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KNOW



HomeServicesLending^{LLC}

Discount Points: What Are They?

WHAT ARE DISCOUNT POINTS?

Buyers have the option to pay discount points to lower their interest rate. When discount points are paid by the buyer, it is considered prepaid interest. When discount points are paid by the seller, it is considered a seller contribution, and certain maximum amounts cannot be exceeded.

HOW ARE DISCOUNT POINTS CALCULATED?

Simply stated, one discount point is 1% of the loan amount. This means "1" discount point on a \$100,000 mortgage would be 1% of \$100,000 or \$1,000. Note: The discount points are calculated on the amount of the loan (NOT the selling price of the property) and are based on the total loan amount.

IF YOU PAY ONE DISCOUNT POINT, HOW LONG WILL IT TAKE TO RECAPTURE YOUR UPFRONT INVESTMENT?

Say you purchased 1 discount point on a \$100,000 loan, which equals \$1,000. If, on today's rate sheet, 1 point were to lower your interest rate by 0.25%, it would reduce your monthly payment by \$17.03. That adds up to \$204.36 each year. It would then take 4.89 years to recapture your original \$1,000 investment. Because interest rates change on a daily basis, contact your Home Mortgage Consultant for details on the actual cost of your points and their affect on your monthly payment.

WHEN ARE DISCOUNT POINTS PAID?

Discount points are paid at the closing of the sale. If the points are being paid by the seller, they are deducted from the seller's proceeds. When the points are paid by the buyer, they are paid in cash as a part of the closing costs.

WHO CAN PAY DISCOUNT POINTS?

In most mortgage transactions, the discount points are negotiable (either the buyer or seller can pay them or they can be split in any agreed upon combination). Again, when the seller is paying points, it is considered a seller contribution and certain maximum amounts cannot be exceeded.

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For more information, please contact the home mortgage consultant listed on the left hand side. Information is accurate as of date of printing and is subject to change without notice.

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