

## **Buy Now, Refinance Later**

Another strategy, which many buyers are considering now, is to purchase a home at the prevailing interest rate now and hope to refinance later, when rates fall.

It is very likely that current rates are at their peak right now, and those rates are likely to fall when monetary policy changes.

If you can tolerate the risk and you can afford to make the monthly payments at the higher rate, this might be a plausible strategy. However, there are several important issues to consider:

- If rates don't fall in the near future, can you afford to pay?
- In most cases, refinancing will require significant new closing costs. Will you be able to afford those costs?
- Most importantly, does this mortgage have a prepayment penalty fee for early payment? Avoid these types of mortgages, if you plan to refinance.

Before pursuing this strategy, you should seek the advice of an attorney or financial professional.

## **Other State Resources**

The Massachusetts Housing Finance Agency is an independent agency created to support housing opportunities for Massachusetts residents. Borrowers must meet income limits, which vary by location.

Find their website at [www.masshousing.com](http://www.masshousing.com).



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# **Strategies for Lowering Mortgage Interest Rates**

*For Homebuyers*



**William Francis Galvin**  
Secretary of the Commonwealth

*With mortgage rates at their highest point in over 20 years, homebuyers are looking for any possible way to lower their monthly payments.*

*If you're looking for a new home, consider whether the strategies listed in this pamphlet may work for you.*

### **Paying for Discount Points**

Buying discount points is a way to buy-down your mortgage interest rate for the life of the loan. This transaction typically occurs at the time you close on your home.

As the borrower, you will pay your lender an up-front fee, as part of your closing costs, to reduce your interest rate. This fee is usually 1% of the total loan amount.

Long term, the savings from buying discount points can be substantial, and the price of purchasing the costs may be tax deductible. However, you will need to own the home for at least 5 years before selling or refinancing at a lower rate to recover the costs.

### **Temporary Mortgage Buy-Downs**

While less common in competition housing markets, you may always inquire about the possibility of a temporary reduction in your mortgage interest rate. This reduction is usually

offered for the first 1-2 years of the loan, as an incentive from the seller or builder.

When the temporary reduction ends, you will need to pay the full rate of the mortgage. Typically, you need to be able to qualify for the mortgage at the full rate.

### **Assumable Mortgages**

In rare cases, the seller may have a mortgage in place that allows it to be assumed, or taken over, by the buyer. At this time, it is estimated that there are approximately 12 million such mortgages in the United States.

While an unlikely option, ask if your seller has such a mortgage. Nearly all previously existing mortgages have significantly lower rates than those being offered now. Closing and transaction costs may be higher, but the substantial monthly payments may make those costs worth it.

