

# Temporary Buydowns

## What is a temporary buydown?

A temporary buydown is a mortgage financing arrangement that provides home buyers with a lower interest rate and lower monthly payments for a specified period at the beginning of the loan. The temporary buydown program is typically funded by the seller or builder and does not involve any additional costs for the borrower.

### 3-2-1 Buydown

The 3-2-1 Buydown is a type of temporary buydown program that offers a payment based on an interest rate 3% lower for the year of the loan, 2% for the second year, and 1% for the third year.

EXAMPLE: Sale price: \$275,000 | Down payment: \$55,000 | Loan amount: \$220,000 | 30-year fixed rate: 7.25% | APR 7.39% | P&I payment \$1,500 | 360 monthly payments | Payment stated does not include taxes and insurance

	Payment interest rate	Standard payment	Temporary payment	Monthly subsidy	Number of payments	Annual savings
Yr 1	4.250%	\$1,875.98	\$1,352.83	\$523.15	12	\$6,277.80
Yr 2	5.250%	\$1,875.98	\$1,518.56	\$357.42	12	\$4,289.10
Yr 3	6.250%	\$1,875.98	\$1,693.22	\$182.76	12	\$2,193.15
Yr 4+	7.250%	\$1,875.98	N/A	N/A	324	N/A
Buydown Cost = <b>\$12,760.05</b>			Total Seller Credit with Discount = <b>\$17,649.55</b>			

### 1-1 Buydown

The 1-1 Buydown is a temporary buydown program that offers a payment based on an interest rate 1% lower for the first two years of the loan. This program is designed to help borrowers save on monthly payments during the initial years of the loan.

EXAMPLE: Sale price: \$600,000 | Down payment: \$120,000 | Loan amount: \$480,000 | 30-year fixed rate: 7.25% | APR 7.333% | P&I payment \$3,275 | 360 monthly payments | Payment stated does not include taxes and insurance

	Payment interest rate	Standard payment	Temporary payment	Monthly subsidy	Number of payments	Annual savings
Yr 1&2	6.250%	\$4,093.06	\$3,694.30	\$398.75	24	\$4,785.05
Yr 3+	7.250%	\$4,093.06	N/A	N/A	336	N/A
Buydown Cost = <b>\$9,570.11</b>			Total Seller Credit with Discount = <b>\$9,570.11</b>			

### 2-1 Buydown

The 2-1 Buydown is another type of temporary buydown program that offers a payment based on an interest rate 2% lower for the first year of the loan and 1% for the second year. This program is similar to the 3-2-1 buydown but offers a shorter period of reduced interest rates.

EXAMPLE: Sale price: \$400,000 | Down payment: \$80,000 | Loan amount: \$320,000 | 30-year fixed rate: 7.25% | APR 7.359% | P&I payment \$2,183 | 360 monthly payments | Payment stated does not include taxes and insurance

	Payment interest rate	Standard payment	Temporary payment	Monthly subsidy	Number of payments	Annual savings
Yr 1	5.250%	\$2,728.71	\$2,208.81	\$519.89	12	\$6,238.68
Yr 2	6.250%	\$2,728.71	\$2,462.87	\$265.84	12	\$3,190.04
Yr 3+	7.250%	\$2,728.71	N/A	N/A	336	N/A
Buydown Cost = <b>\$9,428.72</b>			Total Seller Credit with Discount = <b>\$16,540.72</b>			

### 1-0 Buydown

The 1-0 Buydown is a temporary buydown program that offers a payment based on an interest rate 1% lower for the first year of the loan. This program is a simple version of the temporary buydown and is designed to reduce monthly payments during the first year of the loan.

EXAMPLE: Sale price: \$400,000 | Down payment: \$80,000 | Loan amount: \$320,000 | 30-year fixed rate: 7.25% | APR 7.359% | P&I payment \$2,183 | 360 monthly payments | Payment stated does not include taxes and insurance

	Payment interest rate	Standard payment	Temporary payment	Monthly subsidy	Number of payments	Annual savings
Yr 1	6.250%	\$2,728.71	\$2,462.87	\$265.84	12	\$3,190.04
Yr 2+	7.250%	\$2,728.71	\$2,462.87	\$265.84	348	\$3,190.04
Buydown Cost = <b>\$3,190.04</b>			Total Seller Credit with Discount = <b>\$10,302.04</b>			

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# 2-1 mortgage buydown

Get reduced monthly payments for two years



A 2-1 buydown is a temporary reduction in your effective interest rate. The seller agrees to contribute to two years of lower payments for you if you buy their home.

## 2-1 buydown example

<b>Loan Amount</b>	\$400,000
<b>Rate</b>	6.75%
<b>APR*</b>	6.964%
<b>Term</b>	30-years

For the first year of the buydown, your effective interest rate will be 2% less than the note rate. For the second year, it will be 1% less. From the third year on, you'll pay the full mortgage payment. Many home buyers use the savings from a 2-1 buydown to pay for home improvements, new furniture, or increase household cash flow for the first 24 months of homeownership.

Years	Effective rate	Monthly payment**	Monthly savings	Yearly savings
1	4.75%	\$2,087	\$507	\$6,084
2	5.75%	\$2,334	\$260	\$3,120
3-30	6.75%	\$2,594		
<b>Total savings = \$9,204</b>				

\* APR stands for annual percentage rate. The rate information shown is for illustrative purposes only and does not represent what your interest rate would be. All rates are subject to change without notice and may vary depending on location. Speak with your loan officer if you have any questions regarding interest rates. \*\* Monthly payment is principal and interest only and does not include taxes and insurance. Taxes and insurance may vary upon property location and are subject to change throughout the life of the loan.



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