Reach Your Goals of Homeownership With Mortgage Buydowns

Interest rate buydowns are becoming increasingly popular as mortgage interest rates remain above 6%. Here's how a buydown can make your home purchase affordable during the first years of a mortgage's term, or for the life of the loan.

A buydown is a simple transaction - it's when a lower mortgage interest rate is purchased or "bought down". These lower rates, aka buy-downs, can last for as little as one or two years, or for the entire loan term.

Temporary buydowns provide buyers with lower rates, together with lower monthly mortgage payments, for one or more years at the beginning of the loan's term. For example, a 2-1 buydown will provide the buyer with a 2% discount during the first year of the loan, followed by a 1% discount for the second year. At the beginning of the third year of the loan's term, the rate will revert to its original percentage.

Permanent buydowns are usually negotiated with the mortgage lender, although sellers may also finance these as a contingency offered to the buyer. This is a simpler transaction than a temporary buy-down, as a single payment — often described as "buying points" — is made to the lender in exchange for a lower mortgage interest rate.

The costs of a rate buydown aren't easy to predict as they rely on several factors, including:
* Current economic market factors, including interest rates
* Whether a buyer qualifies for a loan that permits buydowns
* A property seller's willingness to finance a buydown

Source: money.com

Strategies To Kick High Mortgage Rates

In addition to interest rate buydowns, there are other ways to qualify for a lower interest rate. Here are a few more strategies to consider.

Bump up down payments. Your Loan to Value (LTV) ratio affects your loan's interest rate. Buyers who put down smaller down payments tend to end up with higher rates, as higher LTVs increase lender risk. That's why it's worth looking at ways to bump up your down payment. Fast fund-raising strategies used by other buyers include stock or cryptocurrency sales and selling a recreational vehicle.

Down payment assistance may be available from several sources. In addition to state programs, some counties assist people in certain professions, such as teachers.

A shorter loan term is another way to bring your rate down. If you can manage the payments for a 15- or 20-year mortgage, this will bring you closer to homeownership faster, at a rate that's most likely lower than a 30-year loan.

Take over an existing mortgage. Military veterans, some reservists and those still in active duty may be able to take over an existing VA loan.

Source: Money.com

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