BUYER STRATEGY GUIDE

The 2-1 Buydown

Two years of lower mortgage payments, funded through a seller credit.

A PRACTICAL NEGOTIATION TOOL

How the structure works

At closing, the seller contributes funds that temporarily reduce the buyer's effective interest rate. The rate is typically 2 percentage points lower in year one, 1 point lower in year two, and returns to the full fixed note rate in year three.

YEAR 1	**Note rate – 2%**	Lowest scheduled payment
YEAR 2	**Note rate – 1%**	Step-up payment
YEARS 3–30	**Full note rate**	Standard fixed payment

WHY BUYERS USE IT	A temporary buydown can create substantially more near-term monthly relief than applying the same seller concession to a modest price reduction.

WHY SELLERS CONSIDER IT	The seller may preserve the contracted price while helping address a buyer's payment concerns, subject to lender and loan-program limits.

Before making an offer

A successful 2-1 buydown begins with full-rate qualification and careful lender review.

01 Confirm eligibility	Ask the lender whether the loan program permits a temporary buydown and what seller-credit limits apply.
02 Model the full payment	Evaluate taxes, insurance, dues, and the full note-rate payment—not only the reduced first-year amount.
03 Read the seller's leverage	Days on market, recent price changes, competition, and timing can help determine whether to request a credit.
04 Write clear terms	The purchase agreement should state the credit and approved closing-cost use precisely.
05 Plan beyond year two	Budget for each scheduled payment step and keep adequate reserves.

Important considerations

- Buyers generally qualify using the full note rate.
- Seller credits are capped by loan type and occupancy.
- Jumbo-loan policies vary by lender.
- If the loan is paid off early, unused subsidy funds are typically handled according to the lender's agreement.
- Rates, payments, terms, and savings vary.

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