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TEMPORARY BUYDOWNS VS. PERMANENT RATE REDUCTIONS

Understanding which strategy saves you more when buying a home

THE COST-SAVING CONFUSION

Today’s buyers are navigating a complex rate environment—and lenders, builders, and sellers are offering more incentives than ever. One of the biggest questions buyers ask is:

“Should I use a temporary buydown or negotiate a permanent rate reduction?”

Both can lower your monthly payment, but they work very differently and benefit different types of buyers.

This guide explains:

- How each strategy works
- What buyers save (short-term vs long-term)
- When one option is clearly better
- What to watch out for in negotiations
- How to match the right tool to your financial goals

By the end, you’ll know exactly which structure protects your budget—and your long-term wealth.

1

WHAT IS A TEMPORARY BUYDOWN?

(2-1, 1-0, 3-2-1)

A temporary buydown lowers your interest rate for the first 1–3 years of the loan.

The seller, builder, or lender pays the difference upfront to temporarily reduce your monthly payment.

Common structures:

- 3-2-1 Buydown: Rate reduced by 3% in year 1, 2% in year 2, 1% in year 3
- 2-1 Buydown: Rate reduced by 2% in year 1 and 1% in year 2
- 1-0 Buydown: Rate reduced by 1% for the first year

Why buyers like them:

- Lower payments during the first few years
- Eases the transition into homeownership
- Provides flexibility if rates drop and you refinance

Best for buyers who:

- Expect income to grow
- Plan to refinance within 1–4 years
- Prefer upfront savings rather than long-term reduction

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WHAT IS A PERMANENT RATE REDUCTION?

2

A permanent rate reduction (permanent buydown) lowers your interest rate for the entire life of the loan.

This is usually achieved through “discount points” paid at closing.

Example:

- 1 discount point = 1% of the loan amount
- Cost: 1 point on a $400,000 loan = $4,000
- Benefit: Rate drops by ~0.25–0.375% (varies by lender)

Why buyers like them:

- Predictable, long-term lower payment
- Greater total savings over the life of the loan
- Strong choice for long-term homeowners

Best for buyers who:

- Plan to stay in the home 5–10+ years
- Want stability and lower lifetime interest
- Prefer to invest extra cash upfront to save long-term

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3

COST COMPARISON: SHORT-TERM VS LONG-TERM SAVINGS

Temporary buydowns offer big savings in the first few years—ideal when affordability is tight today but expected to improve.

Permanent rate reductions save far more over time because your rate stays lower for as long as you keep the loan.

A simple breakdown:

- Temporary Buydown = bigger savings now
- Permanent Rate Reduction = bigger savings over the life of the loan

Rule of thumb:

- If you will keep the home for less than 4–5 years, temporary buydowns often win.
- If you will keep the home longer than 5–7 years, permanent reductions usually produce significantly more savings.

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4

WHEN BUILDERS OR SELLERS PAY

YOUR OPPORTUNITIES IMPROVE

In today's market, it's common for sellers or builders to offer incentives to attract buyers.

With seller-paid credits, you can choose:

- A temporary buydown
- A permanent rate reduction
- A combination of both
- Or use credits toward closing costs

Pro strategy:
If the seller is motivated, ask your agent which structure gives you the greatest monthly payment relief and the most total savings—based on how long you plan to own the home.

Your lender should provide a side-by-side comparison before you decide.

WHEN TO CHOOSE A TEMPORARY BUYDOWN

5

A temporary buydown is smart when:

You expect rates to drop and plan to refinance

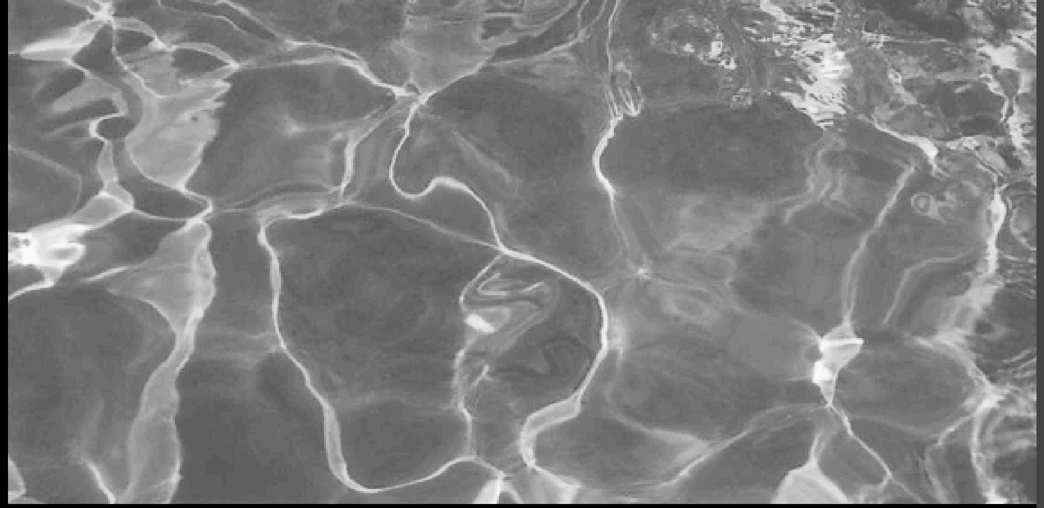
You're early in your career and expect income growth

You want breathing room for the first few years

You're purchasing new construction with builder incentives

You need lower payments short-term but not necessarily long-term

Bonus: If you refinance before the buydown period ends, unused buydown funds may be applied toward your remaining loan balance—an additional boost.



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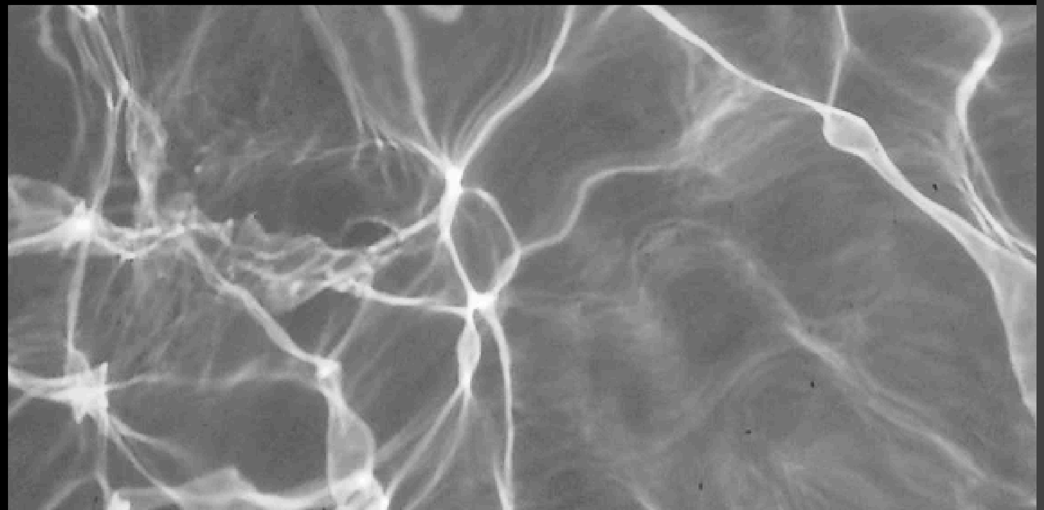
WHEN TO CHOOSE A PERMANENT RATE REDUCTION



A permanent rate buydown is ideal when:

You're planning to stay in the home long-term

You don't want payment increases after 1–3 years

You want the security of a permanently lower rate

You're using your own funds—not seller credits

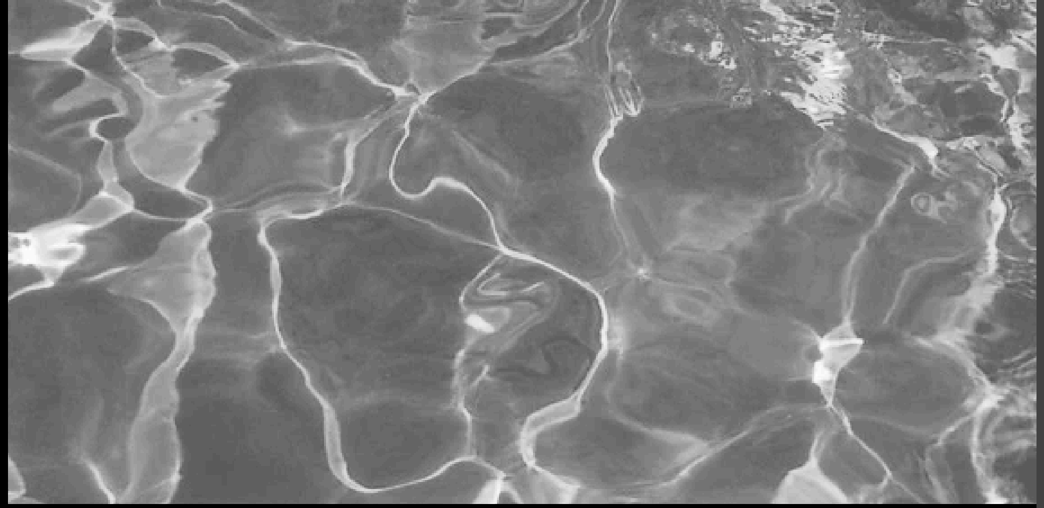
You want the greatest total lifetime interest savings

A lower rate also:

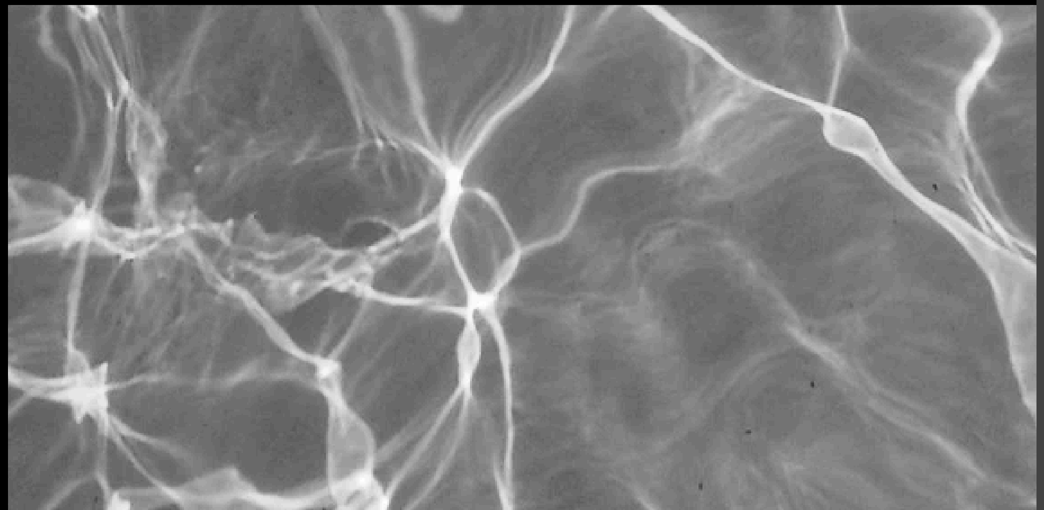
- Helps you qualify for more home
- Improves long-term affordability
- Reduces financial stress

If you know the home is a long-term fit, a permanent reduction is almost always the better investment.

7



RED FLAGS & MISTAKES BUYERS SHOULD AVOID



Not all buydown options are equal. Avoid these common pitfalls:

Choosing a temporary buydown when your payment will be unaffordable later

Paying discount points without calculating your break-even timeline

Assuming you can refinance—but not considering credit, income, or equity needs

Letting the seller or builder choose for you

Not getting a side-by-side cost breakdown from your lender

Golden rule:
If the payment shocks you in Year 2 or Year 3, don't choose a temporary buydown.

FINAL THOUGHTS & NEXT STEPS

Both temporary buydowns and permanent rate reductions can be powerful tools—when used intentionally. The key is choosing the strategy that matches:

- Your financial comfort
- Your expected time in the home
- Your income and career trajectory
- Your long-term versus short-term goals

Reach out anytime, and we'll build a mortgage strategy that helps you buy smart in any market.

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