



What are Points?

What are Mortgage Points?

A mortgage point is equal to one percent of the total loan value, and may also be called a discount or interest point. For instance, a home loan for \$400,000 has a point value of \$4,000. A home loan for \$300,000 has a point value of \$3,000.

Why do Mortgage Points Matter?

Depending on the amount of the home loan and the interest rate you qualify for from your lender, you may have a higher payment than you would like or than you planned on having. Rather than giving up on this home and getting a loan for less money, you can buy your mortgage points to reduce the interest rate. This keeps the lender happy with the rate, and yourself happy with the payment. It is up to lender whether or not they will take the deal, so be prepared to negotiate.

For example, if the lender offers an interest rate of 6% on a \$400,000 loan, and you decide that the payments are too high, you can offer to pay a certain number of points off the loan up front, in addition to closing costs, to reduce the overall payment of the loan. This works well for people who have the means to do this, but for those who don't have any funds left after the down payment on the home, it would be a better idea to make the higher payment or find a home they could get with a lower loan amount to keep payments in a range they can afford.

Should You Pay Mortgage Points?

If you can afford your monthly payment, don't worry about paying the points. The home loan is affordable for you and you have made a smart choice. If you cannot make the monthly payment without buying down your points, you may have bitten off more than you can chew, and may want to look at a different home to find something more affordable. If the loan however is just a bit more than you can afford and buying down points with cash you have on hand will make it manageable for you, then it may be a good choice.

In order to figure out if paying down your points is a good way to save money on your mortgage, you will need to figure out how long you need to stay in the home to save the amount you paid upfront to buy down the rate in your monthly payments. For instance, if you paid 2% or \$8,000 to reduce your rate to 4% on the \$400,000 loan, the monthly payment on the 30-year fixed mortgage will go from \$2398.20 a month to \$1909.66 a month. It would take about 17 months to see the \$8000 come back in savings.

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