

Section 2.02 – The ARM Alternative Standard

In This Product Description This product description contains the following topics.

Overview	2
Product Summary	2
Related Bulletins	2
Features	3
Options	3
Loan Terms	4
Eligible/Ineligible Occupancy Types	4
Eligible Loan Products/ Transactions	4
Ineligible Loan Transactions	4
Loan Term	4
Calculation of Buydown Funds	5
Qualifying Rate	6
Qualifying Rate	6
Rate, Points and Lock-ins	6
Interest Rate, Discount Points and Buydown Funds	6
Lock-Ins	6
Application and Consumer Compliance	6
Loan Submission and Underwriting	7
Loan Submission/ Underwriting	7
Mortgage Insurance	7
Closing and Loan Settlement	7
Buydown Agreement Requirements	7
Preparing of the Buydown Agreement	7

Overview

Product Summary

- The ARM Alternative is a lender funded buydown, not an ARM.
- It is called the ARM Alternative because it is an alternative for borrowers who like the low initial interest rate of an ARM but want the interest rate protection of a fixed-rate mortgage.
- It is a lender-funded buydown where the cost of the buydown is built into the pricing and therefore no buydown funds are required at closing.

Note: See the subtopic “*Lock-ins*” under the topic “*Rates, Points and Lock-ins*” subsequently presented in this product description for details on obtaining the pricing for the ARM Alternative Loan Program.

- The ARM Alternative consists of various options.
 - **Option #1** – 2 –1 buydown,
 - **Option #2** – 1.5 - .75 buydown, and
 - **Option #3** – 1 - .50 buydown.
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Related Bulletins

General

Related bulletins are provided below in PDF format. To view the list of published bulletins, select the applicable year below.

- [2024](#)
- [2023](#)
- [2022](#)
- [2021](#)
- [2020](#)

Note: There were no Related Bulletins published in 2019.

Features

Options

Option #1

2-1 buydown during which the first year the rate is bought down 2% (two percentage points) below the note rate. The second year the rate increases 1%, and the third year begins the borrowers' repayment responsibility for the full principal and interest as required by the note.

Option #2 (Not Available for FHA Loans)

1 $\frac{1}{2}$ - $\frac{3}{4}$ buydown during which the first year the rate is bought down 1 $\frac{1}{2}$ % (one and one-half percentage points) below the note rate. The second year the rate increases .75% (three-fourths) of 1%. The third year begins the borrowers' repayment responsibility for the principal and interest as required by the note.

Option #3 (Not Available for FHA Loans)

1 - $\frac{1}{2}$ buydown during which the first year the rate is bought down 1% (one percentage point) below the note rate. The second year the rate increases $\frac{1}{2}$ % (one half) of 1%. The third year begins the borrowers' repayment responsibility for the full principal and interest as required by the note.

Loan Terms

- Eligible/Ineligible
Occupancy Types

Eligible Occupancy Types

 - Primary Residence
 - Second Homes

Ineligible Occupancy Types

 - Investment Properties

Eligible Loan
Products/
Transactions

The following table shows eligible loan products and transaction types for the ARM Alternative loan program.

Loan Product	Transaction Type
Agency Fixed Rate	Purchase (All Underwriting Methods) Rate/Term Refinance (Non-AUS and DU Only)
Agency Plus Fixed Rate	Purchase (DU & LPA) Rate/Term Refinance (DU Only)
HomeReady Fixed Rate	Purchase
Home Possible Fixed Rate	Purchase
FHA	Purchase

Note: Credit score requirements apply.

Reference: Refer to the product descriptions for each loan type for additional product requirements.

- Ineligible Loan
Transactions

 - Cash-out Refinances
 - Agency Plus Select loans

Loan Term

The loan term must be 30 years.

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Loan Terms, Continued

Calculation of Buydown Funds

General Information

- The buydown funds are simply the difference between the P&I payments at the note rate, and the P&I payments at the effective buydown rate.
- Buydown funds can also be calculated manually. If we assumed the loan amount was \$100,000 and the loan term 30 years, our buydown funds would be calculated as follows:

Option #1 2-1 Buydown

- P&I payment @ 6.00% - \$599.55 (year 1)
- P&I payment @ 7.00% - \$665.30 (year 2)
- P&I payment @ 8.00% - \$733.76 (years 3-30)

Year	Bought Down Interest Rate	P&I Payment at Note	Amount Paid by Borrower	Monthly Assistance Payments	Annual Assistance Payment
1	6.00%	\$733.76-	\$599.55 =	\$134.21 x 12 =	\$1,610.52
2	7.00%	\$733.76-	\$665.30 =	\$ 68.46 x 12 =	\$ 821.52
				Total ¹	\$2,432.04

¹ Total amount of buydown funds.

Option #2 1.5 - .75 Buydown

- P&I payment @ 6.50% - \$632.07 (year 1)
- P&I payment @ 7.25% - \$682.18 (year 2)
- P&I payment @ 8.00% - \$733.76 (years 3-30)

Year	Bought Down Interest Rate	P & I Payment Note	Amount Paid By Borrower	Monthly Assistance Payments	Annual Assistance Payment
1	6.50%	\$733.76-	\$632.07=	\$101.69 x12 =	\$1,220.28
2	7.25%	\$733.76-	\$682.18=	\$ 51.58 x 12=	\$ 618.96
				Total	\$1,839.24

Option #3 1 - .50 Buydown

- P&I payment @ 7.00% - \$665.30 (year 1)
- P&I payment @ 7.50% - \$699.21 (year 2)
- P&I payment @ 8.00% - \$733.76 (years 3-30)

Year	Bought Down Interest Rate	P & I Payment Note	Amount Paid By Borrower	Monthly Assistance Payments	Annual Assistance Payment
1	7.00%	\$733.76-	\$665.30=	\$68.46 x12 =	\$ 821.52
2	7.50%	\$733.76-	\$699.21=	\$34.55 x 12=	\$ 414.60
				Total	\$1,236.12

Qualifying Rate

Qualifying Rate Qualifying underwriting standards for the loan program apply.

Reference: See the applicable loan product description for additional information on qualifying rate.

Rate, Points and Lock-ins

**Interest Rate,
Discount
Points and
Buydown
Funds**

- The ARM Alternative provides buydown funds through marketing gains generated when the loan is sold, rather than being contributed by the buyer or seller.
 - On a regular subsidy buydown where all the buydown funds are collected from the buyer or seller, the buydown costs about 2.5 points.
 - On the ARM Alternative, it generally costs only 0.5% higher interest, although this formula will vary at times depending on market conditions.
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Lock-Ins

- Standard lock-in procedures for Agency and Non-Agency loans apply.
 - Correspondent lenders must contact the Truist Lock Desk to obtain the pricing for the ARM Alternative at 800-382-2111 Option 1 and 3.
 - The Truist Correspondent Rate Sheet reflects the pricing for the ARM Alternative Program.
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Application and Consumer Compliance

General

Since the Lender-Funded Buydown funds are provided by a third party (the lender), the cost of the buydown is not a finance charge and should not be reflected in the payment stream or in the APR calculation. There are no special disclosures for this product.

Loan Submission and Underwriting

Loan Submission/ Underwriting

Loan Submission

Standard processing and submission procedures apply.

References:

- See [Section 2.22: The FHA 203\(b\) Loan Standard](#) of the *Correspondent Seller Guide* for additional information concerning data entry input for Automated Underwriting System (AUS).
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Mortgage Insurance

If the loan will have private mortgage insurance, the buydown terms must be disclosed to the insurer.

Closing and Loan Settlement

Buydown Agreement Requirements

- ARM Alternative loans are closed on standard fixed-rate documents.
 - The closer must prepare a buydown agreement, which modifies the note.
 - The note is prepared to reflect the non-buydown interest rate.
 - The *Conventional Buydown Agreement* ([COR 0011](#)) is required for all Agency loans.
 - The *FHA/VA Buydown and Escrow Agreement* ([COR 0344](#)) is required for all FHA loans.
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Preparing of the Buydown Agreement

- The Provider of Funds and Lender designations on the Buydown Agreement will be the correspondent lender.
 - All parties to the agreement must sign.
 - On the Closing Disclosure, the per diem interest rate is calculated on the Note rate, not the initial payment rate.
 - Buydown funds should be indicated as a POC item on the Closing Disclosure.
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