

What's the 'Point'?

Understanding how "Points" Affect Your Home Loan

You've probably heard of points in connection with a home loan, and you may have wondered what it has to do with *your* loan, and whether or not you have to pay them. Are points some kind of a penalty for people with less-than-perfect credit? Do points have to be paid only to mortgage brokers, not to mortgage bankers and credit unions? What are they, anyway?

Whatever you may have heard about points, we're here to help you understand what points really are, as well as when (and why) they're paid.

When you apply for a home loan, the credit union lends you funds so you can buy a house. You repay that loan on a monthly basis, and you're charged interest in the form of an interest rate.

Easy enough. But you do have some options.

You can pay the credit union nothing up front, and whatever the interest rate is, it will be reflected in your monthly payments.

Or, you also have the option of buying down the interest rate by paying the credit union a percentage of your interest up front. In return, you'll get a lower rate so that your monthly payments will be lower. Paying these discount 'points' allows you to lower your overall interest rate.

Essentially, points are prepaid interest. Each point is 1% of the loan amount. Generally, for each point paid on a 30-year home loan, the interest rate is reduced by 1/8 (or .125) of a percentage point.

When you call the credit union for a home loan, find out what the interest rate is at zero points and then see how much the rate decreases with each point paid. Opting to pay discount points is a smart move if you plan to stay in a home for some time, because it will mean a lower monthly loan payment for 15, 30, or even 40 years.

Points are tax deductible when you purchase a home and you may be able to negotiate for the seller to pay for some of them.

Typically, you can pay up to three points. And keep this in mind: When comparing interest rates, you're not comparing apples to apples unless you know exactly how many points you'll be charged, as well as other fees some lenders charge.

Still not sure if you should be paying points? Call 1-800-635-7128 for a free consultation.