3-2-1 BUYDOWN

FIRST DOWN
MORTGAGE

What is the 3-2-1 Buydown?

What?	Concession to give a temporary reduction in interest rate
Who pays?	The seller, the lender, or the agents can contribute to the cost
FYI	Conventional = Primary or 2nd Home purchase FHA/VA = Primary home purchase ONLY

Benefits

- Help Sellers get a property sold without affecting the sales price. With the rising interest rate environment, sellers love this product.
- A great way for borrowers to use any excess seller concessions that often times go unutilized
- A lower interest rate for the first 1-3 years allowing the borrower to have a lower monthly payment
- In a high interest rate environment, borrowers will more than likely be able to refinance to a lower rate than the one they will adjust to after the 1-3 years. **Not recommended to use this as a selling point
- Easier transition from a borrower who is renting to buying and want to ease into their mortgage with a lower payment.

HOW DOES IT WORK?

3-2-1 Buydown

Year 1 - 3% lower than the note rate
Year 2 - 2% lower than the note rate
Year 3 - 1% lower than the note rate
Year 4 - Full note rate

2-1 Buydown

Year 1 - 2% lower than the note rate
Year 2 - 1% lower than the note rate
Year 3 - Full note rate

1-1 Buydown

Year 1 - 1% lower than the note rate
Year 2 - 1% lower than the note rate
Year 3 - Full note rate

1-0 Buydown

Year 1 - 1% lower than the note rate
Year 2 - Full note rate

How the Buyer Benefits

Calculation example

3-2-1 Buydown

Loan Amount: $350,000

Rate: 5%

PI payment: $1879

Yr	Rate	Payment	Monthly Svgs	Annual Svgs
1	5%-3% =2%	$1294	$1879-1294= $585	$7020
2	5%-2% =3%	$1476	$1879-1476= $403	$4836
3	5%-1% =4%	$1671	$1879-1671= $208	$2496
4+	5%	$1879	$0	$0

Cost to the Seller

How the Buyer Benefits

Calculation example

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+

+

$14,352

IMPORTANT

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2-1 Buydown
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1-1 Buydown
Year 1 - 1% lower than the note rate
Year 2 - 1% lower than the note rate
Year 3 - Full note rate

1-0 Buydown
Year 1 - 1% lower than the note rate
Year 2 - Full note rate

AS YOU SCALE DOWN IN BUYDOWN PRODUCT OPTIONS, THE COST TO THE SELLER **DECREASES**

WHY?

More Calculation Examples

2 -1 Buydown

YEAR	INTEREST RATE	PAYMENT	MONTHLY DIFFERENCE	ANNUAL SAVINGS
1	3% (5% - 2%)	$1,476	$1,879 - $1,476 = $403	$4,836
2	4% (5% - 1%)	$1,671	$1,879 - $1,671 = $208	$2,496
3 – 30	5%	$1,879	$0	$0
BUYDOWN AMOUNT				$7,332

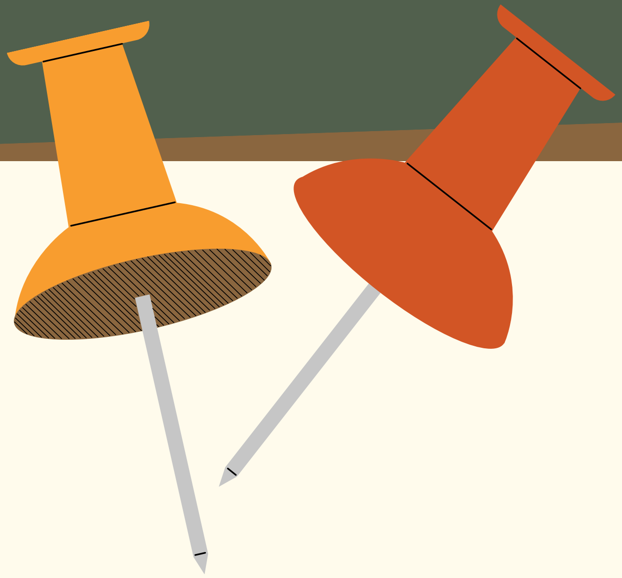
1 -1 Buydown

1-1 EXAMPLE

YEAR	INTEREST RATE	PAYMENT	MONTHLY DIFFERENCE	ANNUAL SAVINGS
1	4% (5%-1%)	$1,671	$1,879 - $1,671 = $208	$2,496
2	4% (5%-1%)	$1,671	$1,879 - $1,671 = $208	$2,496
3 - 30	5%	$1,879	$0	$0
BUYDOWN AMOUNT				$4,992

1 -0 Buydown

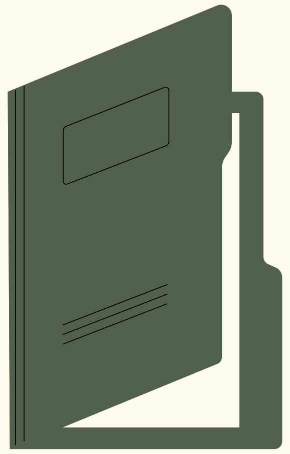
YEAR	INTEREST RATE	PAYMENT	MONTHLY DIFFERENCE	ANNUAL SAVINGS
1	4% (5% - 1%)	$1,671	$1,879 - $1,671 = $208	$2,496
2 – 30	5%	$1,879	$0	$0
BUYDOWN AMOUNT				$2,496



SIMPLY PUT:

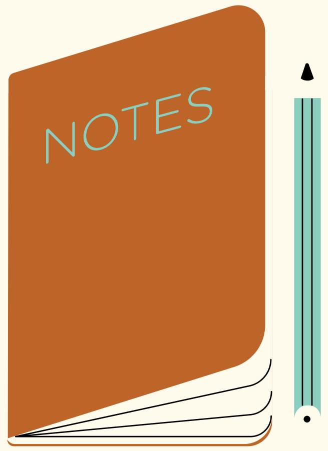
The buyer is having interest pre-paid by the seller, lender, or agent. They cannot pay any of the cost, otherwise they would be pre-paying their own interest, which defeats the purpose of this program

Considerations



We do have a calculator to estimate seller cost. However, we recommend that you have the lender calculate it for you

WHY?



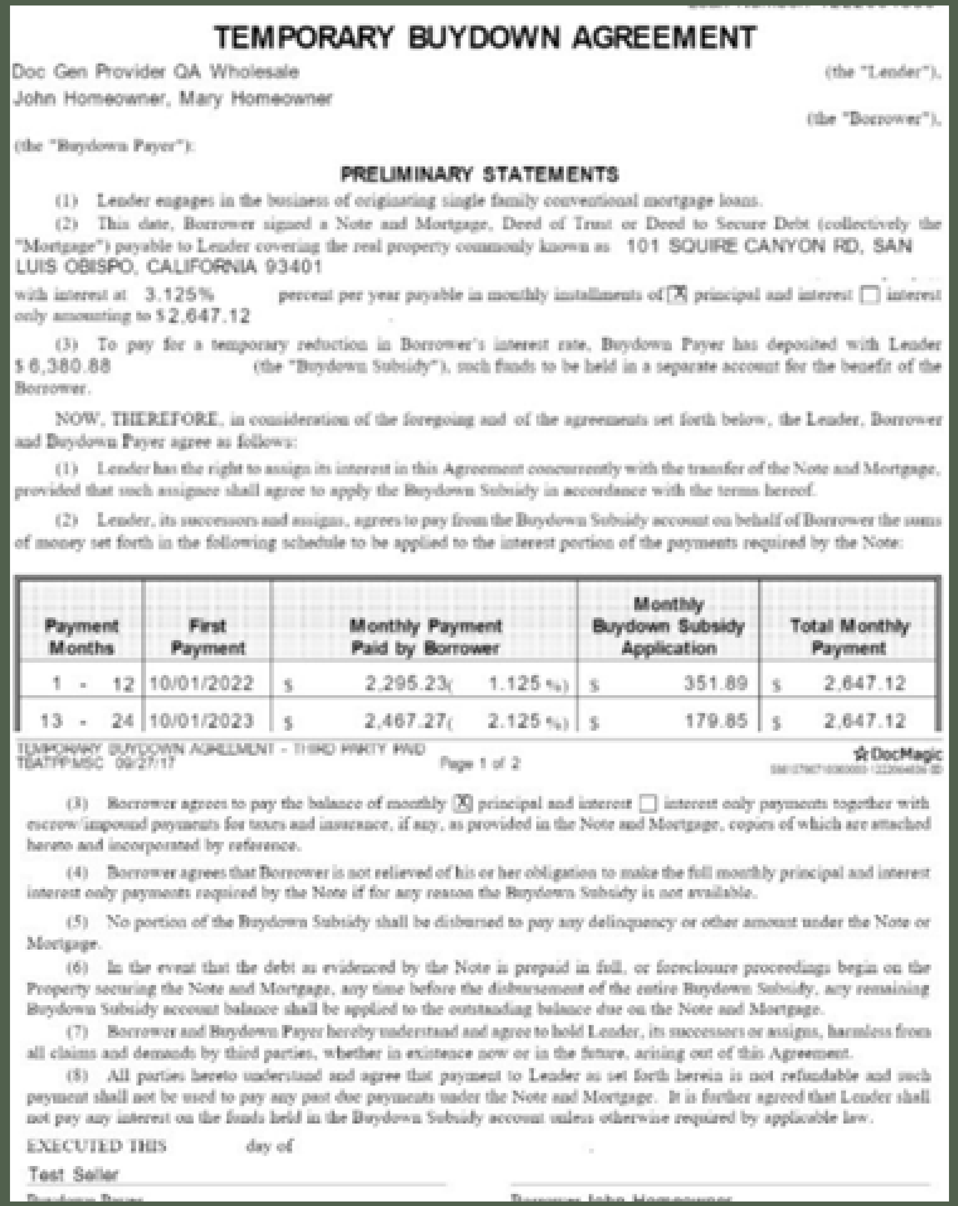
The seller no longer has to pick up 100% of the cost. The lender can contribute to the remaining cost using a lender credit. However, they offset that lender credit typically with a little bit higher rate

Standard seller concession limits apply

Borrower Questions

Why doesn't my loan estimate show my lower payment and reduced rate?

The lender is obligated to you for the note rate. Every document you receive in the loan process will have your actual fixed locked rate. There will be a supplemental document called a Temporary Buydown Agreement that outlines the temporary payment and rate arragements



TEMPORARY BUYDOWN AGREEMENT

Doc Gen Provider QA Wholesale (the "Lender"),
John Homeowner, Mary Homeowner (the "Borrower"),
(the "Buydown Payer"):

PRELIMINARY STATEMENTS

(1) Lender engages in the business of originating single family conventional mortgage loans.

(2) This date, Borrower signed a Note and Mortgage, Deed of Trust or Deed to Secure Debt (collectively the "Mortgage") payable to Lender covering the real property commonly known as 101 SQUIRE CANYON RD, SAN LUIS OBISPO, CALIFORNIA 93401 with interest at 3.125% percent per year payable in monthly installments of ☒ principal and interest ☐ interest only amounting to $ 2,647.12

(3) To pay for a temporary reduction in Borrower's interest rate, Buydown Payer has deposited with Lender $ 6,380.88 (the "Buydown Subsidy"), such funds to be held in a separate account for the benefit of the Borrower.

NOW, THEREFORE, in consideration of the foregoing and of the agreements set forth below, the Lender, Borrower and Buydown Payer agree as follows:

(1) Lender has the right to assign its interest in this Agreement concurrently with the transfer of the Note and Mortgage, provided that such assignee shall agree to apply the Buydown Subsidy in accordance with the terms hereof.

(2) Lender, its successors and assigns, agrees to pay from the Buydown Subsidy account on behalf of Borrower the sums of money set forth in the following schedule to be applied to the interest portion of the payments required by the Note:

Payment Months	First Payment	Monthly Payment Paid by Borrower	Monthly Buydown Subsidy Application	Total Monthly Payment
1 - 12	10/01/2022	$ 2,295.23(1.125 %)	$ 351.89	$ 2,647.12
13 - 24	10/01/2023	$ 2,467.27(2.125 %)	$ 179.85	$ 2,647.12

TEMPORARY BUYDOWN AGREEMENT - THIRD PARTY PAID
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(3) Borrower agrees to pay the balance of monthly ☒ principal and interest ☐ interest only payments together with escrow/impound payments for taxes and insurance, if any, as provided in the Note and Mortgage, copies of which are attached hereto and incorporated by reference.

(4) Borrower agrees that Borrower is not relieved of his or her obligation to make the full monthly principal and interest interest only payments required by the Note if for any reason the Buydown Subsidy is not available.

(5) No portion of the Buydown Subsidy shall be disbursed to pay any delinquency or other amount under the Note or Mortgage.

(6) In the event that the debt as evidenced by the Note is prepaid in full, or foreclosure proceedings begin on the Property securing the Note and Mortgage, any time before the disbursement of the entire Buydown Subsidy, any remaining Buydown Subsidy account balance shall be applied to the outstanding balance due on the Note and Mortgage.

(7) Borrower and Buydown Payer hereby understand and agree to hold Lender, its successors or assigns, harmless from all claims and demands by third parties, whether in existence now or in the future, arising out of this Agreement.

(8) All parties hereto understand and agree that payment to Lender as set forth herein is not refundable and such payment shall not be used to pay any past due payments under the Note and Mortgage. It is further agreed that Lender shall not pay any interest on the funds held in the Buydown Subsidy account unless otherwise required by applicable law.

EXECUTED THIS day of

Test Seller

Borrower Questions

What happens if I sell my home or refinance during the temporary rate period?

The seller's credit towards the buydown is physically placed in a separate escrow account with the lender. Each month the borrower makes their mortgage payment, the portion of seller credit that applies for that month is also applied. If the borrower sells or refinances and there is still credit leftover, that remaining credit is applied to the overall balance left on the mortgage when they go to pay it off. They do not lose any of the credit for selling or refinancing.

How to sell it to a seller or seller's agent

	Makes the payment more affordable for buyers in the market = less days on the market
	Stabilizes the market as a whole, because it encourages sellers to not do purchase price reductions
	This concession could be less cost in the long run than what a purchase price reduction would be to attract buyers

How do you write it up in the contract?

You can choose to write the verbiage in the contract like you would any other seller concession. This allows the buyer to determine if they want to use the concession for the buydown or for other closing costs.

Ie: (Seller to provide buyer $ x in seller credit towards closing costs and prepaids)

-OR-

You can write the verbiage specifically for a rate buydown, but be generic. You have no way of knowing the exact cost until the buyer locks in their rate, sets their loan amount, and chooses their buydown option. Get this estimate from the loan officer. If the actual cost is less than the concession, typically the buyer gives it up if it is written like the below:

Ie: (Seller to provide credit not to exceed $ x for buyer's interest rate buydown)

QUESTIONS? ASK US!