

# Mortgage Minute

## Abate who?

Two loan features you might never have heard of...

Today we find ourselves in a changing mortgage marketplace. As I talked about in last month's newsletter, lender's have stopped offering many programs. But, as some of the programs go away, new ones are highlighted.

This month I'll explore two lesser known mortgage features. They both involve pre-paying interest to reduce monthly payments. The first feature, "the buydown," is used to lower the payment for the first one to three years of the loan, where the second feature, "the abatement," is designed to lower the payment significantly for up to the first six months.

### The Buydown

The term "buydown" is not referring to permanently buying down the interest rate with points. When a borrower pays points, or a discount, they are lowering the note rate of their loan for the life of the loan, or the fixed portion for an adjustable rate mortgage. A buydown, however, is a temporary rate reduction brought about by pre-paying interest at closing as part of the closing costs.

The amount of the pre-paid interest depends on the type of buydown. The most commonly used buydown is the 2/1 buydown. In a 2/1 buydown, the note interest rate is reduced 2% the first year and 1% the second year. After this it

returns to the note rate. The difference in the payments between the temporary rate and the note rate is how the price of the buydown is calculated.

### The Abatement

An abatement, like a buydown, is essentially pre-paying interest at closing. The interest portion of the payments for up to six months can be paid at closing and used to reduce the monthly payment during this time to just the principle portion.

The cost for both of these loan features may be paid from seller contributions made towards closing costs. And in the case of the buydown, with most loan products and lenders, the borrower qualifies for the loan using the lower initial rate and payment.

The abatement is a builder favorite in a slow housing market, like we find ourselves. Instead of lowering the price on a newly built home, and lowering the value of the other homes still for sale in their subdivision, the builder can increase the amount of money they are contributing towards closing costs to cover the abatement cost.

Both features can have great benefit for a borrower and might be the way to help them qualify for the loan and ultimately the home they want.

## Today's Rates at a Glance

30-year fixed  
90% ltv, no mi  
**6.500%**  
(APR 6.682%)

VA 30-year fixed  
100% ltv  
**6.250%**  
(APR 6.627%)

FHA 30-year fixed  
97% ltv  
**6.250%**  
(APR 6.966%)

Calculations based on a first-time homebuyer with a purchase price of \$200,000. Rates include a 1% origination fee and are as of 9-28-07 and are subject to change.

## Identity Theft Tip of the Month

*Many credit card companies, "as a convenience," send checks that can be used like any other check or to transfer balances. You can call and opt out of receiving these.*



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