

## **What are Loan Points?**

When shopping for a mortgage rate it is necessary to pay attention to the details. Loan points are often overlooked as buyers are fixated on getting the lowest interest rate; however they are an important point to consider when picking your mortgage. Loan points are an upfront charge by the lender that is part of the price of a mortgage.

Points are expressed as a percent of the loan amount, with three points equating to 3 percent of the amount financed, on a \$200,000 house that is \$6,000. Points can also be negative, in which case they are a rebate from the lender to the borrower. Rebates usually are bundled into higher rates, while low rates usually have positive points. Lenders usually offer borrowers a range of interest rate/point combinations, leaving it to borrowers to select the best combination for their particular needs. If you have sufficient cash to meet the requirement and plan on staying in the home for a long time then you should probably pick a low rate/high point combination. On the other hand, if you do not have sufficient cash and do not expect to be in your home for a long time it would be best to pick a high rate/low point combination.

It is possible to include the points in your financing; however you want to make sure that it does not push you into the threshold where you will need Private Mortgage Insurance. If you have any questions on loan points or other real estate related topics please give me a call.