

Seller Paid Temporary Buydowns Frequently Asked Question and Tips

Q. What is a Temporary Buydown?

A. A lump sum of money (a “subsidy” or “buydown fee”) is paid by the Seller at closing which allows the borrower to make a monthly payment at a reduced interest rate for a specific period of time. The funds from the buydown fee subsidizes the reduced payment to allow a payment at the full note rate to be made to the servicer.

Q. What type of Temporary Buydowns do you offer?

- A.** 3-2-1, 2-1, 1-0 Seller Paid Buydowns
- 3-2-1 Buydown
 - 3% reduction the first year
 - 2% reduction the second year
 - 1% reduction the third year
 - Actual Note Rate years four through thirty
 - 2-1 Buydown
 - 2% reduction the first year
 - 1% reduction the second year
 - Actual Note Rate the third year through to year thirty
 - 1-0 Buydown
 - 1% reduction the first year
 - Actual Note Rate the second year through to year thirty

Q. Is there a cost associated to the rate that the borrower will pay for a Temporary Buydown?

A. Yes, a Loan Level Price Adjustment (LLPA) for use of the Temporary Buydown applies (currently .125)

Q. Are there any certain Product Requirements to use a Temporary Buydown?

- A.** Yes, it includes the following:
- Conventional (Fannie Mae and Freddie Mac) and Government (FHA, VA, and USDA) products eligible
 - Minimum 620 credit score
 - Fixed Rate products only
 - Owner occupied only
 - Purchase only
 - Single Family Residences, PUD and Condos allowed

Q. Can the borrower be qualified on the temporary buydown rate?

A. No, the borrower must be qualified on the actual note rate.

Q. Is there an easy way to Calculate Buydown Fee (Subsidy)

A. Yes, there are two ways to determine the buydown amount.

1. There is a Temporary Buydown Calculator available on the Resource Center, or from the following link (clicking on the following link will download a file):
<https://www.eprmng.net/ResourceCenter/TrainingInstructionalMaterial/TemporaryBuydownCalculator.xlsx>
2. The Buydown Disbursement Summary Form in Encompass will illustrate how much the payment will be reduced by each month as well as the amount of the buydown subsidy.

Q. Will the LE or CD show the reduced payment the borrower needs to make?

A. No, a payment letter will be sent to the borrower after closing and it will indicate what their portion of the payment will need to be

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Q. Will the payment letter in the document set show the reduced payment the borrower needs to make?

A. No, a payment letter will be sent to the borrower after closing and it will indicate the payment the borrower will need to make.

Q. When will the borrower(s) review and sign the Buydown Agreement?

A. The Buydown Agreement is part of closing docs and must be signed at closing.

Q. Is there a disclosure available prior to what is provided at closing?

A. Yes, if all required fields are completed in the 1003, the Buydown Payment Letter will generate with your initial disclosure package. This can be found under the Custom Forms tab of the Print window.

Q. When collecting interest at closing, do I use the temporary buydown rate or the actual note rate?

A. Use the actual note rate. The borrower is technically making the full payment during the buydown period, the payment is just subsidized by a portion of the buydown amount collected at closing. As such the interest collected at closing is based on the actual note rate.

Q. Can the Seller split the cost of the Temporary Buydown or does all of it have to come from the seller?

A. All the funds must come from the Seller. The Real Estate Agent can reduce their commission to the Seller, to allow the Seller to have additional funds to provide the buydown to the borrower.

Q. Does the Temporary Buydown count in the limit the amount of Seller credits?

A. Yes, Standard Interested Party Contribution (IPC) requirements apply and the amount of the buydown subsidy is included in the limit. The IPC limit can vary by product.

Q. When locking the loan do I have to select the specific Temporary Buydown?

A. Yes, select 3/2/1, 2/1 or 1/0 in the Temporary Buydown field in the pricing engine.

Q. How will I know if the Temporary Buydown is locked correctly?

A. Review the Rate Lock Confirmation and it will include the type of Temporary Buydown and LLPA adjustment (currently .125).

Q. Where will the Temporary Buydown fee place in Itemization?

A. Confirm that the fees are in itemization form, they will be automatically added to section 1300 (line 1313). No changes should be made to any buydown fields.

Q. What happens if borrower pays the loan off prior to the Temporary Buydown funds being fully used?

A. Any surplus funds will be applied to the principal reduction at payoff.

Q. Are there any limitations on 3-2-1 Buydowns?

A. 3-2-1 Buydowns are not eligible with USDA, but are eligible with FHA, VA and Conventional loan programs.