TERRA FIRMA
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WHAT ARE DISCOUNT POINTS?

Discount points are fees paid to a lender in order to purchase a lower interest rate.

This process is also known as a "rate buy down" and the net result is a lower monthly mortgage payment over the life of the loan.

One point is 1% of the loan amount.

So the cost (paid at closing) for one point on a loan of $100,000 is $1,000. Typically, one point will lower the interest rate .25% to .375%, depending on the type of loan.

Does it make sense for you to consider purchasing discount points?

That depends on a number of factors. Usually, it is best to avoid discount points if a client will be in the home less than four years, is applying for an adjustable rate mortgage or plans to refinance within a few years. Discount points are generally a good idea if the homebuyer plans to remain in the home over five years and is not planning on refinancing in the near future.

When considering discount points, it's best to conduct a break - even analysis.

This is done by calculating the monthly mortgage payment with no points, then subtracting the monthly mortgage payment with points. The difference is the monthly savings. Then divide the cost of the discount points by the savings. The result is the number of months until the homebuyer breaks even.

Discount points for residential property are tax deductible in the year they are paid.

Discount points are available when refinancing, but those are deductible over the life of the loan. It's best to advise your clients to consult with a tax advisor regarding the details of these deductions.