

PROCEDURES (Data Required to Compute Increased Mortgage Interest Costs)

Old Mortgage	New Mortgage	Prevailing Interest Rate
(a) Outstanding principal balance (b) Monthly payment (c) Interest rate (d) Remaining term (e) N/A	(a) Outstanding principal balance (b) Monthly payment (c) Interest rate (d) Remaining term (e) Points	Prevailing fixed interest rate at the time of purchase of the replacement property and in the same area as the replacement.

The increased mortgage interest costs are determined by computing the amount to be financed (computed amount for the new mortgage) to maintain the monthly payments of the displacement mortgage(s) at the lesser of the actual interest rate on the replacement property mortgage or the prevailing interest rate at the time of purchase of the replacement property. Interest rates and points that exceed prevailing fixed interest rates and points for conventional mortgages at the time of purchase of the replacement may be utilized in the interest differential computation in unusual situations. If this is done, full documentation must be included in the file. Justification may be the unavailability of the current prevailing rate due to the amount of the new mortgage or other similar reasons.

**Remaining Principal Balance and Interest Rate of Old Mortgage(s)
 to be Used in "Buy-down" Calculation**

Type of Mortgage	Remaining Principal Balance	Interest Rate
Conventional	Date of acquisition	Fixed rate
Adjustable rate	Date of acquisition	Current rate of mortgage on the date of acquisition
Home equity	The balance which existed 180 days prior to initiation of negotiations or the balance on date of acquisition, whichever is less	Fixed rate or, if adjustable, the current rate of mortgage on the date of acquisition.

BUYDOWN EXAMPLES

#1 (STANDARD)

	<u>Old Mortgage</u>	<u>New Mortgage</u>
Outstanding principal balance	\$50,000	\$75,000
Monthly payment (principal and interest)	\$449.41	\$658.18
Interest rate	7%	10%
Remaining term	15 years	30 years
Points	N/A	3

Procedure	Calculations
1. Determine computed amount for new mortgage by calculating present worth of monthly payment for remaining term of old mortgage at new interest rate.	<p>Computed amount for new mortgage: Present worth of \$449.41 for 15 years at 10% = \$41,820.95</p> <p>(Although not shown in this example, purchaser's loan origination and assumption fees based on \$41,820.94 may be included here if they are not paid as incidental costs.)</p>
2. Subtract computed amount for new mortgage from outstanding principal balance of old mortgage.	<p>Outstanding principal balance \$50,000.00</p> <p>Computed amount for new mortgage -\$41,820.94</p> <p>Increased mortgage interest costs \$ 8,179.06</p>
3. Calculate points based on computed amount for new mortgage or actual amount of new mortgage, whichever is less.	<p>$\\$41,820.94 \times .03 = \\$1,254.63$</p>
4. Add points to increased mortgage interest cost for total buy-down.	<p>Increased mortgage interest cost \$8,179.06</p> <p>Points +\$1,254.63</p> <p>Total buy-down \$9,433.69</p> <p><i>(To maintain monthly payments of \$449.41.)</i></p>

#2 (REDUCED NEW MORTGAGE)

	<u>Old Mortgage</u>	<u>New Mortgage</u>
Outstanding principal balance	\$50,000	\$35,000
Monthly payment (principal and interest)	\$449.41	\$376.11
Interest rate	7%	10%
Remaining term	15 years	15 years
Points	N/A	3

Procedure	Calculations
1. Determine computed amount for new mortgage and increased mortgage interest cost. (See steps 1 and 2 in Example #1)	Computed amount for new mortgage $\$41,820.94$ Increased mortgage interest cost $\$8,179.06$ <i>New mortgage actually obtained (\$35,000) is less than computed amount for new mortgage \$41,820.94).</i>
2. Prorate increased mortgage interest cost.	$\$35,000 \div \$41,820.94 = 0.8369013$ $\$8,179.06 \times .8369013 = \$6,845.07$
3. Calculate points. (See step 3, Example #1)	$\$35,000 \times .03 = \$1,050.00$
4. Add points to pro-rated increased mortgage cost.	Prorated increased mortgage interest cost $\$6,845.07$ Points $+\$1,050.00$ Total buy-down $\$7,895.07$

#3 (REDUCED NEW TERM)

	<u>Old Mortgage</u>	<u>New Mortgage</u>
Outstanding principal balance	\$50,000	\$75,000
Monthly payment (principal and interest)	\$449.41	\$991.13
Interest rate	7%	10%
Remaining term	15 years	10 years
Points	N/A	3

Procedure	Calculations
1. Calculate hypothetical monthly payment for old mortgage using:	Outstanding principal balance - old mortgage \$50,000 Interest rate - old mortgage 7% Term - <u>new</u> mortgage 10 yrs Result: Hypothetical monthly payment \$580.54
2. Determine computed amount for new mortgage using:	Hypothetical monthly payment (from Step 1) \$580.54 Interest rate – new mortgage 10% Term – new mortgage 10 yrs Result: Computed amount for new mortgage: \$43,930.14 <i>Present worth of \$580.54 for 10 yrs @10%</i>
3. Calculate increased mortgage interest cost. (See step 2, Example #1)	Outstanding principal balance \$50,000.00 Computed amount for new mortgage <u>-\$43,930.14</u> Increased mortgage interest cost \$6,069.86
4. Calculate points (See step 3, Example #1.)	$\$43,930.14 \times .03 = \$1,317.90$
5. Calculate total buy-down. (See step 4, Example #1.)	Increased mortgage interest cost \$6,069.86 Points <u>+\$1,317.90</u> Total buydown \$7,387.76 <i>(To maintain hypothetical payments of \$580.54.)</i>

#4 (REDUCED NEW MORTGAGE AND TERM)

	<u>Old Mortgage</u>	<u>New Mortgage</u>
Outstanding principal balance	\$50,000	\$35,000
Monthly payment (principal and interest)	\$449.41	\$462.53
Interest rate	7%	10%
Remaining term	15 years	10 years
Points	N/A	3

Procedure	Calculations
1. Determine computed amount for new mortgage and increased mortgage interest cost. (See steps 1-3, Example #3)	Computed amount for new mortgage $\$43,930.14$ Increased mortgage interest cost $\$6,069.86$
2. Prorate increased mortgage interest cost.	$\$35,000 \div \$43,930.14 = 0.7967195$ $\$6,069.86 \times .7967195 = \$4,835.98$
3. Calculate points. (See step 3, Example #1)	$\$35,000 \times .03 = \$1,050.00$
4. Add points to pro-rated increased mortgage cost.	Prorated mortgage interest cost $\$4,835.98$ Points $+\$1,050.00$ Total buy-down $\$5,885.98$