

Mortgage Points | Should You Pay Points on Your Mortgage?

If you're evaluating mortgage options for a MA home purchase, you may be presented with a few different loan options. One common option is to pay points for a lower interest rate. Should you pay points on your mortgage? Before deciding, here are a few things that you should know.

What Are Mortgage Points?

Points are pre-paid interest. You are essentially paying interest up-front on a mortgage in order to receive a lower interest rate over the life of your loan. Why would lenders offer this? Well, on a 30-year loan, there's no guarantee that you would actually keep the loan for the full term. Most people refinance or sell every 7-10 years. Plus, they receive interest in smaller increments over time. So, lenders welcome the opportunity to get paid a lump sum of interest up-front.

From a buyer's perspective, you may reduce your mortgage payments each month by paying points. However, you're not necessarily saving money yet. You're paying some of that interest up-front rather than over time.

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Whether paying points is a good idea depends on your plans. Do you intend to keep the loan for an extended period of time? Is it possible that you may sell or refinance before it actually saves you money? For example, you may pay \$4,000 in points to reduce your monthly mortgage payment by \$110. If you opted instead to pay that extra \$110 per month in interest, it would take you over 3 years to spend the same \$4,000. Therefore, paying points doesn't save you any money until 3 years later. If you end up selling your home in 2 years, you've lost money in that deal. It would have been less expensive to pay higher interest each month ($\$110 \times 24 = \2640) rather than paying points.

A lower interest rate is certainly appealing when you multiply the savings over the 30 year life of a loan. However, take a realistic look at how long you may keep your mortgage or stay in a certain home before deciding to pay points. In some cases, it can be a great decision that will save you significant money. In other cases, it may be an unnecessary added expense.