

April 15, 2024 – Wealth Planning Commentary

Creative Ways for Home Buyers to Reduce Their Mortgage Rate

As of April 2024, mortgage rates are hovering around 7% for a 30-year fixed rate. Current rates are higher than they were a few years ago, but they are lower than the 50-year average of around 8%. Home buyers looking for a better rate may execute a variety of strategies.

One of the easiest ways to reduce a mortgage rate is to pay for a discounted rate upfront. A discount point costs about 1% of the loan amount, and each point decreases the interest rate by anywhere from 0.25% to 0.50%. The lower rate remains constant throughout the life of the loan unless it's a variable rate mortgage. A breakeven analysis is useful to understand when the discounted rate outweighs the cost of a higher payment upfront. If you believe that rates will decrease in the next few years, then this strategy is likely not worthwhile. A homeowner can refinance when rates decrease instead of paying for the discount today.

A more creative strategy is an assumable mortgage, although the conditions are challenging to meet. With an assumable mortgage, the seller transfers their mortgage to the buyer. The buyer needs liquidity to pay the difference between the loan balance and the home price. If the home price has appreciated since the seller originally purchased the property, an assumable mortgage can be very cash-intensive for the buyer. Even if the buyer meets the criteria, an assumable mortgage is not an option for many conventional mortgages.

A current trending tactic is the temporary mortgage buydown. This transaction is negotiated between the buyer and seller to make the buyer's mortgage more affordable in the beginning years of homeownership. The seller subsidizes the loan by depositing the monthly buydown amount in an escrow account. The loan servicer draws from the escrow account and combines that with the borrower's payment to fulfill the total monthly debt payment. If you can negotiate with the subsidizer, and that's a big if, a temporary buydown makes sense when the buyer expects their income to increase and believes that interest rates will go down.

Homebuyers with affluent family members might consider an intra-family loan. In this scenario, parents, grandparents, or siblings lend the homebuyer funds to purchase a property. There may be an emotional toll associated with borrowing from family, but from a technical standpoint, it's likely the lowest cost option. Interest rates for intra-family loans are set by the IRS and are lower than commercial rates. Currently, the long-term AFR rate is 4%. Variable rates are also available. Intra-family loans are red flags for the IRS and documentation is recommended. Third parties, such as National Family Mortgage, can facilitate the process. Intra-family loans also serve as a wealth transfer technique for those with taxable estates today or in the future.

Please reach out to your Wealth Manager with questions about reducing your mortgage rate.

Disclosures

Investment advisory services offered through Robertson Stephens Wealth Management, LLC ("Robertson Stephens"), an SEC-registered investment advisor. Registration does not imply any specific level of skill or training and does not constitute an endorsement of the firm by the Commission. This material is for general informational purposes only, has not been tailored to the needs of any specific client, and should not be construed as individual tax, legal or investment advice. Please consult with your individual tax advisor prior to making any tax-related decisions. The information contained herein was compiled from sources believed to be reliable, but Robertson Stephens does not guarantee its accuracy or completeness. Investing entails risks, including possible loss of principal. Past performance does not guarantee future results. This material is an investment advisory publication intended for investment advisory clients and prospective clients only. Robertson Stephens only transacts business in states in which it is properly registered or is excluded or exempted from registration. A copy of Robertson Stephens' current written disclosure brochure filed with the SEC which discusses, among other things, Robertson Stephens' business practices, services and fees, is available through the SEC's website at: www.adviserinfo.sec.gov. © 2024 Robertson Stephens Wealth Management, LLC. All rights reserved. Robertson Stephens is a registered trademark of Robertson Stephens Wealth Management, LLC in the United States and elsewhere.