



An Explanation of POINTS

<p><i>What is a Point?</i></p>	<p>A point is equal to 1% of the amount of the loan.</p>
<p><i>Why do Lenders charge Points?</i></p>	<p>Whenever governmental regulations, state usury laws, 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.</p>
<p><i>Are Points called anything else?</i></p>	<p>Yes. They are sometimes called the Loan Origination Fees, Commitment Fees, Discount Fees, Warehousing Fees, or Funding Fees.</p>
<p><i>Who pays Points?</i></p>	<p>FHA: The buyer is usually charged with the Loan Origination Fee. The Discount Fee can be paid by the buyer or the seller, or can be split between both. VA: the same as for FHA. Conventional: Points can be paid by the buyer, seller, or split between the two. State it specifically on the contract! City/County/State/Govt. Sponsored Loans: as published by them.</p>
<p><i>Does the number of Points charged fluctuate?</i></p>	<p>Yes. If rates on mortgage loans are lower than other investments, 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, military requirements, or other government borrowing, the result is that money for home mortgages becomes scarce and, therefore, more expensive. When this occurs, more points may be charged. Points balance the market. Points are not set by government regulation but are set by each lender individually.</p>
<p><i>Are Points tax deductible?</i></p>	<p>Points on a home mortgage (for the purchase of and secured by the taxpayer's principal residence) are deductible. Points are not deductible on a refinance, they are amortized. Paying extra points is not really a good idea unless your company is paying the tab. You never know if rates are going to drop and you can get the same rate for free. If you are in doubt about points being deductible, you should contact your tax accountant.</p>