

Points: Understanding Their Effect On Your Mortgage

Buying a home can offer so many options that you may not be able to really make the right decisions about the loan you are looking for. One of the many options that you may have is that of paying points. By paying points on your mortgage, you lessen the overall cost of your monthly mortgage payment because you are paying the points ahead of time. Points are paid up front and are designed to be the amount of your mortgage interest. If you pay points, you pay a one time fee to reduce the initial interest rate on your loan. Should you use them? Perhaps they are right for you, but they may not be. You can use a mortgage calculator to help you to see if this is a good decision for you or if you are better off using your money for something else.

Understanding Points

One of the first things that you need to do is understand how points will affect your interest rate and your mortgage in general. Points stand for a percentage of your loan. One point is considered to be equal to one percent of your total loan. Here's an example of what a point is. Let's say that you have a loan that is at \$200,000. One point of that loan would be \$2000. By paying that \$2000 up front at the time of your loan signing, you are paying one point and reducing your interest rate by about .25 percent.

Should You Use Points On Your Loan?

One of the key factors in understanding if you should use points is to understand your overall goals in buying a home. For many, purchasing a loan means paying for a loan for a set amount of years and owning the home free and clear after that time. For others, it is just a stepping stone to a different home or perhaps even for an investment. If you are planning on living in your home for the long haul, then paying points at the beginning of your loan term can be very important. In fact, it can save you a good amount over the life of your loan.

On the other hand, if you plan to live in your home for less than four years, it may not make any sense to put extra money into the interest of your home. The fact is that this is a payment towards the interest only on your home, not the principle and for that reason

you should take serious consideration over putting your money towards the interest through points.

Using A Mortgage Calculator Can Help You

A good way to learn if in fact you are going to do well by investing your money in points to lower your interest rate is to simply use a [mortgage calculator designed for point considerations](#). Here is an example of how this information can be used by you to find the best loan for you.

For those that are borrowing money, consider these terms. You'll adjust your own to match your current situation, of course.

Original interest rate you qualify for: 6.5 percent

New interest rate with points discounted: 6 percent

Discount points: 2

Total amount that you are borrowing: \$250,000

Term of your loan: 30 years

With this information, you can get these results. First, your original rate would cost you about \$1580 per month in a payment. If you did provide for two points, then this number is reduced to \$1500 per month in payments. But, is this a good idea? While it saved you over \$80 in your monthly payment, in order to make this money back, you would have to be in the home for at least 62 months or over 5 years. If you plan to do that, then it makes sense to invest in the points as defined here.

Of course, it is very important for you to figure your own information here. The cost of the home you are purchasing is an important factor in determining how much a point will cost you. The more it is, the more you will have to pay in order to discount the points any. More so, you do have to take into consideration the interest rate that you qualify for based on your credit score and your financial situation. The right term is also important in defining if points are going to be a good decision for you or if they possible are not.

Should You Do It?

While only you can make a decision in regards to paying points, you should take the time to figure out more costs, too. For example, answer these questions for yourself.

- Do you have the funds to put into points for your mortgage available to you at the time of setting the loan in place? If you'll need those funds for moving or repairs on the home, it may be better placed in your home at that time.
- Does it make more sense to put your funds towards a down payment or closing costs instead of folding these into your loan?
- Will you still have money as a back up for emergency? This is especially important if you are depleting your savings account to pay points.

Take the time to use a [mortgage calculator](#) to help you to answer these questions.

Weigh your decision in both regards. This will ultimately help you to determine what the more affordable solution for your needs is. For many people, the end result is to find an affordable loan that also meets your overall goals for monthly payments. Realize too that you need to qualify for a loan interest rate too, which may fluctuate your calculations some. Use a mortgage calculator to help you to find out what your options are. The fact is that this is the best way to learn if a loan is right for you one way or the other.