THE 2-1 BUYDOWN
What It Is & How It Works

Buydowns are a big deal in light of rising mortgage rates. Read to learn how they work!

Get a FREE Home Value Update at : LarisaEsmat.FreeHomeValues.net

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When mortgage rates spike, buyers and sellers feel the pressure. Sellers are hesitant to get their properties off the market, as supply is low but home value has declined. Buyers feel uncomfortable closing on a home with high interest rates.
To address both parties' concerns, the temporary 2-1 buydown option brings relief.

Read on for:

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Understanding the 2-1 Buydown

With a 2-1 buydown, buyers get a rate reduction on their mortgage in the first two years. The reduction begins at 2% lower than the set interest rate for the first year, and 1% lower for the second year.

For example, if the interest rate of a property is set to 6%, the buyer would pay:

- 4% for year 1
- 5% for year 2
- 6% (note rate) for years 3-30

Essentially, the seller subsidizes the buyers' monthly payments. Most times, the buyer already plans to refinance or sell before they have to pay the fixed rate. Ideally, within two years of getting the loan, interest rates will level out and be more affordable.

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Buydowns as a Seller Concession

Some homeowners opt to pay for the buydown in the form of points or as a lump sum into an escrow account. Sellers can also pay for the buydown as a concession.

As with all temporary buydowns, certain situations are more favorable than others to apply this type of program.

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Benefits of Buydowns

Who benefits from 2-1 buydowns and how do you know when it's appropriate to use one?

The main benefits of a 2-1 buydown include:

- Buyers can save money for 2 years and use finances more responsibly
- New homeowners pay a more affordable mortgage as they settle into their home
- Sellers can sell properties faster in a buyer's market
- Loan officers have more reasonable options to present to buyers

Buydowns are a strategic option for buyers and sellers when interest rates are increasingly high. However, buyers should be educated about 2-1 buydowns, as many people make the mistake of thinking they'll be able to stretch affordability.

The truth is that this buydown option is best for those looking to refinance their home once interest rates lower. Buyers are often advised to already be able to afford the fixed loan amounts from the beginning to avoid unexpected financial hardship after the temporary lower rate expires.

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Educating Buyers

Here are some things to consider when discussing the 2-1 buydown as an option in today's market!

- Despite the buydown details, buyers must still qualify for the loan at the note rate
- Buydowns apply to primary loans only (the buyer must live in the home)
- Buydowns are for fixed, 30-year mortgages
- Buydowns can be applied to most loan types on the market

Additionally, there are a few alternatives that might be preferred over a 2-1 buydown. Down payment assistance programs may relieve buyers of a down payment and offer them affordable mortgage rates.

Other buydowns (1-1-1, 3-2-1, or 1-0) are also available. However, it's important to know the ins and outs of each kind of buydown to guide buyers toward their best option.

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Overall, the 2-1 buydown program is a great way to help buyers in today's market. In fact, a lot of sellers are opting into temporary buydowns. But surprisingly, it isn't a well-known strategy yet.

Want to learn more about 2-1 buydowns, temporary buydown options, and responsible strategies in a rising market? Reach out to talk with one of our experts! We're here to help you make the most of ever-changing rates.

→ **Reach out to me now to learn more!**

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