WHAT'S A
RATE BUYDOWN?

JENUANE COMMUNITIES
Your Local Homebuilder

If you're a prospective home buyer, you've likely heard the term "rate buy-down" mentioned in conversations with lenders, real estate agents, or friends. This means you’re probably wondering what a rate buydown is and how it works. In this guide, we'll share everything you need to know about rate buydowns and how they can benefit you as a homebuyer.

A rate buydown is a mortgage financing option that allows you to lower your interest rate and monthly mortgage payments. The borrower (you) pays an upfront fee to the lender in exchange for a reduced interest rate for a specified period. A permanent buydown lowers the interest rate for the life of the loan, while temporary buydowns can help make mortgage payments more affordable in the early years of a loan.

HOW DOES A RATE BUYDOWN WORK?

A rate buydown involves paying a lump sum to your lender at closing. This fee is calculated based on the amount you want to lower your interest rate and how long you want the reduced rate to last.

For example, if you decrease your interest rate by 1% for the first three years of your mortgage term, you might pay a fee of 2% of your loan amount. In contrast, a permanent buydown may cost 6-8% of the loan and will reduce the interest rate by one percent for the life of the loan.

TYPES OF
RATE BUYDOWNS

There are two kinds of rate buydowns: Temporary and Permanent.

Temporary Buydowns:

A temporary buydown involves paying a lump sum upfront to reduce your interest rate for a specified period. For example, a 2-1 buydown means your interest rate will be reduced by 2% in the first year, 1% in the second year, and return to the initial rate in the third year. It's important to note that if the temporary buydown is not fully used, any remaining portion will be applied toward the principal balance or payoff amount in case of a refinance or sale.

Permanent Buydowns:

A permanent buydown involves paying a lump sum upfront to permanently lower your interest rate for the entire mortgage term. This can be extremely helpful if you plan to stay in your home for a long time and want to reduce your monthly mortgage payments over the life of your loan.

PROS AND CONS
OF RATE BUYDOWNS

To make an informed decision about a rate buydown, it's important to weigh the pros and cons. While rate buydowns can offer significant savings, they can also come with significant upfront costs. In this section, we'll take a closer look at the advantages and disadvantages of rate buydowns.

PROS OF BUYDOWN RATES

The chart below highlights the features and benefits of a 3/2/1, 2/1, and 1/0 rate buydown options.

Feature	Benefit
3/2/1, 2/1 and 1/0 buydown options available	Flexibilty to meet client's specific needs and type of mortgage chosen
Lower monthly principal and interest payments for the first 1, 2 or 3 years of home loan	Allows client the opportunity to ease into a mortgage payment over time
Additional cash flow available during the buydown period	Frees up extra cash for client to afford home improvements, landscaping or other expenses

Provided by Mark Clore, U.S. Bank

Lower Monthly Payments: The most significant benefit of a rate buydown is that it will lower your monthly mortgage payments for a period of time, or the life of your loan. This can be especially helpful for homebuyers stretching their budgets to afford a home or who want to allocate more money to other expenses. By lowering your monthly payments, a rate buydown can improve your cash flow and help you manage your finances more effectively.

Tax Benefits: The points paid to buy down the mortgage rate may be tax-deductible, offering additional savings for homebuyers.

Flexibility: Buydowns can be structured in various ways, such as temporary (2/1 or 3/2/1) or permanent (fixed-rate buydowns). This flexibility allows borrowers to choose a buydown plan that best suits their financial needs and future plans.

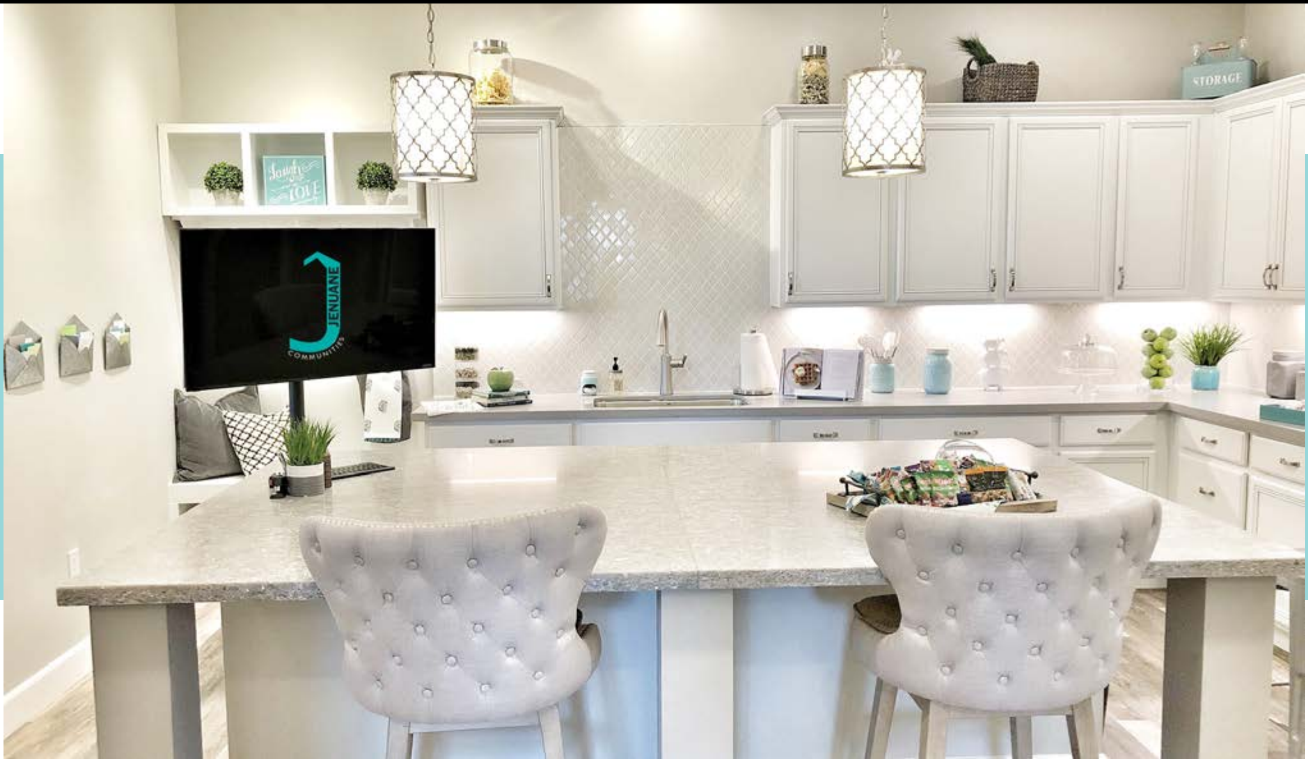
Increased Home Equity: A lower interest rate means more of your monthly payment goes toward the principal balance of your loan rather than interest. This can help build equity in your home more quickly.

CONS OF BUYDOWN RATES

Upfront Cost: One of the biggest challenges of opting for a rate buydown is the initial cost. This fee varies based on how much you want to lower your interest rate and the duration of the reduced rate.

Higher Long-Term Costs: A rate buydown can reduce your monthly mortgage payments during the buydown period, but it may lead to higher long-term expenses in certain situations. Once the buydown period concludes, your interest rate will revert to its initial rate. Our financing specialists at U.S. Bank emphasize that a "permanent buydown" might not be beneficial for an average homeowner until after the sixth year. Instead, they could potentially save more by opting for a "temporary buydown," which presents an ideal opportunity to refinance their mortgage rate.

Limited Lender Options: Not all lenders offer rate buydown options, but at Jenuane, we're committed to providing you with exceptional resources. That's why we've partnered with three premier lenders to offer you the best possible solutions.



IS A BUYDOWN RATE RIGHT FOR YOU?

Deciding to buy down your rate ultimately depends on your financial situation, goals, and what works best for your lifestyle. Making such a big decision can be tough, but our team of experts is here to help. Our concierge team and our premier lenders will make sure you make the best choice while considering all critical factors.

Short-Term vs. Long-Term Goals: If you're planning to live in your home for a short time, a temporary buydown could be an excellent option to make your mortgage payments more affordable in the short term. However, if you plan to stay in your home for a long time, a permanent buydown may be a better option to reduce your monthly mortgage payments over the life of the loan.

Upfront Cost: Consider whether you have the financial resources to pay the upfront fee for a rate buydown. Stay ahead of the curve by regularly checking in with Jenuane and our partner lenders to see if any exclusive deals or offers are available. Our team of experts is dedicated to helping you achieve your financial goals and ensuring you don't miss out on any valuable opportunities.

Current Market Conditions: Look at current market conditions to determine whether a buydown rate makes sense for you. If interest rates are already low, a buydown may not provide significant savings over the life of the loan.

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Ph: 775.379.8100 E: Concierge@JCommunities.com

5400 Equity Avenue, Reno, NV 89502