REAL ESTATE EDUCATION SERIES

RE/MAX Properties

Mortgage Rate Buydowns

Compare the cost and negotiate a workable payment

Doug Petersen
Broker Associate | RE/MAX Properties

A buydown uses upfront funds to lower a mortgage rate or subsidize early payments. It can help a purchase come together, but the right choice depends on the cost, who pays, and how long you expect to keep the loan.

Buydown type	Benefit	Cost or tradeoff
Permanent	Discount points lower the rate. On a fixed-rate loan, the lower rate lasts for that loan's term.	More paid upfront. One point is 1% of the loan amount; the rate reduction per point varies by lender and loan.
Temporary	A funded subsidy lowers early out-of-pocket payments. A 2-1 plan uses payments calculated 2 percentage points lower in year 1 and 1 percentage point lower in year 2.	The note rate stays unchanged. Full note-rate payments begin in year 3. The subsidy cost equals the scheduled payment differences.

Ask your lender for a written cost benefit analysis

Compare no buydown, permanent points, and any available temporary plan using the same loan amount, term, and lock period. Request rates, APR, fees, cash to close, payments for each year, and projected interest and loan balances over your expected holding period. Ask whether preparing the analysis costs anything.

Find the break even point and test your plans

For permanent points, a simple estimate is extra upfront cost divided by monthly payment savings. Illustratively, $6,000 divided by $150 equals 40 months. Selling or refinancing sooner may prevent recovery of that cost. Ask the lender to include remaining balances and the value of keeping your cash.

Ask the seller or builder to contribute

Have your broker propose a lender-approved credit toward points or a temporary buydown. It may reduce your payment without requiring a large price cut and can help bridge a deal. Compare it with a price reduction or other closing-cost credit. Confirm contribution limits and document the agreement.

Check incentives and the payment after the subsidy

Ask a builder whether the incentive requires a preferred lender, then compare the complete deal with an outside lender. For Fannie Mae temporary buydowns, qualification uses the full note rate. Budget for that payment plus taxes, insurance, and other housing costs; do not rely on a future refinance.

Choose savings that last as long as you need them

A permanent buydown can reward keeping the loan; a temporary plan provides early relief. Seller funding can preserve your cash, but uses a negotiable concession. Ask what happens to unused subsidy funds if you refinance or sell. Availability and contribution rules depend on the loan program.

ASK FOR THE NUMBERS BEFORE NEGOTIATING THE CREDIT

Discuss your purchase strategy with Doug Petersen | 970-290-3000

Sources: CFPB points guidance; Fannie Mae temporary buydowns and contribution rules. Examples are illustrative, not rate quotes. Reviewed October 2026.

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