PAYING POINTS…

What are points?

Points are up-front mortgage interest fees paid on a loan to reduce the initial interest rate. For example, a one point loan will always have a lower interest rate than a zero point loan. Therefore, paying points is a trade off between paying money now versus paying money later.

When You Should Pay Points?

Generally speaking, you should only pay points if you plan on keeping the loan for at least 4+ years. Because points are prepaid interest, you need to be sure you will keep the loan long enough to recoup these costs through lower monthly mortgage payments.

If there is a chance you may move within a four year period or if the general interest rate market is declining, you should consider a no point loan. If you plan on keeping the property for an extended period and the interest rate market is increasing, you should consider paying a point. Of course each case is different. It is recommended to seek the assistance of a mortgage planner to make the right decision.

Tax Issues

The tax treatment of points depends on what the loan is being used for. If you are purchasing a home, points are generally entirely deductible in the year you buy. This is true even if the seller is paying for your points in the form of a NRCC credit.

In a refinance transaction, points must be amortized over the life of the loan. For example, on a 30 year loan, you can deduct 1/30th of the points paid each year. If you refinance for a second time, however, you can deduct the remaining unamortized points in the year you refinance the loan. Consult your CPA, tax planner or attorney for more info on this subject.

Example

Loan Amount: $400,000

Loan Program	Rate	Points (Cost)	Payment	Savings per Month	Breakeven Point
7 Year Fixed	6.25	0	$2462/month		
7 Year Fixed	5.75	1 ($4000)	$2334/month	$128/month	31 months or 2.6 years

Note: Above rates provided only for educational purposes. Rates and fees subject to change without notice.

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