



# Should I Pay Points?

## Paying points may be appropriate for some but not all. How will you decide?

Many compare their mortgage rates with their peers, but fail to recognize the differences in their situations. There are easily a dozen variables to consider and what’s best for one isn’t always best for another.

*“We help our clients evaluate their borrowing options in the context of an overall financial plan. We investigate the short and long term impacts of each option to uncover the most appropriate borrowing strategy for their individual situation.”*

### The Bottom Line

A client was buying a \$189,000 home and had \$22,000 to put down. She wanted the same rate her brother just got, 4.75%.

During our initial interview we discovered there was a strong possibility of her getting promoted and subsequently transferred out of state within the next 3 years. The rate she requested was available but it was going to cost her 2 points to get. After consulting with her and generating meaningful comparisons detailing all the relevant figures we came to the conclusion that it could be far more costly to grant her initial request.

	Before:	After:
Loan Amount	\$174,000	\$170,000
Interest Rate	4.75%	5.50%
Estimated Closing Costs/Points	\$5,500	\$1,800
Total Monthly payment (PITI)	\$1,169	\$1,090 (\$79 savings)
Mortgage Balance after 36 Months	<b>\$165,800</b>	<b>\$159,700</b>

**After analyzing options and taking into consideration factors that had the ability to impact future costs, we developed a strategy that was not only cheaper on a monthly basis, but also yielded over \$6,000 in increased equity within the 3 year time period evaluated.**

### The Advisor

Mike Winesburg is a Certified Mortgage Planning Specialist® and licensed financial advisor.

### The Challenge

The decision to pay points in exchange for a lower rate is difficult without understanding how to measure the impact it may have. The client has a limited amount of money to put down and dedicating a higher amount towards closing costs takes away from funds available to reduce the amount borrowed. A hidden cost in this transaction unknown to the buyer was the difference in PMI required with 10% vs. less than 10%.

### The Solution

Using our “Cost Analyzer” we were able to compare the total costs among various options over a specific period of time. We elected a lower cost option in order to obtain a lower loan amount.

### The Result

An educated client who was able to make a truly informed decision about what strategy best fit their situation. Although the interest rate was considerably higher, the true cost was far lower!

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