MFM Bulletin: 009-2023

Date: February 28, 2023

Subject: Seller Paid Buydowns

MFM is pleased to announce that we will now allow seller paid buydowns! A buydown is a mortgage option where the payment is reduced temporarily, as if the rate was "bought down", but only for the first 1-2 years of the loan. The Note rate remains constant, only the borrower’s payment is reduced for the term of the buydown period.

With a buydown, homebuyers are able to purchase a home with lower initial monthly mortgage payments for the first 1-2 years. Funds will be held from the seller’s proceeds at closing and are included with the seller concessions negotiated in the purchase contract and subject to agency Interested Party Contributions (IPC) limits.

Loans may be locked with buydowns beginning March 1st, 2023.

Buydown Highlights:
- Seller paid only
- 2/1 and 1/0 buydowns available
- All agency programs are eligible (both servicing retained and released)
- Portfolio loans are eligible with Credit Union permission
- Purchase transaction only
- 30-yr. fixed rate terms only
- Members are qualified based on the Note rate, without any consideration of the buydown

The following LLPAs will be charged on all loans with buydowns:
- Conventional: 0.125%
- Government: 0.375%

Attached are MFM’s Temporary Buydown Program Guidelines and Blue Sage System Instructions for Buydowns. **The buydown fields in Blue Sage must be completed prior to locking the loan.** We have also provided a Buydown Calculator to help you calculate the amount of the buydown when discussing options with members.

MFM will provide a buydown training session for Credit union partners on **Wednesday, March 8th** at 1pm EST, [click here](#) to register!

Please review these materials and bring your buydown questions to the training session on March 8. If you have any questions or concerns, feel free to contact Pam Trudeau (pam.trudeau@memberfirstmortgage.com), Tanya Daniels ([tanya.daniels@memberfirstmortgage.com](mailto:tanya.daniels@memberfirstmortgage.com)) or Alberto Perea ([alberto.perea@memberfirstmortgage.com](mailto:alberto.perea@memberfirstmortgage.com)).
Temporary Buydown Program

What is a Buydown?
A buydown is a mortgage option where the payment is reduced temporarily, as if the rate was “bought down”, but only for the first 1-2 years of the loan. The Note rate remains constant, only the borrower’s payment is reduced for the term of the buydown period. With a buydown, homebuyers are able to purchase their homes with lower monthly mortgage payments to start.

Types of Buydowns We Offer:

<table>
<thead>
<tr>
<th>1/0 Buydown</th>
<th>2/1 Buydown</th>
</tr>
</thead>
<tbody>
<tr>
<td>Year 1: Interest rate is reduced by 1%</td>
<td>Year 1: Interest rate is reduced by 2%</td>
</tr>
<tr>
<td>Year 2 and after: Note rate applies</td>
<td>Year 2: Interest rate is reduced by 1%</td>
</tr>
<tr>
<td>Year 3 and after: Note rate applies</td>
<td></td>
</tr>
</tbody>
</table>

Eligible Programs:
- Fannie Mae – Standard conforming, High Balance and Home Ready (Special Feature code 009).
- Freddie Mac – Conforming, Super Conforming, Home One and Home Possible.
- FHA (APD code 796)
- VA
- USDA

Transaction Types:
- Purchase transactions only.

Eligible Products:
- 30 year Fixed rate only.

Occupancy and Property Types: Includes Condominiums and PUDS if otherwise eligible.

<table>
<thead>
<tr>
<th>Conventional</th>
<th>FHA</th>
<th>VA</th>
<th>USDA</th>
</tr>
</thead>
<tbody>
<tr>
<td>Primary residence 1-4 family</td>
<td>Primary residence 1-4 family</td>
<td>Primary residence 1-4 family</td>
<td>Primary residence 1-family</td>
</tr>
<tr>
<td>Second home 1 family</td>
<td>Manufactured homes – serviced retained only</td>
<td>Manufactured homes – serviced retained only</td>
<td></td>
</tr>
<tr>
<td>Manufactured homes not allowed</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Eligible Source for Buydown Funds:
- Seller paid only (subject to agency Interested Party Contributions limit). Funds may not come from any other source.
- Lender and Borrower paid buydowns are not allowed.
**Temporary Buydown Program**

**Borrower Qualification**
- Borrower is qualified based on the Note Rate without any consideration of the buydown for all loan programs.

**Buydown Agreement:**
- Buydown Agreement will be signed by the borrower(s) at closing outlining the terms of the buydown.

**Other Requirements:**
- Buydown accounts must be fully funded at closing.
- Buydown funds are not refundable.
- Buydown funds cannot be used to pay past-due payments.
- Funds will be transferred to new servicer if loan is servicing released.
- Funds will be applied to the principal balance if loan is paid in full.

**Buydown Examples:**
- **$250,000 loan using a 1/0 Buydown (6% Interest Rate, P&I Payment $1,498.88)**

<table>
<thead>
<tr>
<th>Year</th>
<th>Interest Rate</th>
<th>Monthly Payment</th>
<th>Monthly Difference</th>
<th>Annual Difference</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>5.0</td>
<td>$1,342.05</td>
<td>$156.83</td>
<td>$1,881.96</td>
</tr>
<tr>
<td>2</td>
<td>6.0 (No Buydown)</td>
<td>$1,498.88</td>
<td>$0</td>
<td>$0</td>
</tr>
</tbody>
</table>

**Total Buydown Funds**

$1,881.96

- **$250,000 loan using a 2/1 Buydown (6% Interest Rate, P&I Payment $1,498.88)**

<table>
<thead>
<tr>
<th>Year</th>
<th>Interest Rate</th>
<th>Monthly Payment</th>
<th>Monthly Difference</th>
<th>Annual Difference</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>4.0</td>
<td>$1,193.54</td>
<td>$305.34</td>
<td>$3,364.08</td>
</tr>
<tr>
<td>2</td>
<td>5.0</td>
<td>$1,342.05</td>
<td>$156.83</td>
<td>$1,881.96</td>
</tr>
<tr>
<td>3</td>
<td>6.0 (No Buydown)</td>
<td>$1,498.88</td>
<td>$0</td>
<td>$0</td>
</tr>
</tbody>
</table>

**Total Buydown Funds**

$5,546.04

**Regulatory Compliance:**

<table>
<thead>
<tr>
<th>Loan Cost and Disclosures</th>
</tr>
</thead>
<tbody>
<tr>
<td>All costs associated with buydown will be disclosed on both the Loan Estimate (charged to borrower with a seller credit for buydown fee) and Closing Disclosure (charged to seller at closing).</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>QM Points and Fees</th>
</tr>
</thead>
<tbody>
<tr>
<td>Third party (seller) paid buydowns fall under the definition of “seller paid points” and are therefore excluded from the finance charge and points and fees calculation.</td>
</tr>
</tbody>
</table>
Blue Sage LOS Instructions for Buydowns:
1. Loan Officer prices the loan.
2. Loan Officer selects appropriate buydown plan and clicks “save”.
3. Loan Officer adds notes to the system with details regarding the buydown and how much there is for a seller credit.
4. Disclosures reviews notes and verifies fee 0817c is present. Always click “Calculate Fees”
Once the Loan Estimate (LE) goes out:
5. Disclosures will go to the Underwriting menu and select “Qualifying the Borrower”
6. Open line “L. Seller Credits”
7. Look to LO Notes for the amount to enter, enter the total of all seller credits. If the seller is only paying the buydown amount, enter the exact amount.
Once the CD goes out:
8. If there is a lump seller credit greater than the cost of the buydown, subtract the amount of the buydown and update the lump seller credit to be the remainder.

Example: If total seller credit is $10,000 and the buydown costs are $1,885.32; enter the remainder as the lump sum seller credit of $8,114.68.
At the time of the First CD:
9. In the Closing menu, select “Fees & Closing Costs”
   • Select Fee Item “0817c”
   • Select “Payment Information” in the “Editing Closing Fee” popup
   • Select “Add Payment Detail” and match the “Payment Amount” to the fee amount from line 0817c
   • Select “Seller” from the dropdown menu for “Paid By:” and select “At Closing” for “Payment Collected:”
   • Select “Save & Close”, this completes the process!