



# Consumer Title

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## Points Defined

Points are an up-front charge that the lender adds to the overall price of the mortgage. Each point equals one percent of the loan amount. Lenders use this money to pay for loan-related costs and to keep loan interest rates lower. Typically, the more points, the lower the interest rate. There are two primary kinds of points. Lenders might charge origination points to cover loan expenses, or they might create an opportunity for borrowers to pay discount points to reduce the loan's interest rate.

### Do The Number Of Points Charged Fluctuate?

Yes - sometimes daily. World events, financial news, stock market performance, and other things can determine whether points go up or down. But ultimately, it is the lender's decision and not set by government or other regulation. Mortgage lending is an investment. So if mortgage loans rates drop lower than other investments, such as stocks and bonds, investors will move away from the mortgage market. And when business needs or government borrowing puts a high demand upon the money market, home mortgage expenses typically go up. Lenders use points to encourage borrowing and to stay profitable.

### Who Pays Points?

It depends on the loan. For an FHA loan, buyers usually pay the points or loan origination fee, while the buyer or seller can pay the discount fee. When it comes to VA loans, buyers usually pay the points and the funding fee, and the seller pays the discount fee. Finally, on a conventional loan, anything goes: the buyer or the seller can pay the fee, or they can decide to split it.

### Is There A Way To Lock-In Points?

For conventional and FHA loans, many lenders give you the opportunity to lock-in rates at any time for a specified time period — typically anywhere from 30 to 180 days. The longer the lock period, the higher the risk for the lender and, therefore, the higher the cost for the borrower. VA loan points cannot be locked and will shift based on the current, government-set interest rates.

### Are Points Tax Deductible?

Points are deductible in the year they are paid if the points meet certain conditions. The mortgage must be secured by your primary residence — the home you live in most of the time. The home loan must be used to either purchase or build your home. Points must also be clearly stated on the HUD1 settlement statement. There are other conditions as well. If conditions are not met, points can still be deducted by amortizing them over the life of the loan. If the loan is refinanced, the remaining unclaimed points can be deducted in the year the original loan is paid off. To learn more, check with your tax specialist.

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