

Rate Beater: Ways to Lower the Cost of a High-Rate Mortgage

Education only. Every example is fictional; rates change daily. Nothing here is a rate quote or a promise of savings. Not legal or financial advice and not a substitute for the advice of an attorney; rules vary by state.

4.1 Why rates matter, and what you can and can't control

Freddie Mac's weekly survey put the average 30-year fixed rate at **7.40% on October 15, 2026**, versus 6.27% a year earlier. That survey covers conventional loans with 20% down and excellent credit, so **your** rate can differ. (Source: Freddie Mac PMMS, freddiemac.com/pmms.)

You can't control the market. You *can* control:

- **Shopping:** get at least 3 Loan Estimates the same day.
- **Your profile:** credit, down payment, debt-to-income, loan type.
- **Structure:** points, temporary buydowns, an ARM, or an assumable loan.
- **Negotiation:** who pays for those, and how.

Honest framing: none of these tools is free money. Each one moves cost around in time (paying less now, more later) or between people (you vs. the seller). The goal is to see the true cost, with math. Every example here is **fictional**, rates change daily, and nothing here is a quote or a promise of a rate or savings.

4.2 Points and the break-even

A **discount point** costs 1% of the loan amount and typically lowers the rate (by how much varies by lender and day). You pay at closing and get a lower payment for as long as you keep the loan.

Break-even months = cost of points ÷ monthly savings. Example (fictional): \$320,000 loan.

	No points	1.5 points
Rate	7.25%	6.875%
P&I	\$2,182.96	\$2,102.17
Upfront cost	\$0	\$4,800

Monthly savings: **\$80.79**. Break-even: $\$4,800 \div \$80.79 \approx$ **59 months** (about 5 years). Keep the loan longer than that and the points pay off; sell or refinance sooner and they cost you.

Ask your lender: "Show me the Loan Estimate at 0, 1 and 2 points. What's the rate and cost at each?" And remember, a point is a cost you pay for a lower rate, not a discount on the home price.

4.3 Temporary buydowns: 2-1 and 1-0

A **temporary buydown** pre-pays part of the interest for the first year or two, so your payment starts lower and steps up to the note rate. The note rate (what you owe long-term) doesn't change.

- **2-1 buydown:** rate is 2 points lower in year 1, 1 point lower in year 2, then the full note rate from year 3.
- **1-0 buydown:** 1 point lower in year 1 only.

Example (fictional): \$320,000 loan at a **7.25%** note rate. Press play to see the payment steps.

Year	Rate you pay	P&I	Savings vs. note rate
1	5.25%	\$1,767.05	\$415.91/mo
2	6.25%	\$1,970.30	\$212.67/mo
3+	7.25%	\$2,182.96	none

The subsidy cost in this example is about **\$7,543** (the total payment difference over years 1-2), usually funded by the seller or builder as a concession, sometimes by the lender.

Key facts (verify with your lender):

- **You still qualify at the full note rate.** Fannie Mae says lenders must qualify the borrower "based on the note rate without consideration of the bought-down rate." (*Fannie Mae Selling Guide B2-1.4-04, B3-6-04.*)
- **Conventional (Fannie Mae):** allowed for principal residences and second homes, not investment properties; reduction up to 3 points, step-ups no more than 1 point per year, buydown period up to 3 years.
- **Risk:** you still need to afford the full payment from year 3. The bet only works if your income grows or you refinance or sell, and none of that is guaranteed.

4.4 Seller concessions and loan limits

In a slow market, sellers often prefer a credit over a price cut. But **loan programs cap how much can be paid by the seller or other interested parties**. These are the published limits; always confirm with your lender.

Loan	Limit	Notes
Conventional (Fannie Mae), primary or second home	3% if the loan-to-value is over 90%; 6% at 75.01%-90%; 9% at 75% or less	Based on the lesser of price or appraised value. Can't be used for the down payment or reserves.

Loan	Limit	Notes
Conventional, investment property	2%	
FHA	6% of the sales price	Covers closing costs, prepaids, discount points, rate buydowns and the upfront mortgage insurance premium.
VA	Seller <i>concessions</i> capped at 4% of the reasonable value	Normal closing costs and market-rate discount points aren't counted; temporary buydowns, funding-fee payments and debt payoffs are.

Sources: Fannie Mae Selling Guide B3-4.1-02; HUD Handbook 4000.1; VA Lenders Handbook (Pamphlet 26-7) Ch. 8 and VA.gov loan fee and temporary buydown pages. Limits can change; check at the time of your deal.

Amounts above the limit usually reduce the price used for the loan, which can raise your down payment.

4.5 Assumable mortgages

Some existing loans can be **assumed**: a new buyer takes over the seller's loan, keeping the seller's old, lower rate. FHA, VA and USDA loans are generally assumable (conventional loans usually have a due-on-sale clause and generally aren't).

The catch is the equity gap. You must pay the seller the difference between the price and the remaining loan balance, in cash or with other financing.

Example (fictional): price **\$400,000**, assumable balance **\$260,000 at 3.5%** with 25 years left. Gap: **\$140,000**.

	Assume + second loan	New loan
Plan	Assume \$260,000; \$40,000 cash; \$100,000 second loan at 9%, 20 yrs	\$360,000 new loan at 7.25% (40,000 down)
Monthly P&I	\$1,301.62 + \$899.73 = \$2,201.35	\$2,455.83
Difference		about \$254/month more

The gap is the hard part. A big cash requirement, plus the second loan costing more, can erase the savings.

Rules that surprise people:

- **You must qualify** with the loan servicer (credit, income). For FHA/VA/USDA, creditworthiness review applies.
- **VA entitlement:** the seller's entitlement stays tied to the loan until it's repaid unless the buyer is an eligible veteran who substitutes their own entitlement. A seller who wants to buy again with a VA loan should ask about this. (*VA Circular 26-23-10; VA Form 26-10291.*)

- **FHA:** generally assumable, subject to the servicer's review under current HUD rules. (*HUD Handbook 4000.1 and 4155.1 Ch. 7.*)
- **USDA:** the buyer must meet USDA credit and eligibility standards. Confirm with the servicer.
- **Timing:** assumptions can take weeks to months. Build that into the contract.
- **Finding them:** ask the seller's loan type and rate directly. Listings sometimes say "assumable."

4.6 ARMs: read the fine print

An adjustable-rate mortgage has a fixed rate for a set period (like 5 or 7 years), then adjusts. The new rate = **index + margin**, limited by **caps**.

- **Index:** a market rate that moves.
- **Margin:** fixed number the lender adds; it can vary by lender and may be negotiable.
- **Caps (three numbers, like 2/2/5):** how far the rate can move at the first adjustment, at each later adjustment, and over the life of the loan. (*CFPB.*)

Example (fictional): \$320,000 5-year ARM starting at **6.25%** with 2/2/5 caps.

	Rate	P&I
Start (years 1-5)	6.25%	\$1,970.30
First reset, worst case (+2)	8.25%	about \$2,354.94 on the ~\$298,700 balance over the remaining 25 years
Lifetime cap (+5)	11.25%	much higher

Risk: the payment can jump. Only choose an ARM if you'd be OK at the cap, or you're sure to sell first. Lenders are generally required to consider ability to repay at the higher of the fully indexed rate or the maximum rate in the first five years.

4.7 Seller financing, wraps and the due-on-sale warning

- **Seller financing:** the seller lends you part of the price, with terms you negotiate in a signed note secured by the property. Have a real estate attorney draft it. Federal and state rules (like Dodd-Frank loan originator and state licensing rules) can apply.
- **Wrap-around mortgage / "subject-to":** the seller keeps their old loan and you pay them. Most mortgages have a **due-on-sale clause**: the lender can call the whole loan due if the property is transferred without its consent. Garn-St Germain lists limited exemptions; a sale to an investor isn't one of them. *Don't do this without an attorney.*

4.8 "Marry the house, date the rate": refinance-later reality check

- Refinancing later is **not guaranteed**. Rates might not fall, your credit or income might change, the home value might dip, and closing costs apply.
- **Break-even again:** if refinancing costs 3% of a \$320,000 loan (\$9,600) and saves \$212/month, that's about 45 months. (Fictional example; uses 7.25% to 6.25%.)
- Choose a payment you can afford at today's rate. Treat a future refi as a bonus.

