



# Temporary Buydowns



A **buydown** allows a borrower to obtain a lower interest rate, for a period of time, by prepaying some of the interest on the loan. Typically, the seller/builder will provide a lump sum concession (prepaid interest) that is held in a custodial escrow account and applied each month to the borrower’s subsidized payment.

## Types of buydowns:

Buydown Type	Product Indicator	How it Works
1-0	[ProductCode]B1 <i>Example: CF30B1</i>	<b>Year 1:</b> Interest rate is reduced by 1% <b>Year 2 and forward:</b> Standard interest rate applies.
1.5-0.5	[ProductCode]B15 <i>Example: CF30B15</i>	<b>Year 1:</b> Interest rate is reduced by 1.5% <b>Year 2:</b> Interest rate is reduced by 0.5% <b>Year 3 and forward:</b> Standard interest rate applies
2-1	[ProductCode]B2 <i>Example: CF30B2</i>	<b>Year 1:</b> Interest rate is reduced by 2% <b>Year 2:</b> Interest rate is reduced by 1% <b>Year 3 and forward:</b> Standard interest rate applies
3-2-1	[ProductCode]B3 <i>Example: CF30B3</i>	<b>Year 1:</b> Interest rate is reduced by 3% <b>Year 2:</b> Interest rate is reduced by 2% <b>Year 3:</b> Interest rate is reduced by 1% <b>Year 4 and forward:</b> Standard interest rate applies

**Refer to AllRegs for the Product Codes & Guidelines.**





## Temporary Buydown Examples

### Example 1: Buydown Type: 3-2-1

Loan Amount: \$500,000

Loan Term: 30 year

Interest Rate: 7.5%

P&I Payment: \$3,496.07

Year	Interest Rate	Payment	Monthly Difference	Annual Difference
1	4.5% (7.5% - 3%)	\$2,533.43	\$3,496.07 - \$2,533.43 = \$962.64	\$11,551.68
2	5.5% (7.5% - 2%)	\$2,838.95	\$3,496.07 - \$2,838.95 = \$657.12	\$7,885.44
3	6.5% (7.5% - 1%)	\$3,160.34	\$3,496.07 - \$3,160.34 = \$335.73	\$4,028.76
4-30	7.5% (No buydown)	\$3,496.07	\$0	\$0
<b>AMOUNT REQUIRED AT CLOSING</b>				<b>\$23,465.88</b>

### Example 2:

Buydown Type: 2-1

Loan Amount: \$500,000

Loan Term: 30 year

Interest Rate: 6.5%

P&I Payment: \$3160.34

Year	Interest Rate	Payment	Monthly Difference	Annual Difference
1	4.5% (6.5% - 2%)	\$2,533.43	\$3160.34 - \$2533.43 = \$626.91	\$7,522.92
2	5.5% (6.5% - 1%)	\$2,838.95	\$3160.34 - \$2838.95 = \$321.39	\$3,856.68
3-30	6.5% (No buydown)	\$3,160.34	\$0	\$0
<b>AMOUNT REQUIRED AT CLOSING</b>				<b>\$11,379.60</b>



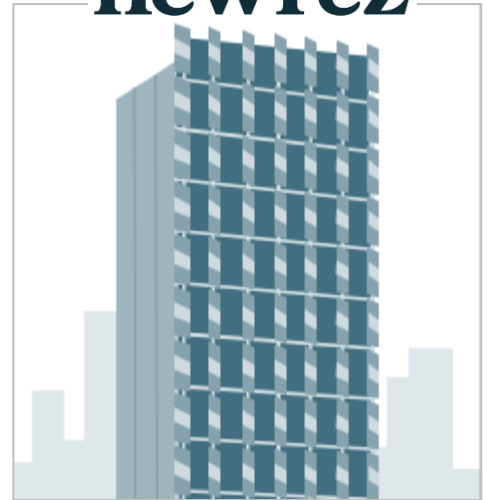
## Monthly Payment Illustration

This illustration is based on “Year 2” in example 2.



**BORROWER**

**Step 1:** Borrower pays monthly P&I of \$2838.95 to Newrez.



**Step 2:** Newrez withdraws the remaining \$321.39 from the custodial account.



**CUSTODIAL ACCOUNT**

(Lump sum concession paid at closing and held in escrow)

**Step 3:** Newrez combines borrower payment and custodial withdrawal to make a full payment to the investor.





# Temporary Buydown, cont.

The **Temporary Buydown Subsidy** must be allocated on the *Newrez LE > Getting Started* screen.

- Enter the total buydown amount in the seller line.
- Ensure that the remaining balance reflects \$0.00.
- Click **Run Fee Quote** or **Save & Next** (if applicable).

## Example: Seller Paid Buydown

Paid By	Lender Credit	Total
Borrower		\$ 0.00
Lender (Lock Credit Applied)	<input type="checkbox"/>	\$ 0.00
Lender (Additional Lender Credit Ap...)	<input checked="" type="checkbox"/>	\$ 0.00
Seller		\$ 11,379.60
<b>Split Total</b>		<b>\$11,379.60</b>
<b>Remaining Balance</b>		<b>\$0.00</b>

## Important Notes

- When the seller/builder pays the buydown subsidy, it is reflected in the Seller-Paid or Paid by Others column on page 2 of the Closing Disclosure.





# Q&A

**Q:** How is a fee paid by the borrower to temporarily buy down the interest rate disclosed on the Loan Estimate?

**A:** A temporary buydown of the interest rate is charged to the borrower for the interest rate chosen on the loan and it's shown in the Closing Cost Details under Loan Costs > Buydown Fee on page 2 of the LE.

- On Page 2 of the LE, shown below, the Loan Costs > A. Origination Charges total amount is the sum of the final price plus buydown subsidy. If it is a borrower-paid loan, it is just the final price plus the buydown subsidy.

Loan Costs	
A. Origination Charges	\$3,361
% of Loan Amount (Points)	
Administration Fee	\$999
Buydown Fee	\$2,362

**Q:** Where do any remaining seller concessions get applied?

**A:** Any additional seller concessions should be placed as a Lump Sum Seller Credit in the **Other Assets and Credits** section of the 1003 > Asset, Liab & REO tab of H2O.

Other Assets and Credits					
Application	Asset or Credit Type	In the Name of	Shared with?	Amount	Full Name of Grantor
1	Lump Sum Seller Credit	Alice Firstimer		\$638	Alice Firstimer

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# Record of Revisions

Update Date	Updated By	Revision Type	Summary of Changes
11/14/2022	Brian Rummell	Update	Rebrand and channel specific updates
12/07/2022	Brian Rummell	Update	Added new temp buydown products

