



Temporary Rate Buydowns: How a Seller Can Pay to Lower Your Mortgage Payment



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RATES & TIMING

Temporary Rate Buydowns: How a Seller Can Pay to Lower Your Mortgage Payment

Coltrain Mortgage Team · October 10, 2026 · 8 min read

With rates climbing this fall, the smartest question a buyer can ask a seller might not be "will you take less?" It's "will you help with my payment?" In more than 20 years of structuring Long Island deals, we've found a lot of buyers (and even some agents) don't realize that's an option. A temporary rate buydown lets a seller (or builder) put money up front so your monthly payment starts lower for the first one to three years. Let's break down how 2-1, 1-0, and 3-2-1 buydowns actually work, what the rules cap, and when one beats a simple price cut.

What Is a Temporary Rate Buydown?

A temporary buydown is money paid at closing, usually by the seller, a builder, or sometimes the lender, that covers part of your monthly mortgage payment for the first few years. Your actual loan is written at its full note rate for the entire term. The buydown simply subsidizes the difference between the full payment and a reduced payment for a set period, then steps away.

That's the key difference from a permanent buydown, where you (or someone else) pay discount points to lower the note rate itself for the life of the loan. A temporary buydown lowers what you pay early on. A permanent buydown lowers the rate forever.



**Paid Up Front at
Closing**



Lasts 1 to 3 Years



**Held in an Escrow
Account**



**You Qualify at the Full
Rate**

2-1, 1-0, and 3-2-1 Buydowns Explained

Don't let the names scare you off. The numbers simply tell you how many percentage points your effective rate is reduced each year, compared with your note rate. Fannie Mae caps the total reduction at 3 percentage points and limits the step-up to no more than 1 point per year, which is why these three structures are the common ones.

A 3-2-1 buydown gives the deepest early relief: 3 percentage points off in year one, 2 in year two, 1 in year three, then the full note rate from year four on. It also costs the most to fund.

Where the Money Actually Goes

Quick heads-up: the seller doesn't hand you a check. The buydown amount is calculated up front (it's the total of all the monthly payment differences during the buydown period) and deposited into a buydown escrow account at closing. Each month, the servicer pulls from that account to cover the gap, so you pay the reduced amount and the lender still receives the full payment.

If you sell or refinance before the buydown period ends, what happens to leftover funds depends on the buydown agreement. Commonly, remaining funds are applied to reduce your loan balance at payoff. Ask your loan officer to show you exactly how your specific agreement handles it before you close.

You qualify at the full note rate, not the reduced one. Fannie Mae requires lenders to qualify borrowers on a temporary buydown at the note rate, and FHA and VA follow the same principle. A buydown makes the first years more comfortable. It doesn't stretch how much house you can qualify for. Our **debt-to-income guide** explains how that qualifying payment is measured.

Buydown Calculator: See Your Year-by-Year Payment

Enter your loan amount and the note rate your loan officer quoted you. The calculator shows principal and interest for each year of the buydown and the total subsidy the seller would need to fund. It doesn't include taxes, insurance, or mortgage insurance.

The interactive buydown calculator is in the live version of this post. Scan the QR code above to try it with your own numbers.

How Much Can a Seller Contribute?

A seller-paid buydown counts as an interested party contribution (a seller concession), and every loan program caps those. The buydown cost and any other seller-paid closing costs share the same limit.

CONVENTIONAL (FANNIE MAE / FREDDIE MAC)

Down payment under 10%	3%
Down payment 10% to 25%	6%
Down payment over 25%	9%
Investment property	2%

Of the lower of price or appraised value. Temporary buydowns aren't allowed on investment properties or cash-out refinances.

FHA

6%

Of the sales price, covering the buydown plus other seller-paid costs. See our [FHA loan page](#).

VA

4%

Of the home's reasonable value. A seller-funded buydown counts toward the 4% concession cap, though normal closing costs and discount points don't. See our [VA loan page](#).

Buydown vs. Price Cut vs. Paying Points

Say a seller is willing to give up a set dollar amount. You've got three main ways to use it, and each one helps in a different way.



Temporary Buydown

Biggest immediate relief on your monthly payment in years one to three. Best if you expect your income to rise, or you think rates may fall and you'd **refinance** before the buydown ends.



Price Reduction

A lower price shrinks your loan, your property taxes over time, and your down payment. Usually the smallest monthly change, but it's permanent and doesn't depend on a program cap.



Permanent Buydown (Points)

Lowers the note rate for the life of the loan. Pays off best if you plan to keep the loan a long time. Less appealing if you expect to refinance within a few years.

1 to 3 years

How long a temporary buydown lasts. After that, you pay the full note-rate payment for the rest of the loan, so budget for the step-up from day one.

When a Buydown Makes Sense Right Now

Rates have risen for several straight weeks this fall (we break down why in **what buyers should do with rates at a one-year high**). That shifts negotiating leverage. On Long Island, where homes still sell, sellers are often more willing to fund a buydown than to drop their list price, because the headline sale price stays intact.

GOOD FIT

You expect your income to grow in the next few years, like a new job, a scheduled raise, or a second earner going back to work.

GOOD FIT

You'd like a lower payment while you furnish, renovate, or rebuild savings after a big down payment.

THINK TWICE

You're counting on refinancing to make the full payment affordable. Rates may not cooperate. Only take a buydown if the full payment already fits your budget. Our **buy now or wait guide** covers this risk.

THINK TWICE

The seller would give the same dollars as a price cut, and you plan to stay long-term. Run both options with a loan officer before choosing.

Timing matters with your rate lock. The buydown is built on your note rate, so it only becomes fixed once your rate is locked. Our guide to **rate locks and float-downs** explains how to time it. Because Coltrain is a broker working with many wholesale lenders, we can compare buydown pricing across lenders instead of one bank's menu. Here's **why that difference matters**.

Want to see a buydown vs. a price cut on your actual deal?

How to Ask for a Buydown in Your Offer

Here's the practical part. A buydown has to be written into the purchase contract as a seller concession, usually as a dollar amount "toward buyer's closing costs and/or a temporary rate buydown." Get the exact figure from your loan officer before your agent writes the offer, so the concession is large enough to fund the buydown and still within your program's cap. Your agent and loan officer should be working from the same number. If you're just starting out, our **loan process overview** shows where this fits.

COMMON QUESTIONS

What is a 2-1 buydown?

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A 2-1 buydown lowers your effective interest rate by 2 percentage points in year one and 1 percentage point in year two. From year three on, you pay the full note-rate payment. The cost of that reduction is paid up front, usually by the seller, and held in escrow.

Do I qualify for the loan at the lower buydown rate?

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No. Fannie Mae requires lenders to qualify you at the full note rate on a temporary buydown, and government programs follow the same approach. The buydown reduces your early payments. It doesn't increase how much you can borrow.

How much can a seller pay toward a buydown?

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It depends on the loan program. Conventional loans allow 3% to 9% of the price depending on your down payment (2% on investment properties, where temporary buydowns aren't allowed anyway). FHA allows up to 6%. VA caps concessions at 4% of reasonable value, and a seller-paid buydown counts toward it.

What happens to the buydown money if I refinance or sell early?

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It depends on your buydown agreement. Commonly, unused funds in the buydown escrow are applied toward your loan balance at payoff. Ask to see the agreement's terms before closing.

Is a temporary buydown better than a price reduction?

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Not always. It really depends on you. A buydown gives more monthly relief in the early years, while a price cut lowers your loan and taxes permanently. The better choice depends on how long you plan to stay and whether the full payment fits your budget today.

SOURCES

Fannie Mae Selling Guide, "Temporary Interest Rate Buydowns" (B2-1.4-04)

Fannie Mae Selling Guide, "Interested Party Contributions (IPCs)" (B3-4.1-02)

MGIC, "Understanding Buydowns"

Veterans United, "Closing Costs vs. Concessions on a VA Home Loan"

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