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As mortgage costs rise, some home builders are buying down rates themselves

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M/I Homes

M/I Homes is one of the builders that has used rate buydown programs to maintain pricing and lure buyers.

With high interest rates spooking some home buyers and sending home builders into what can sometimes feel like premature retirement due to falling demand, builders are starting to take the matter into their own hands.

If high interest rates, are the problem, there's an easy solution: just bring them down.

Rate buydown programs and other interest rate specials are proliferating in the new-construction market, with builders making concessions to their bottom line to ensure that potential buyers aren't scared away by recent spikes in mortgage rates. They're offering programs to lock in interest rates, spending millions of dollars to buy guaranteed rates or simply offering a couple of years of discounted interest rates with the hope that buyers will be able to refinance at a better number before too long.

"Marry the home and date the rate," the saying goes, said Bob Powley, the vice president of operations for M/I Homes Detroit, whose corporate parent recently sold out of a 5.875 percent interest rate it paid for up front, in order to guarantee the rate for potential buyers.

Powley said it can cost anywhere from a few million to several million dollars to secure enough funds to provide several dozen loans; the company has done so three times since this summer. For M/I Homes, the purchase can amount to a four to five basis point hit — the equivalent of 4 to 5 percent of the purchase price of a home — on each sale. It's worth it, he said, because it helps customers' budgets while maintaining a sense of "normalcy" in home shopping.

"You're maintaining pricing as opposed to discounting," Powley said. "It's definitely a customer value."

He said he's convinced the company is selling more homes today than it would be otherwise because of the discount. He expects M/I Homes will continue the program until there's some shift in the economy — at least through the first part of next year. Each rate purchase has lasted about 45 days, he said.

At Robertson Homes, chief operating officer Darian Neubecker said he's able to take between one and a half and two points off a fixed-rate mortgage — with another half-point off an adjustable rate — by contributing funds to the lender up front. The builder has been "marketing it extensively," Neubecker said, but hasn't gotten as much buy-in as he would have expected — instead, people are more likely to simply take the cash equivalent as an incentive, he said. The program has been running since this summer, as well.

A Robertson Homes house for sale in Novi.

"It's complicated, so you've got to do a good job explaining it," Neubecker said of some of the challenges of rate buydown programs. "Simplicity's a good thing on a purchase like this."

High interest rates, he said, are currently the industry's biggest challenge. But there are plenty of marketing opportunities to tell people that there are ways for them to pay less than listed rates.

At Infinity Homes, CEO Rino Soave said he started off offering interest rate locks, but buyers who thought rates might come down weren't particularly interested. He then began offering $7,500 for closing costs or as an interest rate buydown, subsidizing mortgages by two points for the first year and one point for the second. That program has been offered for about three weeks.

"We think it's an awesome program," Soave said. "It's an incentive for new buyers walking in the door."

Just a few customers have taken advantage of the offer so far, he said, but he said he sees it as a "great hedge" that "takes the uncertainty off the table for the next couple years."

"Who's to say what the hell may happen in the next year?" he said. "The biggest fear is the unknown. This takes some of the unknown out of the equation in purchasing."

At Pulte Homes, spokesperson Jim Zeumer said he didn't have data on the local market in Detroit, but in its third quarter earnings call, the company said incentives were focused on mortgage rate locks and buy downs in most markets when demand began to slow. Incentives have become more aggressive — including price reductions — as rates have continued to rise.

Rate buydown programs can make a tangible difference in buyers' monthly costs, said Loren Yates, the branch manager at Mortgage Right in Novi. Yates is working with Infinity Homes on its buydown program, and said for a $325,000 house with 5 percent down and a 30-year fixed rate of 6.75 percent, the company's program could temporarily reduce what would be a $2,003 monthly payment to $1,611 a month. The rates are not considered adjustable; what they will be at the end of the rate reduction is clear.

"People are struggling with payment shock right now," Yates said. "It's how you can help them get in homes while we're waiting for the dust to settle."

If interest rates fall, buyers have the option to refinance their loans and pocket any remaining incentive funds that weren't already used, he said.

Yates said the method was last used after the 2008 financial crisis; in more recent years, interest rates were so low that it wasn't necessary to offer that kind of incentive.

Both he and Powley, with M/I Homes, said the rate discount was preferable to discounting the homes themselves. That way, those who bought earlier in the cycle won't feel like their home has lost any value.

Buyers would still have to qualify for the actual 30-year fixed rate, Yates said, ensuring they can make the payments once the promotional rate expires.

"It's kind of a win-win for everybody," he said. "Because it's seller funded, the buyer has nothing to lose. It's all gain for them."

Inline Play

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