

2/1 Buy-Down Mortgage:



Price, condition and terms are factors that any owner must consider when marketing their home. Price is usually the easiest to adjust to compensate for shortcomings in location or condition of the home. Improving the condition of the property is more time consuming but updates to kitchens, baths and other things can appeal to a buyer.

One of the most overlooked marketing factors are terms which are also referred to as financing concessions.

Paying part or all a buyer's closing costs is the most common financing concession. By doing so, the buyer doesn't need as much cash to get into the home which can be attractive to more buyers.

There is another financing concession that is not used very often in today's market but it is still allowed and can increase the marketability of a home. A temporary buy-down of the interest rate makes a lower payment for an initial period.

It is still a fixed-rate mortgage that the buyer must qualify for at the note rate and there is no negative amortization. The seller pre-pays the interest in advance at closing so the buyer has lower payments in the initial period.

Instead of lowering the price of the home, let's say the seller has decided to offer \$6,875 worth of financing concessions that the buyer can apply any way they want. One way might be to get a 2/1 buy-down which means that the first year, the payment would be based on 2% less than the note rate of the mortgage and the second

year, it would be 1% less than the note rate. The third through thirtieth years, the payment would be the actual note rate.

On a \$275,000 home with a 3.5% down payment at 5% for 30 years, the first year's mortgage payment would be figured at 3% which would be \$305.76 less than normal. The second year's payment would be figured at 4% and would be \$157.65 less than normal. The third through thirtieth years, the payment would be the normal payment of \$1,424.59.

Financing Concessions				
Sales Price				\$275,000
Down Payment				\$9,625
Mortgage Amount @ 5% for 30-years				\$265,375
	Rate	Payment	Savings	Annually
First year	3.00%	\$1,118.83	\$305.76	\$3,669.10
Second year	4.00%	\$1,266.94	\$157.65	\$1,891.79
Remainder of term	5.00%	\$1,424.59		
Cost of Buy Down			2.02%	\$5,560.90
Balance applied to buyer's closing costs			0.48%	\$1,314.10

It would save the buyer \$5,560.90 in interest in the first two years and there would still be \$1,314 of the financing concession to apply toward the buyer's closing costs.

The financing concessions paid by the seller give the buyer lower payments for the first two years and less money needed for the closing cost. An added bonus for the buyer is that the buyer can deduct the pre-paid interest the seller paid as qualified mortgage interest.

Some lenders may tell you that temporary buy downs cannot be done. They've been around for over thirty years and can still be done today on FHA, VA and conventional loans. Call (907) 727-9379 if you need a recommendation of a trusted mortgage professional or check out a [2/1 Buydown](#) with your own numbers.

Let me know if you have any questions.

Questions / Comments

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