the Mortgage Bulletin

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Conforming Loans to $359,650

Type	Rate	APR	Trend
30 Yr FIX	5.875%	5.956%	→
15 Yr FIX	5.625%	5.506%	→
5/1	5.625%	6.293%	↑
3/1	5.500%	6.371%	↑
Jumbo Loans above $359,650			
30 Yr FIX	6.250%	6.311%	↑
15 Yr FIX	5.875%	5.973%	→
10/1	6.000%	6.1293	→
7/1	6.000%	6.359%	→
5/1	5.750%	6.337%	→
10 Yr Bond		4.361%	↑
Prime		6.750%	→

Do points count?

Many factors are considered in formulating loan strategy.. How long will the borrower need the loan? Will future income be up, down, or flat? Are interest rates heading up, down, or sideways? These and a host of other questions must be addressed.

In the current economic environment, the question about paying points in exchange for lower interest rates is gaining importance. This is not to say that it makes sense to pay points today, but it certainly makes sense to consider it.

Points are expressed as a percentage – for example one point is one percent. For a loan of $500,000, a point is $5,000. It is not necessary to pay points in whole numbers. A borrower can pay .125% (one eighth of a point) a half point, three quarters of a point, etc.

Further, there is no set formula for the interest rate reduction realized by paying points. Lenders price their loans independently.

So much for discussion; here are some figures. The following figures are examples, not quotes. However, they are close enough to illustrate the point. Yes, a lousy pun, but --- it can't be helped.

To make it simple, let's use a loan amount of $500,000 and a rate of 6% at zero points. This generates a monthly payment of $2,997.75.

Paying one point ($5,000) reduces the interest rate to 5.75% lowering the monthly payment to $2,917.86 for a savings of $79.89. Divide $5,000 by $79.89 and you get 62.58; the number of months it takes to get back the cost of the point.

More figures are necessary in this example because there is a difference in the impact of points between a buyer/borrower and a refinance borrower. Buyers can deduct the cost of points in the year of the purchase and refinance borrowers must spread the cost of points over the term of the loan.

As always, check with your accountant. Figures in this article are not tax advice. But obviously a buyer in a combined 50% state and federal tax bracket pays less for points after tax than does a refinance borrower in a combined 30% tax bracket.

Here's a profile of someone who might want to pay points. The loan is $500,000. This person is in a 45% combined tax bracket. They are buying a home with the intention to be moved out only "feet first," and they have a long life expectancy. Their income will remain flat for three years and drop when they retire. They believe that interest rates will increase into the future as inflation sets in. They are not stretched for a down payment and thus paying points is not a problem.

By paying two and a half points ($12,500), they can buy the rate down to 5.375% with monthly payments of $2,799.86. After tax, the points cost 55% of $12,500 or $6,875. The monthly payments are reduced by $197.89. So this buyer gets the points back in less than three years --- 34.74 months to be more precise. To be sure, they initially invest more in the loan than they absolutely have to, but the long term payoff is probably worth it.

In general, during the past several years, paying points has been less attractive because, as rates declined it has been possible to refinance into lower and lower rates. So why pay points for a loan you will quite likely refinance before getting the points back?

Today, there is a broadly held view that we are not likely to see rates heading lower. So, points are potentially more valuable than they have been in the past and paying points should absolutely be considered.

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