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An Interest Rate Buy-Down Could Help You Purchase a Home Despite High Rates

Let's Talk Home Financing

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If you are contemplating a home purchase but are waiting for rates to fall… you may want to revisit that thought process. It is almost impossible to open a newspaper or listen to a news broadcast without hearing news about the economy and the possibility that rates may fall.

I asked **Jaxzann Riggs**, owner of **The Mortgage Network**, for her thoughts on how rates will affect our market. Here is what I learned from her.

Borrowers who are waiting for interest rates to fall are likely to be waiting well into spring and possibly even summer. While some economists are suggesting that rates ***may*** fall this year, any gains realized by a nominal decrease in rates (even as much as one half of one percent) could well be offset by increases in purchase prices.

Perhaps a better strategy than waiting is for prospective purchasers to ask for a seller concession that is used for either a temporary or a permanent interest rate buy-down.

The simplest explanation of a *temporary* buy-down is that a seller concession of a few thousand dollars pays for a reduced monthly payment for the first one to three years of the mortgage.

If interest rates do in fact fall significantly in the near future, you can refinance without losing the value of the temporary buydown, because those buy-down funds are escrowed to use month-by-month to lower your payment. Unused funds reduce the principal balance if you refinance before the buy-down term has ended.

Some buyers may prefer to use a seller concession for a ***permanent*** reduction of the interest rate for the term of the loan. So, the next question is: what is a reasonable dollar amount for a borrower to request from the seller as a concession? Each borrower and seller circumstance will vary so there is not set rule with the exception that FNMA and FHLMC underwriting guidelines limit the seller to a contribution of 6% of the sales price or 3% of the sales price if the borrower is making a minimum down payment.

Seller concessions may only be used to offset closing costs, reduce the interest rate on a temporary or permanent basis, or to prepay mortgage insurance on behalf of the borrower. Seller concessions may NOT be used to reduce the down payment made by the borrower.

It might be surprising for prospective purchasers to understand the impact that a seller concession versus a price reduction might have on the monthly cost of their mortgage. Meanwhile, sellers should consider offering a concession vs. a price reduction because it could dramatically increase their prospective buyer pool.

While prospective purchasers can't control real estate prices or mortgage rates, they do have some control when it comes to the price they pay for a loan while they are actively shopping for a home. Many of Jaxzann's lending partners have begun to offer a feature that allows the borrower to obtain an ***interest rate lock*** that protects them from increases in rates but also allows them to take advantage of falling rates.

The lender charges a small premium to hold the consumers' rate for a set time frame while also offering the borrower the ability to "roll down" the rate if the market improves by a preset amount during the lock period. Borrowers wishing to execute the roll down feature will pay a small fee, but it ensures that they will still be able to take advantage of any interest rate decreases that might occur during the loan process.

The cost of waiting is just too high.

Contact Jaxzann at **303-990-2992** to discuss the "roll down" options.