

3-2-1 Rate Buydowns

How a seller or builder can lower your payment for the first three years — and what it really costs.

A 3-2-1 buydown is a *temporary* rate reduction. Someone — usually the seller or builder — pays up front so your rate is 3% lower in Year 1, 2% lower in Year 2, and 1% lower in Year 3. From Year 4 on, you pay the full rate.

HOW IT WORKS

- **Your loan has one “note rate.”**
That’s the permanent rate on your mortgage paperwork. The buydown never changes it.
- **The cost is paid at closing.**
The total of three years of payment savings is deposited into a buydown (escrow) account.
- **The account covers the difference.**
Each month, you pay the reduced payment and the account pays your lender the rest.
- **It works on fixed-rate loans.**
Conventional, FHA, and VA loans all allow temporary buydowns on a home you’ll live in.

WHO PAYS & WHY

- **Sellers.**
Instead of cutting the price, a seller can fund a buydown — often a bigger payment cut for the same dollars.
- **Builders.**
New-construction builders commonly offer 3-2-1s as an incentive, especially through their preferred lender.
- **Lenders.**
Some lenders fund buydowns with a lender credit, usually in exchange for a slightly higher note rate.
- **Best for buyers who expect change.**
A raise, promotion, spouse returning to work, or a plan to refinance if rates fall.

The 3-2-1 at a Glance

YEAR 1	YEAR 2	YEAR 3	YEARS 4–30
Note – 3%	Note – 2%	Note – 1%	Full Note Rate
Lowest payment — largest share paid by the buydown account	Payment steps up; account still covers part	Last year of help from the buydown account	Your permanent payment for the rest of the loan

Example: \$350,000 Loan · 30-Year Fixed · 7.25% Note Rate

Year	Your Rate	Your Monthly P&I	Monthly Savings	Paid From Buydown Account (Yearly)
Year 1	4.25%	\$1,722	\$666	\$7,992
Year 2	5.25%	\$1,933	\$455	\$5,460
Year 3	6.25%	\$2,155	\$233	\$2,796
Years 4–30	7.25%	\$2,388	—	—
Total buydown cost, paid at closing (about 4.6% of the loan amount)				\$16,248

P&I = principal & interest only (taxes and insurance are extra). A 2-1 buydown on the same loan costs about \$8,256.

Concession Limits — Will It Fit?

Loan Type	Seller / Builder Contribution Limit	Does a 3-2-1 Fit in the Example Above?
Conventional	3% of price if under 10% down; 6% with 10–25% down; 9% with more than 25% down	Not with 5% down (cost is about 4.4% of price); fits with 10% or more down
FHA	6% of the sale price	Yes, with room left for some closing costs
VA	4% of the home’s value in concessions; the buydown counts toward it (normal closing costs don’t)	Not at 0% down (cost is about 4.6%); a 2-1 buydown fits easily

Pitfalls & Things to Know

- **You qualify at the full rate.** Conventional, FHA, and VA lenders approve you based on the Year 4 payment, not the Year 1 payment — a buydown won’t help you qualify for a bigger loan.
- **Budget for the step-ups.** In the example, your payment rises \$666 a month between Year 1 and Year 4. Plan for the full payment from day one.
- **Selling or refinancing early?** Unused buydown money typically goes toward paying down your loan — it isn’t lost, but it isn’t cash back. Read your buydown agreement.
- **Compare it to a price cut or points.** A buydown helps for three years; discount points lower your rate for the life of the loan.
- **Not every home or loan qualifies.** Not every lender offers a 3-2-1, and conventional buydowns aren’t allowed on investment properties or cash-out refinances.

SOURCE: Fannie Mae Selling Guide B2-1.4-04 (Temporary Interest Rate Buydowns) and B3-4.1-02 (Interested Party Contributions); HUD Handbook 4000.1 (FHA); VA Lenders Handbook, Ch. 8 (Seller Concessions). Example payments calculated by Chad Sellers.

EFFECTIVE DATE OF DATA: Program rules current as of October 1, 2026. The example uses an illustrative 7.25% rate, close to the October 2026 national average, not a quote — actual rates and buydown costs vary by lender.

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