



We make home possible®



Home Possible®
Mortgages

The Flexible Power of Temporary Subsidy Buydown Plans Freddie Mac's Home Possible® Mortgages

Temporary subsidy buydown plans are a great way to increase your market potential and qualify more borrowers. When a borrower opts for a buydown plan, you can use it to offer lower, more affordable mortgage payments with the stability of predictable payment increases over time. This is an excellent option for those borrowers who have the capacity for higher earnings within a few years of obtaining a mortgage.

Depending on the borrower's eligibility, you can use one of two available plans. Borrowers who qualify for a Home Possible Neighborhood Solution Mortgage will be able to use a Limited or an Extended buydown plan. The Extended plan allows the borrower to qualify at the initial (bought down) interest rate that can be up to 1.5 percentage points lower than the note rate. This rate is then increased gradually (0.5 percentage points each year—for up to three years), allowing the borrower to make higher payments as their income increases.

If the borrower qualifies for a Home Possible Mortgage, they may be eligible to use a limited temporary subsidy buydown plan which allows them to obtain an initial (bought down) interest rate up to 2 percentage points below the note rate, with a 1% rate increase each year for the next two years. Borrowers are qualified at the initial (bought down) interest rate plus 1%.

Sounds great, but how does it really work? Let's use an example:

SCENARIO 1

Nick and Lois have been married for five years. They want to buy a \$200,000 home near their urban apartment. Nick is a firefighter and Lois is a stay-at-home mom.

Nick can qualify with his annual income of \$27,100 by utilizing a Home Possible Neighborhood Solution Extended Buydown. They have \$4,500 in savings and receive a 3% contribution from the property seller for use toward their closing costs. Nick and Lois have less-than-perfect credit because of past medical expenses, but they have finally managed to pay off the bills.

Through Loan Prospector®, you are able to quickly determine that Nick and Lois qualify for a Home Possible Neighborhood Solution 100 Mortgage with no down payment required. To make it even more affordable for Nick and Lois, you recommend an extended temporary subsidy buydown. While there are a number of acceptable sources for a buydown, a key source may be a property seller contribution.

Temporary subsidy buydowns are a great way to expand borrowers' purchase options. They offer lower, more affordable payments with the stability of predictable payment increases over time.

Continued

Extended Buydown Example

LTV is 100%
Loan Amount: \$200,000
Loan Term: 30 years
Note Rate: 6.00% fixed

*Borrowers qualified at initial bought down rate: 4.5%
Maximum Temporary Buydown Period: 3 years
Maximum Temporary Interest Rate Reduction: 1.50%
Maximum Annual Interest Rate Increase of Buydown: .50%

Calendar	Interest Rate Used to Calculate Borrower's Monthly P&I Payment	Borrower's Monthly P&I Payment	Monthly Principal & Interest (P&I) Payment Remitted to Investor (Calculated at the Note Rate)	Buydown Subsidy Required (Difference between the Borrower's Monthly P&I Payment and P&I Payment Remitted to Investor)
Year 1 (1–12 months)	4.5% *	\$1,013.37	\$1,199.10	\$185.73 x 12 = \$2,228.76
Year 2 (13–24 months)	5.0%	\$1,073.65	\$1,199.10	\$125.46 x 12 = \$1,505.52
Year 3 (25–36 months)	5.5%	\$1,135.58	\$1,199.10	\$63.52 x 12 = \$762.24
Year 4 (37–48 months)	6.00% (Note Rate)	\$1,199.10	\$1,199.10	\$0.00 x 12 = \$0.00
			Total Buydown Subsidy Required	\$4,496.52

Note that \$4,496.52/\$200,000 is 2.2% which is within the 3% limit on property seller contributions.

NOTE: This example is for illustrative purposes only. Monthly payments on loans with 100% will likely require monthly impounds for property taxes, homeowners insurance and private mortgage insurance. These impounds will impact the amount of borrower income required to qualify under the Home Possible Neighborhood Solution mortgage.

SCENARIO 2

Tanya is single and has been working as a receptionist for the same company for ten years. She wants to buy a \$200,000 home near her work.

Tanya can qualify with her annual income of \$30,000 by utilizing a Home Possible Limited Buydown. She has \$4,450 in savings and receives a 3% contribution from the property seller for use toward her closing costs. Tanya has used credit cards wisely and has always paid her rent on time.

Through Loan Prospector[®], you are able to quickly determine that Tanya qualifies for a Home Possible 100 Mortgage with no down payment required. This is made possible by using a limited buydown. Again, while there are a number of acceptable sources for funding a buydown, a key source may be a property seller contribution.

Limited Buydown Example

LTV is 100%
Loan Amount: \$200,000
Loan Term: 30 years
Note Rate: 6.00% fixed

*Borrowers qualified at initial bought down rate + 1%: 5.0%
Maximum Temporary Buydown Period: 2 years
Maximum Temporary Interest Rate Reduction: 2.0%
Maximum Annual Interest Rate Increase of Buydown: 1.0%

Calendar	Interest Rate Used to Calculate Borrower's Monthly P&I Payment	Borrower's Monthly P&I Payment	Monthly Principal & Interest (P&I) Payment Remitted to Investor (Calculated at the Note Rate)	Buydown Subsidy Required (Difference between the Borrower's Monthly P&I Payment and P&I Payment Remitted to Investor)
Year 1 (1–12 months)	4.0%	\$954.84	\$1199.10	\$244.27 x 12 = \$2,931.24
Year 2 (13–24 months)	5.0% *	\$1073.65	\$1199.10	\$125.46 x 12 = \$1,505.52
Year 3 (25–36 months)	6.0% Note Rate	\$1199.10	\$1199.10	\$0.00 x 12 = \$
			Total Buydown Subsidy Required	\$4,436.76

Note that \$4,436.76/\$200,000 is 2.2% which is within the 3% limit on property seller contributions.

***NOTE: This example is for illustrative purposes only.** Monthly payments on loans with 100% will likely require monthly impounds for property taxes, homeowners insurance and private mortgage insurance. These impounds will impact the amount of borrower income required to qualify under the Home Possible mortgage.*

Table Notes and Buydown Basics

All principal and interest (P&I) calculations in the example (including the buydown period monthly payments) are based upon a fixed loan amount and 30-year amortization. Your figures may vary.

While this scenario focuses on Home Possible Neighborhood Solution 100 and Home Possible 100, other Freddie Mac products may also use temporary subsidy buydown plans.

The P&I payment due to the investor every month over the life of the loan, even with a temporary subsidy buydown, is the note rate P&I payment.

Temporary subsidy buydowns must be fully funded at origination. For no cash-out refinances, buydown plan cannot be funded from premium financing.

Refer to Freddie Mac's Single-Family Seller Servicer Guide (Guide) Section 25.4 for information regarding temporary subsidy buydown plans including the documentation, establishment and management of funds held for buydown purposes.

Refer to Guide Section A34.5 for additional temporary subsidy buydown plan requirements for Home Possible Mortgages.

Reaching More Borrowers

With temporary subsidy buydowns and Home Possible mortgages, you'll be saying "yes" to more loan applicants. We've broadened the reach of our mortgage products to help increase your loan production and enhance your competitive edge in today's changing market. Loan Prospector, Freddie Mac's automated underwriting system, even provides you with a streamlined borrower assessment. For more information on ways to reach more borrowers:

Visit our online [Home Possible Web Center](#).

Review our most recent Single-Family Seller/Servicer Guide Bulletin and Guide Chapter A34 for complete details.

Refer to our [Home Possible Details for Underwriters](#) tip sheet to view eligibility and other key underwriting information.

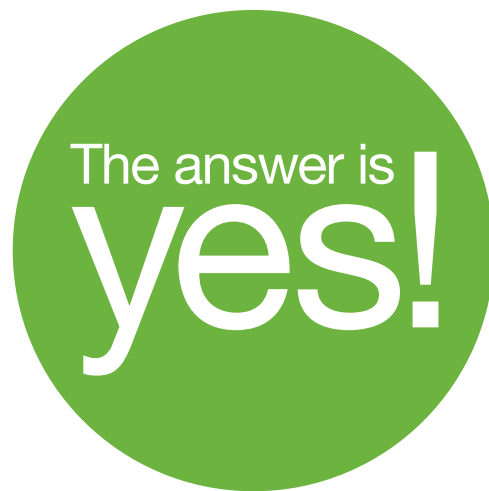
Become familiar with important [Home Possible delivery and execution details & tips](#), including the use of [Alphanumeric Special Characteristics Codes](#), execution options and more.

Learn the benefits, key features and advantages of using Home Possible Mortgages by participating in online [Web conferences](#) or [live workshops](#).

Continued

Access [quick references](#) helping you begin offering Home Possible mortgages to your customers.

Watch for more information coming soon about selling mortgages with temporary subsidy buydowns through our Web-based selling system.



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