homes	Eligible
Investment properties	Ineligible
Cash-out refinance transactions	Ineligible
No cash-out/Rate & Term only	1 st & 2 nd homes only
Manufactured Homes	Ineligible
ARMs	Not Available
Texas Section 50(a)(6)	Ineligible

Freddie Mac

Loan Product: FHLMC 30 Year Fixed 3/2/1 buydown, or FHLMC 30 Year Fixed 2/1 buydown, or FHLMC 30 Year Fixed 1/0 buydown

Transaction Type	Eligibility
Principal residence 1-4 Units	Eligible
Second homes	Eligible
Investment properties	Ineligible
Cash-out refinance transactions	Ineligible
No cash-out funded from lender credit derived from an increase interest rate	Ineligible
Manufactured Homes	Ineligible
ARMs	Not Available

Qualifying the Borrower

The lender must qualify the borrower based on the note rate without consideration of the bought-down rate.



Terms of the Buydown

The total dollar amount of an interest rate buydown must be consistent with the terms of the buydown period.

- the actual note rate and monthly payment that the borrower is obligated to pay is never actually reduced
- the full rate and payment must be reflected on the mortgage documents.
- increases of not more than 1% in the portion of the interest rate paid by the borrower in each 12-month interval.
- Buydown options:

3-2-1 temporary buydown

- the mortgage payment in years one, two, and three are calculated at rates of 3 percent, 2 percent, and 1 percent, respectively, below the rate on the loan

2-1 temporary buydown

- the mortgage payment in years one, and two are calculated at rates of 2 percent, and 1 percent, respectively, below the rate on the loan.

1-0 temporary buydown

- the mortgage payment in year one and is calculated at a rate of 1 percent below the rate on the loan.

Temporary Buydown Examples & Calculating Interest Rate Buydown Fee Amount

3-2-1 Buydown Example: \$200,000 30-Year 6.50% Mortgage, with a 3-2-1 Temporary Buydown						
Year	Interest Rate	Note Rate Pmt	2-1 Buydown			
			Monthly Pmt	Monthly Subsidy Pmt	X Term Months	= Buydown Fee Amount
1	3.50%	\$1264.14	\$894.09	\$366.05	12	\$4392.60
2	4.50%	\$1264.14	\$1013.37	\$250.77	12	\$3009.24
3	5.50%	\$1264.14	\$1135.58	\$128.56	12	\$1542.72
4-30	6.50%	\$1264.14	\$665.31	0		0
Total Interest Rate Buydown Fee Amount						\$8944.56

2-1 Buydown Example: \$200,000 30-Year 6.50% Mortgage, with a 2-1 Temporary Buydown						
Year	Interest Rate	Note Rate Pmt	2-1 Buydown			
			Monthly Pmt	Monthly Subsidy Pmt	X Term Months	= Buydown Fee Amount
1	4.50%	\$1264.14	\$1013.37	\$250.77	12	\$3009.24
2	5.50%	\$1264.14	\$1135.58	\$128.56	12	\$1542.72
3-30	6.50%	\$1264.14	\$665.31	0		0
Total Interest Rate Buydown Fee Amount						\$4551.84

1-0 Buydown Example: \$200,000 30-Year 6.50% Mortgage, with a 1-0 Temporary Buydown						
Year	Interest Rate	Note Rate Pmt	2-1 Buydown			
			Monthly Pmt	Monthly Subsidy Pmt	X Term Months	= Buydown Fee Amount
1	5.50%	\$1264.14	\$1135.58	\$128.56	12	\$1542.72
2-30	6.50%	\$1264.14	\$665.31	0		0
Total Interest Rate Buydown Fee Amount						\$1542.72

Resources

Product folder: [CONV Buydowns](#)

Fannie Mae

- [FNMA B2-1.4-04, Temporary Interest Rate Buydowns](#)
- [B3-4.1-02, Interested Party Contributions \(IPCs\)](#)
- [FNMA Loan Delivery ULDD Requirements for Temporary Interest Rate Buydowns](#)

Freddie Mac

- [FHLMC 4204.4 Temporary subsidy buydown plans](#)
- [FHLMC 6302.18 Special delivery requirements for subsidy buydown Mortgages](#)
- [FHLMC 4501.5 Temporary subsidy buydown plans for Home Possible Mortgages](#)

