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# Points vs. No Points

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Mortgage “points” are upfront fees that you pay in order to lower your mortgage interest rate. One point is equal to 1% of the loan amount. In the past, it almost never made sense to pay points in most situations where you were refinancing your mortgage. However, enormous changes have taken place in the mortgage securitization process. Wall Street investors are demanding higher upfront fees for borrowers with credit scores below 720, and mortgage lenders don’t have as much flexibility when pricing loans. This means that the interest rate savings can be very significant when you pay upfront points.

## Chart #1:

Here is a chart comparing points vs. no points for a typical situation involving a homeowner with a 700 credit score looking to refinance a \$200,000 mortgage that represents 80% of their \$250,000 home value:

	<b>Offer #1: No Points</b>	<b>Offer #2: 1 Point</b>	<b>Offer #3: 2 Points</b>
Home Value	\$250,000	\$250,000	\$250,000
Loan Amount	\$200,000	\$200,000	\$200,000
Interest Rate	5.75%	5.125%	4.75%
<b>Monthly Payment</b>	<b>\$1,167</b>	<b>\$1,089</b>	<b>\$1,043</b>
<i>Payment Savings</i>	-	\$78	\$124
Closing Costs (appraisal, title, etc.)	\$2,000	\$2,000	\$2,000
Points	\$0	\$2,000	\$4,000
<b>Total Costs</b>	<b>\$2,000</b>	<b>\$4,000</b>	<b>\$6,000</b>
<i>Upfront Cost Savings</i>	\$4,000	\$2,000	-

- With Offer #3, you would save \$124/month in your mortgage payments vs. Offer #1, but you pay \$4,000 more in total upfront costs.
- With Offer #1, you would save \$4,000 upfront vs. Offer #3, but you pay \$124 more per month as part of your monthly mortgage payments.

In this example, if you choose Offer #3, you would breakeven in approx. 32 months (\$4,000 upfront costs divided by \$124 in monthly savings = 32 months). Therefore, although Offer #3 carries more upfront costs, it could be the better choice for you if you keep the mortgage for more than 32 months. For specific information about whether points would make sense in your situation, talk to a Certified Mortgage Planning Specialist™ in your area by visiting [www.CMPSInstitute.org](http://www.CMPSInstitute.org)