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What Are Points and When Should You Pay Them?

Points are up-front fees paid to obtain a better interest rate on a loan. One point equals one percent of the loan amount. A lower interest rate may result in a lower monthly payment, but it is important to consider how long you intend to be in the loan, and to compare current rates to historical market trends.

If you take out a \$300,000 mortgage and decide to pay one point, this translates into an up-front closing cost of \$3,000. Paying a point up front saves \$100 a month but it will take 30 months to recuperate the cost of that point. If you decide to refinance or sell the home before the 30-month mark, your money is lost. In this case, you would benefit financially by remaining in the home longer than the 30 months.



Rates run in cycles. When rates are at historical lows, it is sensible to pay points if you plan to live in the home for an extended period of time. It is unlikely that rates will go down; hence, there will be no need to refinance.

When rates are up, there is a strong likelihood that they will come down. This is no time to pay points. The chances of refinancing in the future are extremely high, and you will likely not be in the loan long enough to recuperate the cost of the points.

Mortgage Interest Rates

Rates as of 10/14/2005:

	Conforming	APR	Payment per \$100,000	Jumbo	APR	Payment per \$100,000
30-Yr. fixed	5.750%	5.933%	\$583.57	6.000%	6.186%	\$599.55
15-Yr. fixed	5.375%	5.680%	\$810.46	5.375%	5.680%	\$810.46
7-Yr. fixed ARM	5.125%	5.301%	\$544.48	5.750%	5.933%	\$583.57
5-Yr. fixed ARM	5.250%	5.427%	\$552.20	5.375%	5.554%	\$559.97
3-Yr. fixed ARM	5.125%	5.301%	\$544.48	5.125%	5.301%	\$544.48
5-Yr. Interest Only	5.500%	5.680%	\$458.33	5.625%	5.806%	\$468.75
Annual ARM	3.500%	3.660%	\$449.04	3.500%	3.660%	\$449.04
1moMTA-OptArm	1.000%	5.652%	\$321.63	1.000%	5.652%	\$321.63

*Rates are subject to change due to market fluctuations and borrower's eligibility.

Chantel Beck proudly represents Allied Capital Loans, licensed with the CA Department of Real Estate # 01385749

