

# TEMPORARY BUYDOWNS



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|--------------------------------|--|
| <b>Product Codes</b>           | <ul style="list-style-type: none"> <li>• <b>CF30TB10</b> <ul style="list-style-type: none"> <li>○ 30 year Fixed -1/0 Lender Paid Buydown</li> </ul> </li> <li>• <b>CF30TB21</b> <ul style="list-style-type: none"> <li>○ 30 year Fixed -2/1 Lender Paid Buydown</li> </ul> </li> </ul>   |
| <b>Secondary Marketing</b>     | <ul style="list-style-type: none"> <li>• <b>Conforming Fixed LLPA (Loan Level Pricing Adjustment) pricing adjustments are to be used for Temporary Subsidy Buydown products.</b> <ul style="list-style-type: none"> <li>○ <i>FICO/LTV Price Adjustments Fixed Programs</i></li> <li>○ <i>CLTV Price Adjustments</i></li> <li>○ <i>Miscellaneous Price Adjustments for Fixed Rate</i></li> <li>○ <i>The P13F pricing adjustments are only available for the Transaction Type, and Occupancy per these guidelines only.</i></li> </ul> </li> <li>• <u>No LPMI</u></li> </ul>                 |
| <b>Transaction Type</b>        | <ul style="list-style-type: none"> <li>• Purchase Transaction Only</li> </ul>  |
| <b>Occupancy</b>               | <ul style="list-style-type: none"> <li>• 1-to-4- Unit Primary Residence <ul style="list-style-type: none"> <li>○ SFR</li> <li>○ PUD</li> <li>○ Condo</li> </ul> </li> <li>• Second Homes</li> </ul>  |
| <b>AUS/Underwriting</b>        | <ul style="list-style-type: none"> <li>• <b>Loan Product Advisor</b> <ul style="list-style-type: none"> <li>○ LP Only Freddie Mac Products <ul style="list-style-type: none"> <li>▪ <i>Always make sure the loan is identified as a Temporary Subsidy Buydown by indicating YES</i></li> </ul> </li> </ul> </li> <li>• <b>Underwriting:</b> <ul style="list-style-type: none"> <li>○ Follow Freddie Mac &amp; LP sections outlined in the Classic Conforming Guidelines and Classic Conforming Fixed Matrix for all requirements not specified in these guidelines.</li> </ul> </li> </ul> |
| <b>Eligibility</b>             | <ul style="list-style-type: none"> <li>• Buydown plans are <b>not</b> permitted for Mortgages with the following characteristics <ul style="list-style-type: none"> <li>○ ARMS</li> <li>○ Rate/Term Refinances</li> <li>○ Cash-Out Mortgages</li> <li>○ Investment properties</li> <li>○ Manufactured Homes</li> </ul> </li> </ul>   |
| <b>Subordinating Financing</b> | <ul style="list-style-type: none"> <li>• Affordable Seconds Allowed per Freddie Mac Guidelines <ul style="list-style-type: none"> <li>○ Affordable Seconds® must comply with the requirements of Section 4204.1(a) and the following requirements.</li> <li>○ <b>Source:</b> An Affordable Second must be provided by an Agency under an established, ongoing, documented secondary financing or financial assistance program. The source of the Affordable Second must not be the property seller or another interested party to the transaction.</li> </ul> </li> </ul>                  |

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## Subordinating Financing Continued

- **Maturity date:** The terms of the Affordable Second must not require a balloon payment due before the maturity or payment in full of the First Lien Mortgage. If the Affordable Second is an Employer Assisted Homeownership (EAH) Benefit, the terms of the secondary financing must permit the Borrower to continue making payments on the loan in the event the Borrower no longer works for the employer and may not require repayment in full unless:
  - The Borrower terminates his or her employment for any reason, or
  - The employer terminates the Borrower's employment for any reason other than long-term disability, the elimination of the employee's position or reduction-in-force
- **Scheduled payments:** The interest rate of the Affordable Second must not be more than 2% higher than the interest rate of the First Lien Mortgage. Interest accruals, which are added to principal, may not increase the total loan-to-value (TLTV) ratio beyond the maximum TLTV ratio allowed for the First Lien Mortgage at any time during the term of the First Lien Mortgage. If monthly payments on the Affordable Second are required and begin before the 61st monthly payment under the First Lien Mortgage, such monthly payments must be included in the Borrower's monthly housing expense-to-income ratio and monthly debt payment-to-income ratio. If monthly payments on the Affordable Second begin on or after the 61st monthly payment under the First Lien Mortgage or if repayment of the entire Affordable Second amount is due only upon sale or default, the amount of the Affordable Second monthly payment may be excluded from both ratios.
- **Loan Product Advisor**
  - When submitting a Mortgage with an Affordable Second to Loan Product Advisor, the underwriter may enter the amount of the Affordable Second in the "Total Gift Fund" field of Loan Product Advisor instead of entering it into the "Subordinate Amount" field, provided that:
    - ✓ The Affordable Second does not require a payment before the Due Date of the 61st monthly payment, and
    - ✓ It meets all the other requirements for an Affordable Second stated in Section 4204.2
  - Except for entering the Affordable Second amount into Loan Product Advisor as a gift, the underwriter must include the Affordable Second as secondary financing in all circumstances, including:
    - ✓ Calculating the TLTV ratio for delivery
    - ✓ Complying with the delivery requirements in Section 6302.34
- **Participation in appreciation (equity sharing)**

When the terms of an Affordable Second permit the Agency to share in the appreciation of the Mortgaged Premises, the following requirements must be met:

  - At the time of origination of the Affordable Second, the Agency's share of appreciation, as a percentage, must not exceed the principal amount of the Affordable Second divided by value, as defined in Section 4203.1 ("the percentage of the Affordable Second"), except as stated below. For example, if the Affordable Second amount is 5% of value, the maximum share of appreciation is 5%.

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| <p><b>Subordinating Financing Continued</b></p>                               | <ul style="list-style-type: none"> <li>▪ The terms of the Affordable Second may permit the provider a share of appreciation exceeding the percentage of the Affordable Second if all of the following requirements are met:             <ul style="list-style-type: none"> <li>✓ The Agency must not charge interest on the Affordable Second</li> <li>✓ The Agency’s share of appreciation must not exceed 75%</li> <li>✓ The Agency’s share of appreciation must be reduced to the percentage of the Affordable Second, or below, within the first five years</li> <li>✓ The terms of the Affordable Second must allow the Borrower to recover all of the following before the Agency is able to share in the appreciation:                 <ul style="list-style-type: none"> <li>▪ The down payment paid from Borrower Funds</li> <li>▪ Customary costs incurred by the Borrower for selling the property</li> <li>▪ Costs for improvements to the property that were allowed by the Agency or under the Agency’s program</li> <li>▪ The payments of principal of the First Lien Mortgage.</li> </ul> </li> </ul> </li> <li>○ <b>Land Use Restrictions</b><br/>Any Land Use Restrictions included in the Affordable Second documentation must:             <ul style="list-style-type: none"> <li>▪ Be subject to and subordinate to the First Lien Mortgage, and</li> <li>▪ Terminate upon payment in full of the Affordable Second, or</li> <li>▪ Satisfy the requirements of Section 4201.17</li> </ul> </li> <li>○ <b>Financing structure</b><br/>The Affordable Second financing cannot be a HELOC.</li> <li>○ <b>Documentation requirements</b> <ul style="list-style-type: none"> <li>▪ The underwriter must include a copy of the following documentation for the Affordable Second in the Mortgage file:                 <ul style="list-style-type: none"> <li>✓ Note or other evidence of terms for the Affordable Second</li> <li>✓ Settlement/Closing Disclosure Statement that evidences the fees and costs paid by the Borrower at closing in connection with a new Affordable Second</li> </ul> </li> </ul> </li> <li>• Portfolio Closed End 2<sup>nd</sup> TD <b>not</b> allowed.</li> </ul> |               |            |  |     |                          |     |                                |     |
|---|---|---------------|------------|--|-----|--------------------------|-----|--------------------------------|-----|
| <p><b>Special Underwriting Requirements For Limited Buydown Mortgages</b></p> | <ul style="list-style-type: none"> <li>• For a Limited Buydown Mortgage, the initial rate is:             <ul style="list-style-type: none"> <li>○ Temporarily reduced to no more than two percentage points below the Note Rate</li> <li>○ Increased by no more than one percentage point annually for no more than two years</li> </ul> <table border="1" data-bbox="490 1539 1336 1692"> <thead> <tr> <th>Property Type</th> <th>Fixed Rate</th> </tr> </thead> <tbody> <tr> <td>1-unit Primary Residence and second home</td> <td>Yes</td> </tr> <tr> <td>2-unit Primary Residence</td> <td>Yes</td> </tr> <tr> <td>3- to 4-unit Primary Residence</td> <td>Yes</td> </tr> </tbody> </table> </li> </ul>  | Property Type | Fixed Rate | 1-unit Primary Residence and second home | Yes | 2-unit Primary Residence | Yes | 3- to 4-unit Primary Residence | Yes |
| Property Type   | Fixed Rate  |               |            |  |     |                          |     |                                |     |
| 1-unit Primary Residence and second home                                      | Yes   |               |            |  |     |                          |     |                                |     |
| 2-unit Primary Residence  | Yes   |               |            |  |     |                          |     |                                |     |
| 3- to 4-unit Primary Residence  | Yes   |               |            |  |     |                          |     |                                |     |
| <p><b>Borrower Qualification</b></p>  | <ul style="list-style-type: none"> <li>• For Fixed-Rate Mortgages, the Borrower must be qualified using monthly payments at the Note Rate.</li> <li>• If reserves are required, the reserves <b>must</b> be calculated using the Note Rate</li> </ul>   |               |            |  |     |                          |     |                                |     |

# TEMPORARY BUYDOWNS



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| <b>Special Documentation Requirements For Mortgages With Buydown Plans</b> | <ul style="list-style-type: none"><li>• <b>Application of buydown funds</b><ul style="list-style-type: none"><li>○ The Borrower must agree in writing that the buydown funds in the buydown account will be automatically applied each month to reduce the monthly payment of principal and interest to the extent provided under the subsidy buydown agreement. The buydown agreement must provide that the Borrower will not be relieved of the obligation to make the full monthly Mortgage payments required by the terms of the Mortgage Note if, for any reason, the buydown funds are not available <b>or the buydown funds are not paid.</b></li><li>○ The Mortgage file must contain a copy of the executed buydown agreement and must clearly show Provident Bank Mortgage Secondary's calculations of the total cost of the temporary subsidy buydown, any interested party contribution and the annual percentage increase in the Borrower's monthly principal and interest payment.</li></ul></li></ul> |
| <b>LE/CD</b>   | <ul style="list-style-type: none"><li>• The Temporary Buydown Subsidy will be shown in Empower on the fee screen as a Lender Paid item.<ul style="list-style-type: none"><li>○ The Temporary Buydown Subsidy <b>will not</b> print on the LE</li><li>○ The Temporary Buydown Subsidy <b>will not</b> print on the CD in the paid by others column.</li></ul></li></ul>   |
| <b>Loan Documents</b>  | <ul style="list-style-type: none"><li>• <b>Both</b> the Advance and Closing package will be printed from Empower.</li></ul>  |