Understanding Temporary Mortgage Buydowns

A negotiating tool that can ease the first years of homeownership

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When a lower payment creates breathing room

Buying a home can bring excitement and financial pressure at the same time. A temporary mortgage buydown may give buyers more room in their early budget for moving costs, repairs or rebuilding savings. A seller-paid buydown is one option to discuss when negotiating a purchase. The benefit is temporary payment relief; the home still needs to fit the buyer's long-term budget. [1, 2]

What a temporary buydown actually does

An upfront deposit funds an account that supplements the buyer's monthly mortgage payments for a limited period. The buyer pays less out of pocket while the account covers the difference. The mortgage note rate and contractual payment remain unchanged. Sellers, builders, lenders or other permitted parties may fund the subsidy, subject to the loan program and lender's rules. [1]

In a **2-1 buydown**, the buyer's principal-and-interest contribution is calculated using a rate two percentage points below the note rate in year one and one point below it in year two. Beginning in year three, the buyer pays the full amount. Freddie Mac describes this common structure; other available plans may have different schedules. [2]

Make the payment savings visible

Illustration: $300,000 loan, 30-year fixed mortgage, 7% note rate, seller-funded 2-1 buydown. These are hypothetical rates, not a current mortgage quote.

Period	Payment calculation rate*	Buyer's monthly principal & interest	Monthly subsidy
Year 1	5%	$1,610.46	$385.44
Year 2	6%	$1,798.65	$197.26
Years 3–30	7%	$1,995.91	$0.00

Total illustrated relief: about $6,992 over two years. That is approximately $4,625 in year one and $2,367 in year two. The seller funds that payment difference upfront; any additional lender or program fees must be considered separately.

*The note rate remains 7% throughout. Payments exclude property taxes, homeowners insurance, mortgage insurance and HOA dues. Those costs still apply and can change. Calculations use a standard 360-payment amortization formula on the original loan amount at each illustrated rate; totals use unrounded values. Actual funding amounts may differ slightly with rounding.

How it can help in a purchase negotiation

Instead of asking only for a price reduction, a buyer can ask whether the seller would contribute toward a temporary buydown. This can concentrate a concession's benefit in the first years. The seller still bears a cost, so compare the purchase price, concession and overall deal together. Seller-funded subsidies must comply with applicable contribution limits; other seller credits can use up those limits too. Have the lender confirm eligibility before finalizing the offer. [3]

For perspective, reducing this example's **loan amount** from $300,000 to $290,000 at 7% lowers principal and interest by about $66.53 per month for the remaining loan term. The buydown provides more early relief but ends after two years. A $10,000 purchase-price reduction may reduce the loan by a different amount depending on the down payment. These alternatives differ in cost and long-term benefit; neither is automatically better.

Who might find it useful?

Freddie Mac identifies borrowers with potential for higher earnings as possible candidates. A buyer who can already afford the full payment may use temporary relief to build reserves or manage early ownership expenses. Expected raises can help, but they should not be the only reason the purchase seems affordable. For conventional fixed-rate loans under the cited Fannie Mae and Freddie Mac rules, qualification uses the full note-rate payment. [2, 4]

Temporary relief versus a permanent rate reduction

A temporary buydown subsidizes payments for a defined period. Discount points instead buy a lower mortgage rate in exchange for an upfront cost. Ask the lender to compare a temporary buydown, permanent points, a lower price and closing-cost assistance over the time you expect to keep the loan. Include cash needed at closing and the payment after the subsidy ends. [1, 5]

Five questions to ask before agreeing

1. What will I pay each year? Request the full schedule, including taxes, insurance and any mortgage insurance.
2. Who funds the subsidy? Confirm its cost, the seller-credit limit and any extra fees.
3. Can I afford the full payment today? Do not depend on a raise, a sale or a future refinance.
4. What happens if I refinance or sell early? Read the written agreement for how unused funds are handled; do not assume a cash refund. [4]
5. Is another concession more useful? Compare immediate cash needs with temporary and lasting payment savings.

One step today: Ask your lender and real estate professional for side-by-side written options. Judge the home by the full payment, then decide whether temporary relief improves the deal.

Sources and calculation notes

Sources accessed October 12, 2026. Program availability and requirements vary. The cited conventional-loan guidelines do not describe every FHA, VA or USDA loan. Educational information; obtain terms for your specific transaction. Payment examples are original calculations.

[1] Fannie Mae. Overview of Temporary Buydown.

[2] Freddie Mac. Mortgages with Temporary Subsidy Buydown Plans.

[3] Fannie Mae. Interested Party Contributions, B3-4.1-02.

[4] Fannie Mae. Temporary Interest Rate Buydowns, B2-1.4-04.

[5] CFPB. How should I use lender credits and points?