



What Are Points

What is a point?

Points are the money paid to the lender that allow the lender to make loans at a regulated, lower-than-market interest rate and still obtain the desired rate of return. A point is equal to 1% of the amount of the loan. 5 points on a \$60,000 loan would be 5% of 60,000, or \$3000.

Why do lenders charge points? Why not just raise the interest rate?

Whenever governmental regulation, 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.

Are points called anything else?

Yes, they are sometimes called the Loan Origination Fee, Commitment Fee, Discount Fee, Warehousing Fee, and Funding Fee.

Who pays the points?

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 in the contract!

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