UNDERSTANDING POINTS

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Whether called points, discount points, loan brokerage fee, or new loan fee, they are all the same. Points are such a vital part of buying or selling in today's market that an understanding of them is important.

What exactly are points?

Points are the money paid to the lender that allow the lender to make loans at a regulated, lower than market interest rate and still obtain the desired rate of return.

Why not just raise the interest rate?

In order to allow more people to buy their own home, the US government established the FHA and VA loan programs. The VA program was established to assist our war veterans, and later all veterans, by eliminating the required down payment. The FHA program was developed to assist low to medium income families to purchase a home by reducing the required down payment. The FHA program is regulated by the government which established the maximum interest that a lender may charge. This maximum rate is often slightly below the going rate for mortgage money and thus the need for points to supplement the difference. In addition, points are being used by lenders of conventional mortgages for the same purpose.

How are points figured?

One point is one percent (1%) of the loan amount. Five points on a $60,000 loan would be 5% of $60,000, or $3,000.

Who can pay points?

All points can be paid by either the buyer or seller.