



## Paying for Points

### 3 Pointers on Points

1. Carefully consider how long you plan to live in your new home. The longer you will stay the more benefit you will get out of paying points. If you plan to pay off the loan, move or refinance within the first five years, it is generally not a good idea to pay points.

2. If you would like to get a lower interest rate but do not have the extra money to pay for points, consider asking the seller to pay them for you. Ask your realtor to help negotiate the contract so the seller pays your points.

3. Points are normally tax deductible whether you or the seller actually pay for them. Points on a refinance are not deductible in the same way. On a refinance you normally have to spread your deduction out over the amortization of your loan (check with your tax advisor).

### Should I pay "points" to get a lower interest rate?

Points come in two varieties, origination and discount points. Generally a "point" is a fee that the lender charges to buy down the interest rate and is equal to one percent of the loan amount. "Discount points" vary inversely with the rate quoted—that is, the lower the rate quoted, the higher the amount of points charged. Discount points are used to adjust the yield on the loan to the institution providing the money. Origination points, such as is common for FHA and VA loans, are generally charged by the lender to offset the lender costs of administering the transaction.

### Does it make sense to pay the points?

The answer is...it depends. There are many factors to consider. One of the primary items to review is the overall long term cost of a zero-point loan versus a loan with points. One easy way to determine the value of paying points is to determine how many months (payments) it will take to recoup the original expense. The math is easy. Simply, divide the cost of the points by the monthly savings to arrive at the number of months it will take for your investment in points to pay for itself. Here is an easy example:

	2 Points	0 Points
Loan Amount	\$100,000	\$100,000
Cost of Points	\$2,000	\$-
Interest Rate	7.75%	8.25%
Monthly Principal and Interest Pmt	\$716.41	\$751.27
Monthly Savings	\$34.86	\$-
Months to recoup	57 months	
Up-front point cost	4.75 years	
Total savings over 360 payments	\$10,549.60	\$-

The example is a simple approach to compare the difference between a zero-point loan and a loan with points. However, there can be other factors to consider. Some consumers may try to calculate tax implications of the different amount of points and interest paid and the subsequent tax deductions. Other borrowers may consider the present 'value' of the dollars spent on points today, versus the future 'value' of the dollars if they were invested instead of being paid to the lender. A great majority of consumers will be able to determine the advantages or disadvantages of a zero-point loan by using the above scenario.

### "No-cost loan"

There is no free lunch, even in mortgage lending. Every real estate financing transaction has costs for processing the application, appraising the subject property, administering the transaction escrow, securing title insurance, etc. In a typical "no-cost loan" the lender agrees to pay all of the costs of the transaction for the borrower in exchange for the borrower paying a higher price for the loan. Depending on the individual borrower's circumstance, this may or may not be a "good deal."

### Think about your future

You will make the right financial decisions today if you have a plan for your future. In other words, your mortgage professional can plan your mortgage around your goals and aspirations. If you plan to move or refinance your mortgage loan within the next five years you most likely should not pay points. If, however, you know you are going to be in this home for a long period of time, you can definitely save money by paying the points. Take a few minutes and think about where you are going to be in the next 3-5 years. The answers you come up with will help you make the right decision about paying points.