

Temporary Buydowns - Compliance FAQs

Seller Paid Buydowns

Question	Answer																																										
How should the interest rate and monthly payments be reflected on the first page of CD in the loan terms section and projected payments table?	<p>The CD should reflect the payment obligations as disclosed on the Note and the payment stream should be based on the note interest rate P&I.</p> <p>For example, if the loan is a 30-year, fixed rate mortgage at 6.375% interest, then the interest rate in the loan terms section should reflect 6.375% and the projected payments table should reflect a payment stream based on 6.375% interest</p> <table border="1" style="width: 100%; border-collapse: collapse; margin-bottom: 10px;"> <thead> <tr style="background-color: #f2f2f2;"> <th style="text-align: left;">Loan Terms</th> <th colspan="2">Can this amount increase after closing?</th> </tr> </thead> <tbody> <tr> <td>Loan Amount</td> <td>\$200,000</td> <td>NO</td> </tr> <tr> <td>Interest Rate</td> <td>6.375%</td> <td>NO</td> </tr> <tr> <td>Monthly Principal & Interest <small>See Projected Payments below for your Estimated Total Monthly Payment</small></td> <td>\$1,247.74</td> <td>NO</td> </tr> <tr> <td>Prepayment Penalty</td> <td></td> <td>NO</td> </tr> <tr> <td>Balloon Payment</td> <td></td> <td>NO</td> </tr> </tbody> </table> <table border="1" style="width: 100%; border-collapse: collapse;"> <thead> <tr style="background-color: #f2f2f2;"> <th colspan="2">Projected Payments</th> </tr> <tr style="background-color: #f2f2f2;"> <th>Payment Calculation</th> <th>Years 1 - 30</th> </tr> </thead> <tbody> <tr> <td>Principal & Interest</td> <td style="text-align: right;">\$1,247.74</td> </tr> <tr> <td>Mortgage Insurance</td> <td style="text-align: right;">0</td> </tr> <tr> <td>Estimated Escrow <small>Amount can increase over time</small></td> <td style="text-align: right;">331.98</td> </tr> <tr> <td>Estimated Total Monthly Payment</td> <td style="text-align: right;">\$1,579.72</td> </tr> </tbody> </table> <table border="1" style="width: 100%; border-collapse: collapse;"> <thead> <tr> <th style="text-align: left;">Estimated Taxes, Insurance & Assessments <small>Amount can increase over time See page 4 for details</small></th> <th style="text-align: left;">This estimate includes</th> <th style="text-align: left;">in escrow?</th> </tr> </thead> <tbody> <tr> <td>\$331.98 a month</td> <td><input checked="" type="checkbox"/> Property Taxes</td> <td>YES</td> </tr> <tr> <td></td> <td><input checked="" type="checkbox"/> Homeowner's Insurance</td> <td>YES</td> </tr> <tr> <td></td> <td><input type="checkbox"/> Other:</td> <td>NO</td> </tr> </tbody> </table> <p style="font-size: small; margin-top: 5px;">See Escrow Account on page 4 for details. You must pay for other property costs separately.</p>	Loan Terms	Can this amount increase after closing?		Loan Amount	\$200,000	NO	Interest Rate	6.375%	NO	Monthly Principal & Interest <small>See Projected Payments below for your Estimated Total Monthly Payment</small>	\$1,247.74	NO	Prepayment Penalty		NO	Balloon Payment		NO	Projected Payments		Payment Calculation	Years 1 - 30	Principal & Interest	\$1,247.74	Mortgage Insurance	0	Estimated Escrow <small>Amount can increase over time</small>	331.98	Estimated Total Monthly Payment	\$1,579.72	Estimated Taxes, Insurance & Assessments <small>Amount can increase over time See page 4 for details</small>	This estimate includes	in escrow?	\$331.98 a month	<input checked="" type="checkbox"/> Property Taxes	YES		<input checked="" type="checkbox"/> Homeowner's Insurance	YES		<input type="checkbox"/> Other:	NO
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In which section of the Closing Disclosure should a temporary buydown fee be listed?	<p>A temporary buydown fee can be listed on the CD in the following sections:</p> <ul style="list-style-type: none"> • Section A in Seller Column • Section H in Seller Column • Section L as a Credit with fee being charged in Borrower Column in Section A • Section L as a Credit with fee being charged in Borrower Column in Section K • Section N as a Credit with fee being charged in Borrower Column in Section K 																																										
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Borrower Paid Buydowns

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How should the interest rate and monthly payments be reflected on the first page of CD in the loan terms section and projected payments table?	<p>The loan should be disclosed as a step rate mortgage with multiple rates and payments, and each payment stream should be based on the buydown interest rate P&I for the period described in the agreement.</p> <p>For example, if the loan is a 30-year, fixed rate mortgage with a 7.125% interest rate and the loan closes with a 2/1 buydown agreement, then in the loan terms section of the CD, the interest rate disclosed at consummation will 5.125%, the "can this amount increase after closing" section will reflect yes, disclosing an adjustment starting in year 2, with a maximum interest rate of 7.125%.</p> <p>The first column in projected payments table will reflect P&I payments based on an interest rate of 5.125 % interest for the first year, the second column will reflect monthly payment based on a 6.125 % interest rate for the second year, and the last column will reflect monthly payments based on a 7.125% interest rate for the remaining 28 years.</p> <table border="1" style="width: 100%; border-collapse: collapse; margin-bottom: 10px;"> <thead> <tr style="background-color: #f2f2f2;"> <th style="text-align: left;">Loan Terms</th> <th colspan="2">Can this amount increase after closing?</th> </tr> </thead> <tbody> <tr> <td>Loan Amount</td> <td>\$180,000</td> <td>NO</td> </tr> <tr> <td>Interest Rate</td> <td>5.125%</td> <td>YES <small>+ Adjusts every year starting in year 2 - Goes as high as 7.125% in year 3 + See AIR Table on page 4 for details</small></td> </tr> <tr> <td>Monthly Principal & Interest <small>See Projected Payments below for your Estimated Total Monthly Payment</small></td> <td>\$980.08</td> <td>YES <small>+ Adjusts every year starting in year 2 - Goes as high as \$1,213 in year 3</small></td> </tr> <tr> <td>Prepayment Penalty</td> <td></td> <td>NO</td> </tr> <tr> <td>Balloon Payment</td> <td></td> <td>NO</td> </tr> </tbody> </table> <table border="1" style="width: 100%; border-collapse: collapse;"> <thead> <tr style="background-color: #f2f2f2;"> <th colspan="4">Projected Payments</th> </tr> <tr style="background-color: #f2f2f2;"> <th>Payment Calculation</th> <th>Year 1</th> <th>Year 2</th> <th>Years 3 - 30</th> </tr> </thead> <tbody> <tr> <td>Principal & Interest</td> <td style="text-align: right;">\$980.08</td> <td style="text-align: right;">\$1,093.70</td> <td style="text-align: right;">\$1,212.69</td> </tr> <tr> <td>Mortgage Insurance</td> <td style="text-align: right;">0</td> <td style="text-align: right;">0</td> <td style="text-align: right;">0</td> </tr> <tr> <td>Estimated Escrow <small>Amount can increase over time</small></td> <td style="text-align: right;">225.17</td> <td style="text-align: right;">225.17</td> <td style="text-align: right;">225.17</td> </tr> <tr> <td>Estimated Total Monthly Payment</td> <td style="text-align: right;">\$1,205.25</td> <td style="text-align: right;">\$1,318.87</td> <td style="text-align: right;">\$1,437.86</td> </tr> </tbody> </table>	Loan Terms	Can this amount increase after closing?		Loan Amount	\$180,000	NO	Interest Rate	5.125%	YES <small>+ Adjusts every year starting in year 2 - Goes as high as 7.125% in year 3 + See AIR Table on page 4 for details</small>	Monthly Principal & Interest <small>See Projected Payments below for your Estimated Total Monthly Payment</small>	\$980.08	YES <small>+ Adjusts every year starting in year 2 - Goes as high as \$1,213 in year 3</small>	Prepayment Penalty		NO	Balloon Payment		NO	Projected Payments				Payment Calculation	Year 1	Year 2	Years 3 - 30	Principal & Interest	\$980.08	\$1,093.70	\$1,212.69	Mortgage Insurance	0	0	0	Estimated Escrow <small>Amount can increase over time</small>	225.17	225.17	225.17	Estimated Total Monthly Payment	\$1,205.25	\$1,318.87	\$1,437.86
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Should a borrower-paid buydown be included in QM Points and Fees and federal High-Cost?	A borrower paid buydown should be included QM Points and Fees.																																										
Should a borrower-paid buydown be included in State High-Cost Testing?	Yes, a borrower-paid buydown be included in State High-Cost Testing.																																										
Should an Adjustable Interest Rate (AIR) Table populate on the LE and CD?	Yes, an AIR Table should populate on the LE and CD. The AIR Table will reflect the changes to the interest rate connected to the borrower's portion of the buydown.																																										
Should an Adjustable Payment (AP) Table populate on the LE and CD?	No, an AP table should not populate on the LE and CD.																																										
How should a borrower paid buydown be reflected on the LE and CD when the buydown is to be covered with gift funds from a third party?	A temporary buydown fee should continue be listed in section A of the CD as a charge to the borrower, and an offsetting credit should be placed in Section L of the CD																																										

Lender Paid Buydowns	
Question	Answer
How should payments be reflected on the first page of CD in the projected payments table?	The CD should reflect the payment obligations as disclosed on the Note. For example, if the loan is a 30 year, fixed rate mortgage at 6% interest, then the projected payments table should reflect a payment stream based on 6% interest.
In which section of the Closing Disclosure should a lender paid temporary buydown fee be listed?	A temporary buydown fee should be listed in section A of the CD, marked as Paid by other with (L) next to the buydown amount.
Should a lender-paid buydown be included in QM Points and Fees and federal High-Cost?	Lender Paid Buydowns should be excluded from QM Points and Fees.
Should a lender paid buydown be included in State High-Cost Testing?	Generally, finance charges paid by lender are excluded from high-cost points and fees at the federal and state level. If a state's definition of points and fees follows the federal definition of points and fees under Section 32 of Regulation Z, then a lender paid buydown would be excluded at the state level. However, if a state uses a different definition of points and fees, a lender paid buydown may be included. Additional review may be required if an automated compliance service determines that the fee is included.
Should an Adjustable Interest Rate (AIR) Table populate on the LE and CD?	No, an AIR Table should not populate on the LE and CD
Should an Adjustable Payment (AP) Table populate on the LE and CD?	No, an AP table should not populate on the LE and CD.
Third Party Buydowns (Excludes Seller-Paid Buydowns)	
Question	Answer
How should payments be reflected on the first page of CD in the projected payments table?	The CD should reflect the payment obligations as disclosed on the Note. For example, if the loan is a 30-year, fixed rate mortgage at 6% interest, then the projected payments table should reflect a payment stream based on 6% interest.
In which section of the Closing Disclosure should a temporary buydown fee be listed?	A temporary buydown fee should be listed in section A of the CD. However Newrez may accept loans with a third party paid temporary buydown fee in Section H of the CD.
Should a third party paid buydown be included in QM Points and Fees and federal High-Cost?	Yes, a third party paid buydown should be included in QM Points and Fees. Note that within Regulation Z, there are specific exclusions for finance charges paid by a party other than the borrower when the party is the seller or the lender. In contrast, there are no specific provisions that will allow the exclusion of fees paid by a third party on behalf of the consumer when that third party is not the lender or seller. Because there are no specific provisions for third parties other than the seller points, third party buydown fees must be included in QM Points and Fees.
Should a third party paid buydown be included in State High-Cost Testing?	Generally, if a state's definition of points and fees follows the federal definition of points and fees under Section 32 of Regulation Z, then a third party paid buydown would be excluded at the state level. However, if a state uses a different definition of points and fees, a third party paid buydown may be included. Additional review may be required if an automated compliance service determines that the fee is included.
Should an Adjustable Interest Rate (AIR) Table populate on the LE and CD?	No, an AIR Table should not populate on the LE and CD
Should an Adjustable Payment (AP) Table populate on the LE and CD?	No, an AP table should not populate on the LE and CD.

Split Buydowns

*Note that Newrez will only accept loans with a split buydown when the buydown is paid by the lender, seller, and/or third parties.
Newrez will not accept loans with a split buydown when any portion is paid by the borrower.

Question	Answer
How should payments be reflected on the first page of CD in the projected payments table?	<p>The CD should reflect the payment obligations as disclosed on the Note, with the exclusion of any portions of the buydown being funded by the borrower. Any funds from the borrower included in the buydown should be reflected as a step rate.</p> <p>For example, let's say we have a 30-year, fixed rate mortgage loan at 6% interest. A temporary buydown agreement is executed in which the borrower contributes funds to temporarily reduce the interest rate by 1% for the first 12 payments, and the seller also contributes funds to temporarily reduce the interest rate by 1% for the first 12 payments.</p> <p>The projected payments table should reflect a payment stream based on 5% interest for the first 12 payments, and 6% for the remaining 29 years. This is correct even though the actual payments based on the buydown agreement may otherwise 'reduce' the interest rate to 4% in year 1 (1% from borrower and 1% from seller).</p>
In which section of the Closing Disclosure should a temporary buydown fee be listed?	A temporary buydown fee should be listed in section A of the CD.
Should a split buydown be included in State High-Cost Testing?	Similar to federal high-cost provisions under Section 32, only the borrower's portion of the buydown should be included in state high cost testing if a state's definition of points and fees follows the federal definition of points and fees under Section 32 of Regulation Z. However, if a state uses a different definition of points and fees, a third party paid buydown may be included. Additional review may be required if an automated compliance service determines that the fee is included.
Should an Adjustable Interest Rate (AIR) Table populate on the LE and CD?	Yes, an AIR Table should populate on the LE and CD. The AIR Table will reflect the changes to the interest rate connected to the borrower's portion of the buydown.
Should an Adjustable Payment (AP) Table populate on the LE and CD?	No, an AP table should not populate on the LE and CD.

The purpose of this Q&A is to help Correspondents understand Newrez's requirements related to TRID and the ATR/QM rules. This Q&A is not legal advice and Newrez does not represent that following this guidance will ensure compliance with any regulatory requirements. This document is not intended to provide a comprehensive account or description of regulatory requirements. Correspondents must consult with their external and internal legal counsel and compliance departments to determine what steps are necessary to ensure compliance with all applicable legal and regulatory requirements. Nothing in this document should be construed as a modification or waiver of the terms of the Loan Purchase Agreement. Including any representations and warranties made therein.