

# WHAT ARE POINTS & WHO PAYS THEM?

## What is a point?

A point is equal to one percent (1%) of a mortgage amount. For example, on a \$120,000 mortgage, one point is \$1,200.

## Are there different types of points?

Customarily, points are quoted as something plus one. For instance, a 10% interest rate with points of three plus one: The one point is a loan origination fee which pays the cost of processing the mortgage; the three points are discount points.

## What is the purpose of discount points?

Discount points are used to purchase a lower rate of interest over the life of a mortgage. For example, let's say that a house is selling for \$100,000 and the mortgage is \$80,000. There are two rates of interest quoted: 10% with points of two and one; 10.5% with points zero plus one. Principal and interest at 10% for thirty years on \$80,000 is \$702.06; at 10.5% it is \$731.79. Thus, for an up-front fee of \$1,600 (2% of \$80,000), the borrower will pay \$29.73 less each month for thirty years.

## Who decides what points are?

Points are determined by the return demanded by the final investor on a loan. In other words, investors place open market bids for mortgages at different interest rates.

## Who pays these points?

Except in the case of VA loans, the issue of who pays discount points is negotiable between buyer and seller.

## Why would a buyer pay points?

The obvious advantage to a buyer is the lower payment on a mortgage.

## What are the advantages of the seller paying points?

There are a number of potential advantages to sellers in these cases:

- Some buyers do not have the funds to pay points themselves and cannot or will not qualify for a lower rate of interest.
- Lower payments qualify more buyers for property. This results in more potential buyers for a home, meaning possibly a higher selling price.
- Lower payments which qualify more buyers can result in a quicker sale.
- Points are customary in more real estate transaction. Some buyers will refuse to consider a property where the seller refuses to negotiate.

## To sum it up...

Points offer buyers and sellers more options. If a lender has mortgages available at 8%, ask yourself how that lender could or would lend money for the same terms at 7%. The lender can't. Points expand the ways that a real estate transaction can be completed.

**Customer Service** cs@caltitle.com | 844.544.2752

**Los Angeles** 100 N. First Street, Suite 404 | 818.382.9889

**Orange County** 28202 Cabot Road, Suite 625 | 949.582.8709

**San Diego** 2355 Northside Drive, Suite 310 | 619.516.5227



[WWW.CALTITLE.COM](http://WWW.CALTITLE.COM)

The information contained herein is deemed to be reliable, but it is not guaranteed. California Title Company assumes no responsibility for errors or omissions. Images may be subject to copyright. ©2022 California Title Company.