Some Points About Points

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"Does the rate include points?" **This simple question is a key element in determining which lender is offering you the best deal on your mortgage.**

Points are easily calculated - one point equals 1% of the loan amount. If you are buying or refinancing a home with a $360,000 mortgage, for example, one point equals $3600.

Each point serves to lower the interest rate of your loan. **However, the points are paid *up front at closing*, meaning you pay more for the deal at the beginning.** Today's lenders offer a plethora of point/rate combinations.

Consider this simple example. If the loan amount is $360,000, at a 6.75% rate, your monthly payment would be $2,335. If you pay one point ($3,600), your rate may decrease to 6.5%. This would lower your monthly payment by $60 to $2,275.

Is it a good deal? Well, in this case, it would take you 62 months ($3,600 / $60) to break even on the up front payment. If you sell or refinance the property before the 62 months are up, you'll end up paying more overall than if you had simply paid the extra $60 each month and not paid the points.

Another consideration is cash flow. For many people, cash is at a premium when buying a property, and by paying points up front - *even though it lowers your monthly payment* - you won't have access to that cash as unexpected costs arise. In that case, you may be wise to pay a slightly higher rate, but keep the points in your pocket.

Whichever path you choose, remember that whenever you are quoted a mortgage rate, it is absolutely essential to ask if the quoted rate includes points (and if it does, how many). Only then can you decide if it makes sense to pay them.

Got questions about real estate financing?

Contact Debbie@westchester-mortgage.com or 617-965-1236. She'll consider them for inclusion in a future column. Debbie Siegel is president of Westchester Mortgage in Newton, Massachusetts. She is licensed in several Northeastern states.