

## **How Points Affect Your Interest Rate**

The table below illustrates the impact of points on the actual interest rate you are paying on a fixed-rate, 25-year mortgage. It is designed to help mortgage borrowers who are wondering whether they should trade a lower number of points for a higher interest rate (or vice versa). The numbers reveal, for example, that a 7% mortgage with a payment of 4 points (effective interest rate of 7.46%) is comparable to a 7.25% mortgage with a payment of 2 points (effective interest rate of 7.48%). Both loans are virtually identical to lenders, but they have quite a different impact on borrowers.

<b><u>Contract Interest Rate</u></b>	<b><u>Points at Closing</u></b>			
	<b><u>One</u></b>	<b><u>Two</u></b>	<b><u>Three</u></b>	<b><u>Four</u></b>
5	5.10	5.20	5.30	5.40
5.25	5.35	5.45	5.55	5.65
5.50	5.60	5.70	5.81	5.91
5.75	5.85	5.96	6.06	6.16
6	6.11	6.21	6.32	6.43
6.25	6.36	6.47	6.58	6.69
6.50	6.61	6.72	6.83	6.95
6.75	6.86	6.97	7.09	7.20
7	7.11	7.23	7.34	7.46
7.25	7.36	7.48	7.59	7.71
7.50	7.61	7.73	7.85	7.97
7.75	7.87	7.98	8.10	8.23
8	8.12	8.24	8.36	8.48
9	9.12	9.25	9.38	9.51

*Fractional points:* If the points charged fall between whole numbers (say, between two and three points), you can still obtain the approximate effective cost from this table. *Example:* If 2½ points are charged on a 7% loan, the effective interest rate is 7.29% (about halfway between the rates for two and three points,

i.e., the difference between 7.23% and 7.34%).

*Other mortgage maturities:* You also can use this table to evaluate 20-year and 30-year mortgages since the effective interest rates are *not* substantially different. For 20-year mortgages, multiply the effective interest rate in this table by 101%; for 30-year mortgages, multiply the effective interest rate by 99%.

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If you would like more information on this subject area, please see **Report #31: Your Home: Mortgages, Refinancings, Ownership, Sale, Insurance, and Taxation.** □

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