How to Buy Down Points

Those with ready cash can do something about higher interest rates

Lenders offer prospective homebuyers the option to lower these rates, and reduce their monthly bill, by making a direct payment.

In some cases, you may want to wait to purchase in order to save some more money in order to buy down points. Either way, it's an opportunity to make a big impact on your mortgage.

WHAT ARE POINTS?

Meet with a qualified loan officer to determine if it makes sense for you to buy down points as part of your purchase transaction. Both your current financial status and your future plans will come into play. You don't want to overspend on the front end and risk being unable to keep up your mortgage payments later. Still, for those with a larger nest egg, buying down points can be a smart budget move. Every point equals one percent of the total financed balance, and each purchased point drives down your overall interest rate.

WHY IT'S SMART

You'll enjoy substantial savings over the term of your loan by earning a more favorable interest rate. Still, it takes a long time for these monthly savings to add up, so make sure you're financially secure over the life of your loan, which is typically 30 years. Buying points is a long-term investment, not a get-rich-quick scheme. It works best for those who intend to keep their home for decades, not years. You'll need some time to recoup your initial investment.

THE BEST CANDIDATES

Buying down points makes the most sense for those who have a standard salary structure, with dependable weekly or bi-weekly paychecks so they can rely upon a pattern of income. Buyers working in the seasonal or gig economy, or those who rely on freelance jobs or commissions may want to keep a larger cash reserve to protect against their income's natural ebbs and flows. If you're purchasing later in life, it's also critical to understand how your income will change into retirement. Make sure you can afford the note. Otherwise, you're a good candidate for the points program since you will be on a lower fixed income when finishing off the balance. You can expect lower monthly obligations in the meantime — and a smaller balance at loan's end.

REAL ESTATE 101

Fixed vs. Adjustable-Rate Loans

Fixed-rate mortgages mean you'll never be surprised since the interest rate remains the same for the term of your loan, but if interest rates fall you won't benefit. Adjustable-rate loans often offer lower initial rates, but can lead to sudden changes in your mortgage payment if benchmark rates skyrocket.

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HOMEWISE GLOSSARY

Federal Home Loan Mortgage Corporation (also known as Freddie Mac): A publicly held corporation that buys mortgages and thereby creates a flow of funds to mortgage lenders. FHLMC was chartered by Congress in 1970. **SOURCE:** MLS.com