



Last Reviewed: 12/5/2023



Temporary Buydown 3-2-1, 2-1-0, and 1-0 Options UHM Wholesale

Product Summary

Program Description	A temporary buydown allows a borrower to have a lower monthly payment during the first one to three years of the mortgage. This temporary reduction of the monthly payment is in exchange for an upfront cash deposit. The amount of the cash deposit covers the difference of the interest costs between the temporary buydown rate and the note rate, during the buydown year(s). The cash deposit is paid by the seller or builder, for the UHM product offering. The mortgage loan documents reflect a fixed note rate for the entire term of the loan. Freddie Uses the term 'Limited Buydown' when the term is no more than two years.
Eligible Conventional Products	Fixed rate mortgages only: Fannie Mae, standard fixed rate mortgage products Fannie Mae HomeReady Freddie Mac, Fixed Rate mortgage products Freddie Mac Home Possible 3-2-1, 2-1, and 1-0 Permitted
Eligible Government Products	3-2-1, 2-1, and 1-0: FHA 203b VA 2-1 and 1-0 Only: USDA (Referred to as a 'Funded Buydown Account') [Maximum 2% below the note rate]
Term - All Products	15,20 , 30 Year amortization
Loan Purpose - All Products	Purchase transactions All refinance transactions are excluded.
Source of Buydown Funds	100% of buydown costs must be covered by seller contributions. Temporary Buydown funds cannot come from a lender or broker credit, regardless of the compensation plan. The borrower cannot pay the buydown funds.
Seller Concession	Temporary buydown funds paid by the seller are considered a sales concession that must be included in the maximum allowable interested party contributions.
Ineligible Products	3-2-1, 2-1, and 1-0: Jumbo or investor products Mortgage End Loan Option (MELO) 3-2-1: Ineligible for USDA
LTV/CLTV	Follows standard LTV/CLTV requirements for all products. The temporary buydown funds do not impact the LTV/CLTV calculation.
Terms of Escrow Agreement	If buydown funds are not received for any reason, the borrower is responsible for making the total payment described in the Note. Undistributed buydown funds cannot revert to the provider in the event of sale or if the loan is paid in full. Funds are applied to the UPB.



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Borrower Eligibility	
Occupancy	Principal Residence - Eligible Second Homes - Conventional Only Eligible Investor properties - Ineligible
Property Types	
Property Eligibility	1 -4 Unit - Primary only 1 Unit second home (conventional only) 1 unit condo (must follow all Agency specific requirements) Manufactured homes are eligible for Fannie Mae, FHA, VA and USDA. Freddie Mac does not permit manufactured homes.
Disclosure	
Disclosure	The Initial Closing Disclosure will indicate the cost of the buydown (paid 100% by Seller). The Temporary Buydown Agreement must be provided to and signed by the borrower at closing.
Underwriting Requirements	
General	All UHM Overlays apply. All guidelines apply as applicable to the product.
AUS/ Manual Underwriting	Follows standard UHM policy: Conventional – Manual Underwriting Not permitted Government - AUS and manual underwriting permitted based on UHM policies and overlays.
Qualifying - Conventional, FHA	The borrower is qualified using the monthly payment based on the NOTE rate. The buydown payment period is not to be used as being a compensating factor on any product.
Qualifying - VA	<p>If Borrower’s Income is Expected to Keep Pace with Payment Increases The loan application may be underwritten based on the first year’s payment amount if there are strong indications that the income used to support the application will increase to cover the yearly increases in loan payments. Routine cost of living increases cannot be used for this purpose. Increases resulting from confirmed future promotions or wage percentage increases guaranteed by labor contracts (for example, teachers, auto workers) may be given favorable consideration based on specific VA compensating factors published in their handbook.</p> <p>If it is Unclear Whether Borrower’s Income Can Keep Pace with Increases The loan application must be underwritten based on the full payment amount if there are no strong indications that the income used to support the application can reasonably be expected to keep pace with the increases in loan payments.</p> <p>Refer to VA Handbook Chapter 7 for complete information. The temporary buydown payment period is not to be used as a compensating factor other than as directly described above. (i.e.: it is not a compensating factor for higher DTI)</p>



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Qualifying – USDA (2-1 and 1-0 ONLY)	The mortgage must be underwritten at the note rate. Lender should not use funded buydowns to qualify a borrower who would not otherwise qualify for a mortgage. The temporary buydown payment period is not to be used as a compensating factor.
Reserves	Required reserves must be based on the full housing (PITIA) payment using the Note rate (not the first year's PI payment).
Appraisal	The appraiser must be made aware of the temporary buydown and comment as to any effect on value or purchase price. A general statement about the impact of seller contributions is acceptable. All other appraisal requirements apply, as applicable to the product. Note: Appraiser comments not required when AUS allows for an appraisal waiver.
Secondary and Fees	
Fees/Lender Funded Buydown	Standard secondary marketing fees, policies and procedures apply. No additional fees apply, other than the collection of the buydown funds. Borrower funded buydowns are not permitted.
Closing Requirements	
Buydown Agreement	The buydown agreement must be accurate and signed by both the borrower and the provider of the funds.
Security Instruments/Note	Use standard agency documents
Non-Delegated Correspondent Loans	The buydown funds MUST appear as an origination charge in section H on line 1315. The amount on the CD, collected at closing and on the disclosure must match. The title agent must provide a check for the full amount of the buydown funds when paid in full by the seller.