

Points Explained

What is a Point?

One point is equal to 1% of the NEW Loan Amount.

Why do Lenders charge Points?

Whenever governmental regulation, state usury law and/or competitive practices prohibit the lender from charging a rate of interest which would make the real estate loan competitive with other fields of investments the lender must seek some method of increasing the yield for the investors. By charging "points", the lender can bring the real estate loan up to those other investments.

Are points called by different names?

Yes. Loan Origination Fee, Commitment Fee, Discount Fee, Warehousing Fee, Funding Fee, etc.

Who must pay the points?

FHA: the Buyer is usually charged with the Loan Origination Fee; the Discount Fee can be paid by the Buyer or Seller

VA: the Buyer is usually charged with the Loan Origination Fee and the Funding Fee.

Conventional: points can be paid by the Buyer, the Seller, or split between the two. State on Contract of sale!

City/County/State government sponsored loans: as published by them.

Do the number of points charged fluctuate?

Yes. If rates on mortgage loans are lower than other investments (such as stocks, bonds, etc.) then funds will be drawn away from the mortgage market. Also, when there is a heavy demand upon the money market because of business needs, role requirements or other government borrowing, the result is that money for home mortgages becomes scarce and more expensive. When this occurs, more points can be charged. Points balance the market. Points are not set by government regulation but by each lender individually.

On VA loans, is there any way to lock in the number of points?

Not without jeopardizing the sale. Even when a lender stipulates in writing the number of points to be charged, that guarantee states "if the interest rate is not changed by the government." Points charged on an FHA or conventional loan are usually not changed from commitment time to settlement.

Is FHA or VA financing unfair to sellers?

No. Homes can sell faster because more buyers can qualify with the lower down payment requirement, lower interest rate, - long term loans with lowest monthly payments. Sellers receive all cash for their equity to reinvest in a new home or other investment. The purpose of these loans is to provide purchasers the opportunity to buy homes with minimal cash investment thus providing a bigger market for sellers.

Are points deductible for income tax purposes?

Points on a home mortgage (for the purchase or improvement of, and secured by, the taxpayer's principal residence) are deductible currently if points are generally charged in the geographical area where the loan is made and to the extent of the number of points generally charged in that area for a home loan. If you are in doubt about points being deductible you should contact your tax return preparer.



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