

Should I Pay Points to Reduce My Interest Rate?

A common question among borrowers is “Should I pay Points to Reduce my Interest Rate”?

In this report, we’ll discuss this topic in detail and show you how you can determine if paying points is the right decision for you. Let’s get started!

What are Points?

In their simplest form, Points are up-front mortgage interest fees paid on a loan to reduce the initial interest rate. Points are fees the borrower pays at the time of loan closing. If you pay one point (1%) on a \$100,000 loan, then you will pay \$1,000 at the loan closing.

Most people pay points to reduce their long-term loan interest rate. For example, if you are taking out a loan, and you qualify for a 7.25% interest rate, it may be possible to reduce the interest rate to 7.0% or less by paying points. This is similar to making an investment. Your monthly payment and total interest over the years will be reduced by paying points.

Am I Required to pay Points?

Most mortgage brokers offer loans with 0 points. This may seem attractive at first, but you need to calculate how expensive a 0 point loan will be over time, because it’s quite possible you could obtain the same mortgage with a lower long-term interest rate, by paying a couple of points.

Tax Advantages

Another consideration you should take into account is the potential tax advantage that points represent. If you are purchasing a home, any points that you pay up-front are immediately tax-deductible. If you are refinancing, however points ARE NOT tax-deductible and must be amortized over the life of the loan...

How to Make Sense of This

Take this short pop-quiz to see how prepared you are to make an informed decision on your next purchase or refinance:

1. Should I pay points or not?
2. Since there are hundreds of loan programs, how do I know which one is best for me?
3. How can I tell if I am getting the best rate?
4. How will the choices I make with now affect me 10-15 years in the future?
5. Which loan choice will allow me to have a better retirement or money for my child’s college education?

If you are unsure of the answers to any questions, you should seek expert advice for a knowledgeable, respected mortgage specialist.

Your home purchase or refinance will be one of the largest financial transactions you will ever be involved in and the choices you make now could affect you for years to come. This is why we at All Island Mortgage offer a FREE, no obligation “Borrower Coaching Session” to help people just like you get answers to the most important questions.

We put our experience to work for you, preparing you to make an informed decision that could save you thousands of dollars. At no cost to you!

Why? Simple – if we do a good job helping you prepare, maybe we can earn your mortgage business. We are sure willing to try. Are you willing to spend 30 minutes with us?