

Section 2.02 – The ARM Alternative

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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.

- [2018](#)
 - [2017](#)
 - [2016](#)
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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 ½ - ¾ buydown during which the first year the rate is bought down 1 ½% (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 - ½ 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 ½% (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
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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

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.

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Loan Terms, Continued

Calculation of Buydown Funds, (continued)

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 guidelines 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 SunTrust Lock Desk to obtain the pricing for the ARM Alternative at 800-382-2111 Option 1 and 3.
 - The SunTrust 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 203b Loan Program](#) of the *Correspondent Seller Guide* for additional information concerning data entry input for Automated Underwriting System (AUS).

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.

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 Settlement statement, 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 Settlement statement.
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