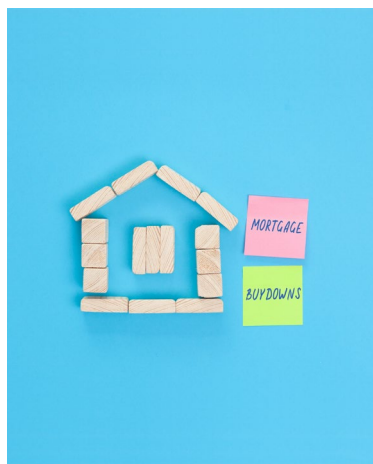




Temporary Interest Rate Buydowns

Rising Interest Rates



- Rising interest rates have priced some buyers out of the real estate purchase market.
- Some sellers and lenders have found a way to help buyers afford a home by reducing the buyer's contribution to the monthly mortgage payment by using a “temporary interest rate buydown” program.
- (Note that permanent buydowns are also available if the seller pays a buyer's points – but that is not the focus of this slide deck.)



How does a temporary interest rate buydown work?

- Initially, a buyer's monthly mortgage payments are calculated just as for any other loan by considering the home's purchase price, buyer's deposit and down payment, and market interest rate.
- However, for the first one, two or three years of the loan the buyer will pay a reduced amount based on what the buyer's payments would have been if the interest rate was lower than the market rate. The lender, however, still receives the full amount based on the market interest rate.

Example

Here is how a 2/1 temporary buydown works. 3/1 is also available.

Example: 2/1 buydown

Purchase	\$650,000
3% down	<u>\$19,500</u>
Loan Amount	\$630,500
Interest rate	6.25%

P&I	\$3,882
Buydown	4.25%
P&I	$\$3,101 - \$3,882 = \$781 \times 12 = \$9,372$
2md yr.	5.25%
P&I	$\$3,481 - \$3,882 - \$401 \times 12 = \$4,812$

Total seller concession is \$14,184, which is = to 2.18 points in this example.

The \$14, 184 goes into an escrow account and that pays for the reduction in payments for year one & two.

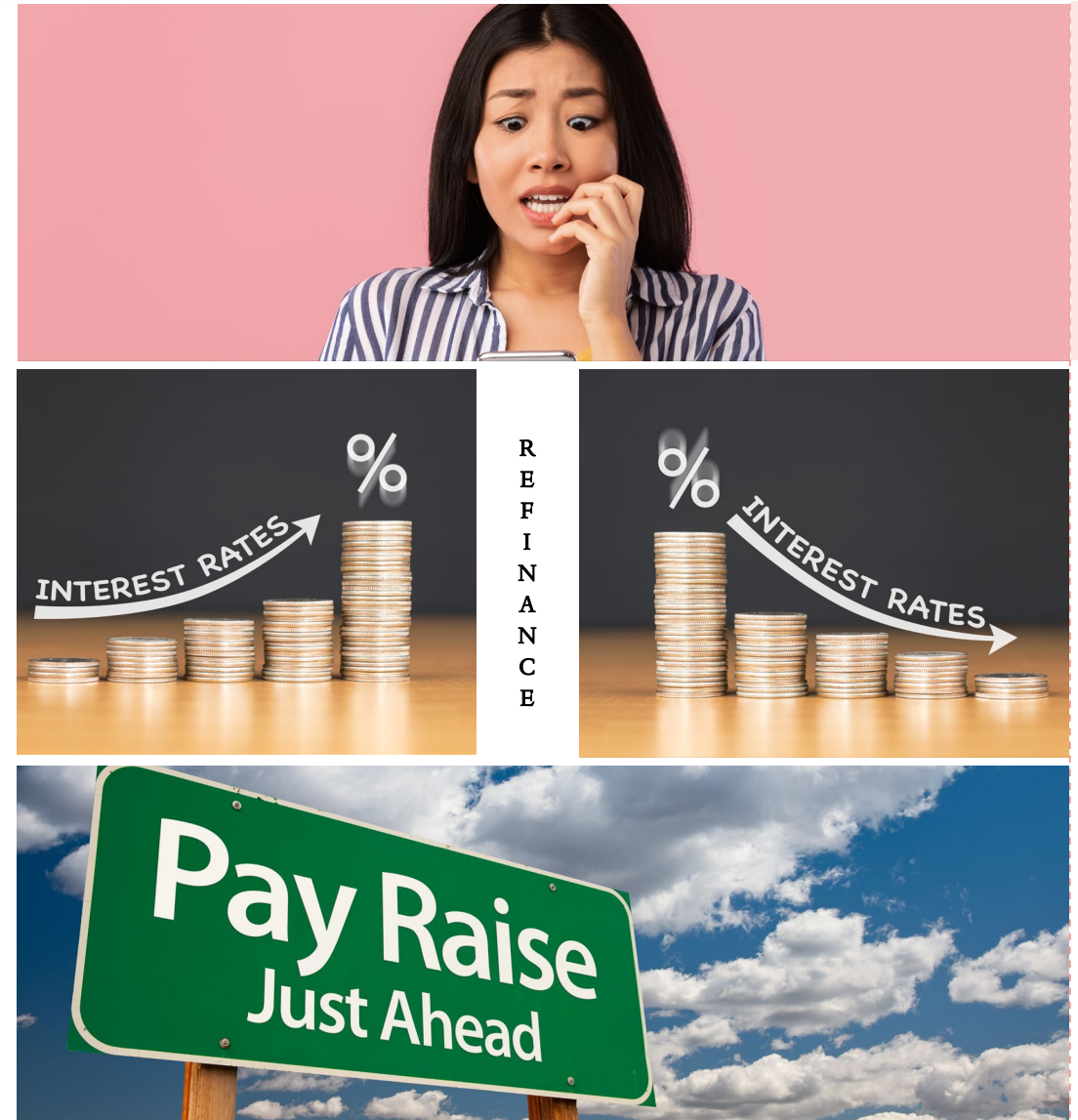
QUESTIONS?

- The difference between the market rate payments and the buyer's reduced payments will be paid from a fund that the seller deposits with the lender at closing.
- The seller's payment is used to "buy down" the buyer's interest rate for the first few years of the loan so the buyer only pays what would have been owed to the lender under a reduced interest rate.
- The seller's payment is considered a seller credit.



Since the payments increase after the buydown period, how does this help a buyer?

- Even though a buyer must still qualify for the loan at the market rate, the shock of the high monthly mortgage payments can be lessened by using a temporary interest rate buydown.
- The buyer would hope that interest rates decrease after the purchase so they could refinance at the then lower rate and avoid the jump in payments to the closing market rate.
- Or possibly, the buyer could hope for an increase in income by the time of the jump in payments so that the buyer could more easily afford the higher payments.





Since the seller effectively pays for a portion of the buyer's payment during the buydown period, how does this help a seller?

- A seller may need to incentivize buyers to increase interest in the seller's property.
- By making the seller's home affordable to a greater number of buyers, the seller may be able to get a higher price than otherwise available in the marketplace.

- In a sense, the “buydown” is no different than other credits that a seller may offer a buyer as an inducement to buy, such as payment of closing costs or credits in lieu of repairs.
- The upfront payment of money by the seller can help achieve a successful closing and allow the seller to transfer the property more quickly and potentially at a higher price than would otherwise be possible.



How would a buyer ask the seller for an interest rate buydown?

- A buyer could write in appropriate language into paragraph 3G(2) in the RPA, such as , “Seller to credit buyer \$ _____ , towards buyer’s closing costs.
- Adding more specific language focusing on the buydown program like, “to be used to buy down buyer’s loan payments [for the first (1) (2) (3) years of the loan] [to the following equivalent interest rates: ___% for year one, ___% for year two, ___% for year three] [as per the loan program approved by _____ (lender)]” may help a seller understand what the buyer wants but will limit the buyer to that use only, and could deprive a buyer of making a better use of the credit for other purposes.

	Paragraph #	Paragraph Title or Contract Term	Terms and Conditions	Additional Terms
G(1)	5E	Seller Credit, if any, to Buyer	<input type="checkbox"/> \$ _____ (_____ % of purchase price) (% number above is for calculation purposes and is not a contractual term)	Seller credit to be applied to closing costs OR <input type="checkbox"/> Other: _____
G(2) ADDITIONAL FINANCE TERMS:				
G(3)	18	<input type="checkbox"/> Seller agrees to pay the obligation of Buyer to compensate Buyer's Broker under a separate agreement (C.A.R. Form SPBB attached). Seller's Broker's offer, if any, to compensate Buyer's Broker is unaffected unless Otherwise Agreed.		
H(1)	5B	Verification of All Cash (sufficient funds)	Attached to the offer or <input type="checkbox"/> 3 (or _____) Days after Acceptance	
H(2)	6A	Verification of Down Payment and Closing Costs	Attached to the offer or <input type="checkbox"/> 3 (or _____) Days after Acceptance	
H(3)	6B	Verification of Loan Application	Attached to the offer or <input type="checkbox"/> 3 (or _____) Days after Acceptance	<input type="checkbox"/> Prequalification <input type="checkbox"/> Preapproval <input type="checkbox"/> Fully underwritten preapproval
I Intentionally Left Blank				
J	16	Final Verification of Condition	5 (or _____) Days prior to COE	
K	23	Assignment Request	17 (or _____) Days after Acceptance	
L 8		CONTINGENCIES	TIME TO REMOVE CONTINGENCIES	CONTINGENCY REMOVED
L(1)	8A	Loan(s)	17 (or _____) Days after Acceptance	<input type="checkbox"/> No loan contingency
L(2)	8B	Appraisal: Appraisal contingency based upon appraised value at a minimum of purchase price or <input type="checkbox"/> \$ _____	17 (or _____) Days after Acceptance	<input type="checkbox"/> No appraisal contingency Removal of appraisal contingency does not eliminate appraisal cancellation rights in FVAC.
L(3)	8C, 12	Investigation of Property Informational Access to Property Buyer's right to access the Property for informational purposes is NOT a contingency, does NOT create cancellation rights, and applies even if contingencies are removed.	17 (or _____) Days after Acceptance 17 (or _____) Days after Acceptance	REMOVAL OR WAIVER OF CONTINGENCY: Any contingency in L(1)-L(7) may be removed or waived by checking the applicable box above or attaching a Contingency Removal (C.A.R. Form CR-B) and checking the applicable box therein. Removal or Waiver at time of offer is against Agent advice. See paragraph 8H. <input type="checkbox"/> CR-B attached
L(4)	8D, 14A	Review of Seller Documents	17 (or _____) Days after Acceptance, or 5 Days after Delivery, whichever is later	
L(5)	8E, 13A	Preliminary ("Title") Report	17 (or _____) Days after Acceptance, or 5 Days after Delivery, whichever is later	
L(6)	8F, 11L	Common Interest Disclosures required by Civil Code § 4525 or this Agreement	17 (or _____) Days after Acceptance, or 5 Days after Delivery, whichever is later	
L(7)	8G, 9B(6)	Review of leased or liened items (Such as for solar panels or propane tanks or PACE or HERO liens)	17 (or _____) Days after Acceptance, or 5 Days after Delivery, whichever is later	
L(8)	8J	Sale of Buyer's Property Sale of Buyer's property is not a contingency, UNLESS checked here: <input type="checkbox"/> C.A.R. Form COP attached		
M		Possession	Time for Performance	Additional Terms
M(1)		Time of Possession	Upon notice of recordation, OR <input type="checkbox"/> 6 PM or <input type="checkbox"/> AM/ <input type="checkbox"/> PM on date specified, as applicable, in 3M(2) or attached TOPA.	
M(2)	7C	Seller Occupied or Vacant units	COE date or, if checked below, <input type="checkbox"/> _____ days after COE (29 or fewer days) <input type="checkbox"/> _____ days after COE (30 or more days)	C.A.R. Form SIP attached if 29 or fewer days. C.A.R. Form RLAS attached if 30 or more days.
M(3)	4A, 7A	Occupied units by tenants or anyone other than the Seller	<input type="checkbox"/> Tenant Occupied Property Addendum (C.A.R. Form TOPA) attached	Seller shall disclose to Buyer if occupied by tenants or persons other than the Seller, and attach TOPA in a counter offer if not part of Buyer's offer.
N		Documents/Fees/Compliance	Time for Performance	
N(1)	14A	Seller Delivery of Documents	7 (or _____) Days after Acceptance	
N(2)	19B	Sign and return Escrow Holder Provisions and Instructions	5 (or _____) Days after Delivery	
N(3)	11L(2)	Time to pay fees for ordering HOA Documents	3 (or _____) Days after Acceptance	
N(4)	10B(1)	Install smoke alarm(s), CO detector(s), water heater bracing	7 (or _____) Days after Acceptance	
N(5)	28	Evidence of representative authority	3 Days after Acceptance	

Paragraph 5E, Form RPA

E. LIMITS ON CREDITS TO BUYER: Any credit to Buyer as specified in **paragraph 3G(1)** or Otherwise Agreed, from any source, for closing or other costs that is agreed to by the Parties ("Contractual Credit") shall be disclosed to Buyer's lender, if any, and made at Close Of Escrow. If the total credit allowed by Buyer's lender ("Lender Allowable Credit") is less than the Contractual Credit, then **(i)** the Contractual Credit from Seller shall be reduced to the Lender Allowable Credit, and **(ii)** in the absence of a separate written agreement between the Parties, there shall be no automatic adjustment to the purchase price to make up for the difference between the Contractual Credit and the Lender Allowable Credit.

Paragraph 1C, Form RR

- 1. BUYER REQUEST (Check all that apply): (Note: Seller has no obligation to respond to Buyer request.)**
- A.** Buyer requests that Seller, prior to final verification of condition, repair or take the other specified action for each item listed below or on the attached list dated _____:
- _____
- _____
- _____
- _____
- B.** (i) **SECTION 1:** Buyer requests Seller pay to have Section 1 work completed as specified in the attached Pest Control Report dated _____ prepared by _____
- (ii) **SECTION 2:** Buyer requests Seller pay to have Section 2 work completed as specified in the attached Pest Control Report dated _____ prepared by _____
- (iii) If Buyer requests either Section 1 or Section 2 work above, Seller shall, no later than **5 (or _____) Days** Prior to Close of Escrow, Deliver to Buyer a written pest control certification showing the corrective work has been completed.
- C.** Buyer requests that Seller credit Buyer \$ _____ at Close of Escrow.
- (Note:** Any credit included in this paragraph is separate from and shall not reduce or supersede any other credit in the Agreement unless Otherwise Agreed. Credits need to be disclosed to Buyer's lender and total contractual credits may be limited pursuant to the Agreement. Total credit amount may not be enough to remedy all defects or repairs.)
- D.** Buyer requests that Seller modify the purchase price. The revised purchase price shall be \$ _____

What other contract clauses should be considered by buyer and seller before agreeing to an interest rate buydown?

- Paragraph 5E of the RPA, and 1C of the Request for Repairs, limit the amount of any contractual credits to those allowed by the buyer's lender.
- If other credits are provided for in the transaction, the buyer should take care to make sure that the limit does not exceed that allowed by the lender.
- Any disallowed contractual credits will not automatically result in a reduction of the purchase price and may impact the buyer's ability to buy or to afford to make necessary repairs.

Key Elements Changing on New RPA Lender Limits Relating to Seller Credits

FHLMC:

Maximum Interested Party Financing Concessions Updated – 10-28-21

Financing Concessions: Financing concessions are funds that originate from an interested party to the transaction that are used to:–Reduce permanently the interest rate on the Mortgage–Fund a buydown plan to temporarily subsidize the Borrower’s monthly payment on the Mortgage–Make contributions in any way related to the Borrower’s Closing Costs, including up to twelve (12) months of HOA dues

Fannie Mae (FNMA)

Occupancy	LTV/TLTV > 90%	LTV/TLTV 75.01 – 90%	LTV/TLTV ≤ 75%
Primary Residences & Second Homes	3%	6%	9%
Investment Properties	2%	2%	2%

FHA:

Interested Party Contributions	Details
	<ul style="list-style-type: none"> ➤ Interested parties refer to Sellers, Real Estate Agents, Builders, Developers or other parties with an interest in the transaction. ➤ Interested Party Contribution refers to a payment by an Interest Party, or combination of parties, toward the Borrower’s origination fees, other closing costs and discount points. ➤ Interested Parties may contribute up to 6% of the lesser of the property’s sales price or appraised value towards the buyer’s closing costs, prepaid expenses, discount points and other financing concessions. ➤ The 6% limit also includes; <ul style="list-style-type: none"> » Interested Party payment for permanent or temporary interest rate buydowns and other payment supplements, » Payments of mortgage interest for fixed rate mortgages, » Mortgage payment protection insurance; and, » Payment of UFMIP. ➤ Interested Party Contributions that exceed actual origination fees, other closing costs and discount points are considered an inducement to purchase. ➤ Interested Party Contributions exceeding six (6%) percent are considered an inducement to purchase. ➤ Interested Party Contributions may not be used for the Borrower’s MRI. ➤ Payment of real estate commissions or fees, typically paid by the seller under local or state law or local custom, is not considered an Interested Party Contribution. ➤ HBFS must document the total Interested Party Contributions on Form HUD-92900-LT, Settlement Statement or similar legal documentation, and the sales contract.

Freddie Mac (FHLMC)

Occupancy	LTV/TLTV > 90%	LTV/TLTV 75.01 – 90%	LTV/TLTV ≤ 75%
Primary Residences & Second Homes	3%	6%	9%
Investment Properties	2%	2%	2%

VA: (note that VA is the only one that allows seller to payoff borrowers credit balances)

Seller Contributions	Details
	<ul style="list-style-type: none"> » For the purpose of this topic, a seller concession is anything of value added to the transaction by the builder or seller for which the buyer pays nothing additional and which the seller is not customarily expected or required to pay or provide. » Seller concession include; but are not limited to, the following; <ul style="list-style-type: none"> – Payment of buyer’s VA funding fee, – Prepayment of the buyer’s property taxes and insurance, – Gifts such as a television set or microwave oven, – Payment of extra points to provide permanent interest rate buydowns, – Provision of escrowed funds to provide temporary interest rate buydowns; and, – Payoff of credit balances or judgments on behalf of the buyer. » Seller concessions do not include payment of the buyer’s closing costs or payment of points as appropriate to the market. Example: If the market dictates an interest rate of 7½% with 2 discount points, the seller’s payment of 2 discount points would not be a seller concession. If the seller paid 5 discount points, 3 of these would be considered as a seller concession. » The problem – In some localities, builders or sellers offer concessions as a competitive tool. In extreme cases, the concessions may entice unwary and unqualified veterans into home mortgages they cannot afford. The concessions may disguise the Veteran’s inability to qualify for the loan. » Four Percent (4%) Limit <ul style="list-style-type: none"> – Any seller concession in combination of concessions which exceeds four percent (4%) or the established reasonable value of the property is considered excessive and unacceptable for VA-guaranteed loans. – Do not include normal discount points and payment of the buyer’s closing costs in total concession for determining whether concession exceed the four percent (4%) limit.



VA: (note that VA is the only one that allows seller to payoff borrowers credit balances)