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The mortgage buydown backfire

Homebuyers made a big bet on lower mortgage rates. They're paying a high price.

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By James Rodriguez Aug 20, 2025, 1:03 AM PT

Matt Hutton was living the millennial homeowner dream. He scrimped and saved until he was able to buy his first place in 2019, paying $324,000 for a two-bedroom townhome in a suburb west of Denver. When mortgage rates dropped to record lows during the pandemic, he refinanced to slash his interest costs. Then home values ballooned, enabling him to sell in August 2024 for a gain of roughly $150,000 in just about five years. Hutton and his wife parlayed those earnings into their own slice of the American dream: a bigger, newly built single-family house on a premium lot.

But Hutton's gilded path soon morphed into a cautionary tale. The house itself was nice, with fresh appliances, ample light, and clear views of a lake just beyond the property. The couple started to notice some drawbacks, though. For one, Hutton's new commute sucked. "It took forever to get to the highway," the 34-year-old tells me. Simple trips demanded at least half an hour behind the wheel. The neighborhood was still a jumbled mess of construction, with hundreds of homes yet to be delivered. Even little stuff, like the sound of the wind whipping outside, got annoying. By January, only a few months after they'd closed on the house, Hutton and his wife were already starting to talk about moving.

Their dissatisfaction left them in a bind. Buying and selling so quickly is usually a recipe for financial loss — real estate agents pretty much always recommend staying put for at least a few years to make up for all the transaction costs. Plus, the Denver-area market softened considerably over the past two years, with more homes sitting for sale as buyers started biding their time. But there was one big issue that put Hutton in an especially bad spot. In lieu of cutting the actual list price, the builder of his current home had thrown in $30,000 worth of incentives to lure buyers like Hutton. The bulk of the deal sweetener came in the form of a "mortgage rate buydown," a financing maneuver in which the builder fronts some cash to help buyers get a lower borrowing rate from the builder's in-house lender, often for just a few years. The incentive is supposed to allow buyers to stretch their budgets and soften the blow of higher mortgage rates. Some takers are betting that they'll be able to refinance for better loan terms before their mortgage snaps back to the full rate.

Homeowners who got temporary buydowns in 2022 or 2023 have seen their gamble on rates fail spectacularly. The typical mortgage rate still hovers above 6.5% — roughly around the levels that many buyers back then were hoping to dodge. Given the slowing market, industry analysts, and even some executives, warn that these homeowners could see little in the way of equity gains before the full cost of the mortgage hits. If those buyers try to turn around and sell soon, they may end up having to slash the price just to push a deal through. Hutton's predicament is an example of the pain that could be in store for others who made a similar tradeoff, agreeing to a higher sticker price in exchange for lower interest payments.

Rick Palacios Jr., the director of research at John Burns Research and Consulting, has been sounding the alarm about the growing risks for buydown takers since last summer.

"People are going to start putting those homes back into the market," Palacios tells me, "and I think it's going to be a bit of a shock to them, what they have to reprice at."

The steep rise in mortgage rates in 2022 caused all kinds of havoc for the housing market. Buyers retreated to the sidelines or searched for workarounds that would stave off the pain of higher monthly payments. Sellers had to get real about the fact that they might not get the flood of attention, let alone offers, that listings enjoyed in 2021. And builders found themselves in a tricky spot. After seeing all the demand in the early days of the pandemic, they'd started work on a ton of new houses. With the market grinding to a halt, they'd have to figure out some way to unload them once they were completed.

The answer, in many cases, was a buydown. The deals offered an elegant solution for buyers mourning the fact that they'd missed out on the rock-bottom, sub-3% mortgage rates that everyone scored earlier in the pandemic. "Without something along those lines, the market would've been almost completely frozen in that price range," Lydia Creasey, Hutton's real estate agent, tells me. On their websites, builders touted borrowing rates well below the prevailing levels, keeping sales moving by enticing buyers with cheaper monthly payments. By December 2022, three-quarters of builders surveyed by John Burns Research and Consulting said they were offering buydowns. Regular sellers don't typically offer this maneuver to buyers. But for builders who could afford to eat the cost — while conveniently steering buyers to their in-house lenders — buydowns represented "a silver bullet," John Burns analysts wrote in late 2023.

"It really saved their business," Palacios tells me. In a normal housing downturn, he says, builders would have started cutting prices on their homes. The rate buydowns, though, were "like a mouse trap that allowed them to not have to adjust price."

There are a few ways a buydown can work. One option is the permanent buydown: The builder agrees to pay around 5% or 6% of the sale price to lower the mortgage rate for the entire 30-year loan, usually by one or two percentage points. Let's say someone takes out a $400,000 loan at a time when the typical rate is around 6.5% (pretty close to today's prevailing rates). If the builder buys down the rate to 5%, the buyer would be saving almost $400 every month. The initial outlay may be relatively low — in this example, about $24,000 — but over the length of the 30-year loan, the borrower's savings would come out to almost $140,000. Homebuilders and their mortgage companies are cool with this deal because they've often locked up cheap money that they can use for the loans, and because they don't want to get stuck with a bunch of homes on their books. Plus, they really don't want to cut prices, since doing so would tank the values of all the other homes nearby.

The other popular option is a temporary deal, which usually comes in the form of a "2-1 buydown." The builder sets aside cash to lower the buyer's mortgage rate by two percentage points for the first year and one point for the second year, after which it bumps up to the prevailing rate at the time of the home purchase. Again, let's say the prevailing rate is around 6.5%. A buyer with a 2-1 rate buydown would get a rate of 4.5% in the first year, 5.5% in the second, and 6.5% from there on out. If they took out a $400,000 loan, they'd be saving more than $500 every month that first year and more than $250 a month in the second year. That's a total savings of more than $9,000. In theory, this would allow a buyer to stretch their budget a little further to get the place they want, while also giving them some flexibility to refinance down the line if rates drop.

"The thing with residential real estate is that it's not about the investment," Eric Agar, an executive at the California-based brokerage firm Pardee Properties, tells me. "It's about your lifestyle. It's about your family. It's about you being at a home that you love. And if that allows you to do it today, instead of a year from now or two years from now, well, that's a huge pro."

The popularity of these deals soared alongside mortgage rates. In April 2021, just 17% of mortgage borrowers got a permanent buydown of one percentage point or more, data from ICE Mortgage Technology, a real estate software firm, shows. By the same point in 2023, that share had surged to nearly 45%. Temporary buydowns are more niche — they accounted for almost 5% of mortgage originations in late 2023, but have mostly hovered in the low single digits over the past few years. Still, there's no denying the prevalence of buydowns in the world of newly built homes. Last fall, Zillow published the results of a survey showing that 45% of buyers who purchased a home in the past year nabbed a mortgage rate below 5%, despite rates trending significantly higher. More than a third of those buyers said they got a lower rate because the seller or homebuilder offered them a deal on the mortgage.

Both permanent and temporary buydowns come with potential pitfalls, but people who agreed to time-limited incentives are starting to face a particularly harsh reality. To be clear, short-term buydowns aren't the reckless, adjustable-rate mortgages that fueled the housing bubble in the early 2000s — buyers who snag these deals have to prove they'd be able to handle the maximum amount they'll end up paying after the interest rate snaps back. But being technically able to pay that extra money and actually shelling it out each month are two different things.

There are still plenty of ways for buydown takers to end up in hot water. With temporary buydowns, some agents and analysts warn that fresh homeowners may be counting on rates dropping in the near future, allowing them to refinance to a new, cheaper loan before their payments bump up to the normal level. For buyers who got into the market two or three years ago, those dreams are fading fast. There's also the issue of lifestyle creep — if someone is used to saving a few hundred bucks on their loan each month, the jump to the full amount could be a bitter pill to swallow.

Last summer, though, Palacios began warning of a more dire scenario. His concern was aimed at buyers who got a buydown — permanent or temporary — a few years ago and are now looking to sell for one reason or another, like a new job, new kid, marriage, or divorce. These homeowners face a decidedly weaker market. Many areas of the country, particularly construction hotbeds like the Sun Belt, have more homes sitting for sale than at any point since the onset of the pandemic. The typical mortgage rate has yet to slide in a meaningful way. Home prices are up less than 2% nationwide from a year ago, data from the real estate firm Redfin shows, and major metros like Houston, Austin, and Jacksonville recently posted year-over-year price declines. While buyers in 2022 or 2023 might have been willing to accept higher prices in exchange for savings on their monthly payments, they usually can't pass along those benefits to the next owner of the house. If they want to get a deal done, they might have to either cut that once-inflated price or pay tens of thousands of dollars to offer a rate buydown to the next buyer.

An executive at KB Home, one of the nation's largest builders, recently said in an earnings call that many customers are "overpaying" for homes that offer these incentives, suggesting they could have a harder time clearing a profit in the future. "They're tied into this higher price that they're going to be stuck with forever until they sell that home."

If you so much as dipped your toe into the housing market sometime in the past few years, there's a good chance you encountered the phrase, "Marry the house, date the rate." The mantra got plenty of airtime when mortgage rates spiked in 2022 — the prevailing sentiment among agents, lenders, and real estate execs was that the jump in rates would soon blow over. Don't stress too much, the logic went, because you can always refinance when rates drop back down. Better to just find a good place while you can. That mindset has so far turned out to be wishful thinking. And while there haven't yet been signs of widespread strain in the market, homeowners who got a buydown just a few years ago may be facing a significant jump in their monthly payments or the prospect of selling for far less than they'd hoped.

"I'm hearing more and more stories of buyer's remorse," says Jess Uphoff, a mortgage lender who previously worked for a homebuilder. Not long ago, a temporary buydown seemed like a win-win: Builders could keep list prices higher while still passing along savings to buyers in the form of lower monthly payments. But if one of those buyers is trying to sell now, they'll likely be competing against the same builder who sold them their home — "only the builder has been steadily lowering prices or layering on new incentives." Uphoff says. "That means homeowners often can't resell for what they originally paid." At the end of May, for example, the homebuilding giant Lennar said its average incentive per home had stretched to nearly $60,000, up from $44,000 a year prior.

Rate buydowns aren't always a trap for buyers. People who got a permanent buydown a few years ago may feel pretty good about that decision, given that rates haven't yet dropped significantly. But Lauryn Dempsey, a real estate agent in the Denver area, says she counsels buyers to make sure they'll be staying in the home for at least five to seven years if they get one of these deals.

"Where I'm running into challenges right now is with the people who bought a couple of years ago that want to sell," Dempsey tells me. "I'm bringing estimated net proceeds that have negative numbers attached to them, so the seller has to bring cash to the closing. And I know I'm not alone in that right now."

Hutton, the homeowner in the Denver area, fell into this camp. He and his wife paid nearly $800,000 for their new house in 2024, while the builder bought down the mortgage rate by about one percentage point. That may not sound like a lot, but that meant they were paying hundreds of dollars less in interest every month. The Huttons won't be sticking around to enjoy those benefits, though. When I talked to Hutton in mid-August, he and his wife had just closed on the sale of their home, his second in roughly a year. They managed to sell the house for $800,000 — almost exactly what they paid for it, but down from their original asking price of $850,000, which factored in some of the additional upgrades they'd made to the place. The buyer also requested that the Huttons pay $40,000 for a rate buydown to match the terms the builder was offering for other new homes nearby. They agreed to the deal. Hutton says he worried that if they wavered on a sale much longer, they'd only have more new homes in the neighborhood to compete with, each of them offering a bevy of incentives.

"The interest rates were killing us, because no one was buying with that," Hutton tells me. "So the only way for me to get my house sold was to offer an incentive, pretty much."

Hutton walked away from his first sale with six figures in his pocket. Roughly a year later, after the latest transaction, all that money is gone. His agent, Lydia Creasey, even dipped into her commission to cut the buyer a check for $350 at the closing table — a rare scenario, she says, owing to the unusual circumstances of the deal. "It was the right thing to do in this situation," Creasey tells me. Hutton and his wife are now living in an apartment, biding their time until they're ready to take another stab at finding their dream home.

"I won't jump the gun," Hutton says. "I'm going to make sure to do my homework."