EDUCATIONAL CHEAT SHEET FOR MICHIGAN REALTORS

Mortgage Rate Buydown Cheat Sheet

Permanent points and temporary 1-0, 2-1, and 3-2-1 plans — how payments change, how funds are held, and how buyers are qualified. Not a quote or a recommendation.

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How each structure works

Permanent points lower the note rate for the life of the loan. Cost is a percentage of the loan amount. Pricing is set by the lender and the market that day. Points that buy a lower rate appear on the Loan Estimate, page 2, Section A (CFPB). Lender credits appear in Section J.

Temporary 1-0 reduces the effective rate by 1 percentage point in year 1, then the payment returns to the full note-rate amount.

Temporary 2-1 uses 2 points below in year 1 and 1 point below in year 2, then the full note-rate payment from year 3 on.

Temporary 3-2-1 adds a third year. It is not available on every program. Fannie Mae B2-1.4-04 allows up to a 3% reduction, 1% annual increases, and a period of no more than 3 years, and names a 3-2-1 as a significant buydown. Freddie Mac rules are in Guide 4204.3 (not 4204.2). VA names 3-2-1 as a common framework. USDA HB-1-3555 ¶11.5 caps a temporary reduction at 2% below the note rate, so a 3-2-1 would not fit. Ask the lender what is offered.

Qualification rule

Conventional (Fannie B2-1.4-04 / B3-6-04 and Freddie 4204.3), FHA (HUD 4000.1), and USDA (¶11.5) require qualification or underwriting at the **note rate**, not the bought-down rate. VA requires the lender to determine that the Veteran can afford the **full payment under the note**; the buydown may be only a compensating factor when other results are marginal (Handbook Ch. 7, Topic 7).

Funding mechanics

The temporary subsidy is deposited at closing into a buydown account or escrow and drawn monthly to make up the difference to the note-rate payment. The note does not change. If leftover funds remain because the loan is paid off early: Fannie Mae may credit them to the payoff or return them as the agreement specifies; VA requires a credit against the indebtedness and does not allow funds to revert to the party that established the escrow; FHA does not allow leftover funds to revert to the provider or to be paid in cash to the borrower unless the borrower funded the escrow.

Illustrative payment table

ILLUSTRATIVE ONLY — $320,000 LOAN, 6.5% NOTE RATE (EXAMPLE ONLY, NOT A QUOTE), 30-YEAR TERM

Year	None	Permanent 1 pt to 6.25% (example pricing)	1-0	2-1	3-2-1
Year 1	$2,022.62	$1,970.30	$1,816.92	$1,621.39	$1,436.94
Year 2	$2,022.62	$1,970.30	$2,022.62	$1,816.92	$1,621.39
Year 3+ (2-1 returns to full)	**$2,022.62**	**$1,970.30**	**$2,022.62**	**$2,022.62 full note-rate payment**	**$1,816.92**
Year 4+ (3-2-1 returns to full)	**$2,022.62**	**$1,970.30**	**$2,022.62**	**$2,022.62**	**$2,022.62 full note-rate payment**

Upfront: 1 point = $3,200 (example). Temporary subsidies: 1-0 $2,468.40; 2-1 $7,283.16; 3-2-1 $14,311.32. Monthly savings on the example permanent buydown $52.32; break-even $3,200 ÷ $52.32 ≈ 61.16 months. Formula: points cost ÷ monthly P&I savings (ignores time value of money). Figures use standard half-up rounding to the cent.

IPC reminder

Seller- or builder-funded points and temporary subsidies generally count toward interested-party contribution limits (Fannie B3-4.1-02; VA 4% concession cap for seller- or builder-funded temporary buydowns). Put the credit in the purchase agreement. See the Seller Concessions vs. Price Reductions guide for program caps.

Do / don't wording for agents

Do show the year the payment returns to the full note-rate amount. Do write the credit into the contract. Do say pricing varies by lender and day. Do direct qualification questions to the lender.

Don't tell a buyer that rates will move in their favor later. Don't treat a refinance as part of the plan. Don't promise income

Questions to ask the lender

1. Is a 1-0, 2-1, or 3-2-1 actually available on this product, occupancy, and LTV today?
2. What is today's points pricing for the rate the buyer wants?
3. Does the buyer qualify at the note rate (or, for VA, at the full note payment)?
4. Who is funding the account, and how does it apply to the IPC or seller-concession cap?
5. What happens to unused funds if the loan is paid off early?
6. How will the credit appear on the Loan Estimate and Closing Disclosure?

growth. Don't describe a temporary buydown as a lower note rate. Don't ignore program caps or lender overlays.

Sources

1. Fannie Mae Selling Guide B2-1.4-04: Temporary interest rate buydowns (08/07/2024; still listed in the Selling Guide published November 4, 2026): https://selling-guide.fanniemae.com/sel/b2-1.4-04/temporary-interest-rate-buydowns
2. Fannie Mae Selling Guide B3-6-04: Qualifying payment requirements: https://selling-guide.fanniemae.com/sel/b3-6-04/qualifying-payment-requirements
3. Fannie Mae Selling Guide B3-4.1-02: Interested party contributions (IPCs): https://selling-guide.fanniemae.com/sel/b3-4.1-02/interested-party-contributions-ipcs
4. Freddie Mac Seller/Servicer Guide 4204.3: Temporary subsidy buydown plans (official section; access may require a Guide login): https://guide.freddiemac.com/app/guide/section/4204.3
5. Freddie Mac: Mortgages with temporary subsidy buydown plans (public product summary): https://sf.freddiemac.com/working-with-us/origination-underwriting/mortgage-products/mortgages-with-temporary-subsidy-buydown-plans
6. HUD Handbook 4000.1: FHA Single Family Housing Policy Handbook — temporary interest rate buydowns: https://www.hud.gov/sites/dfiles/OCHCO/documents/4000.1hsghhdbk103123.pdf
7. VA Lender's Handbook (VA Pamphlet 26-7), Chapter 7, Topic 7: Loans involving temporary interest buydowns: https://www.benefits.va.gov/WARMS/pam26_7.asp
8. VA Home Loans: Temporary buydowns (consumer page): https://www.benefits.va.gov/homeloans/temporary-buydown.asp
9. USDA HB-1-3555, Chapter 11, paragraph 11.5: Funded buydown accounts: https://www.rd.usda.gov/files/3555-1chapter11.pdf
0. CFPB: How should I use lender credits and points (also called discount points)?: https://www.consumerfinance.gov/ask-cfpb/how-should-i-use-lender-credits-and-points-also-called-discount-points-en-136/
1. CFPB: Loan Estimate explainer: https://www.consumerfinance.gov/owning-a-home/loan-estimate/
2. Seller concessions vs. price reductions (this site): https://shaneyourmortgageguy.com/realtor-partners/seller-concessions/



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Ask Shane to structure a financing scenario.

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