

More buyers are purchasing mortgage points as a way to ease monthly costs

2023-04-26

15% more borrowers purchased mortgage points in 2022 than 2021, and continue to do so as interest rates hover around 6%

SEATTLE, April 26, 2023 /PRNewswire/ -- Interest rates remain high and home buyers are looking for ways to save money, including buying mortgage points. A recent analysis of data from the Home Mortgage Disclosure Act (HMDA) by Zillow Home Loans finds nearly 45% of conventional primary home borrowers opted to purchase mortgage points in 2022 as a way to reduce their monthly payment. The historically low interest rates of 2019–2021 saw far fewer buyers opting for points — 29.6% in 2021, 28.4% in 2020 and 27.3% in 2019. And borrowers who opted for a cash-out refinance loan (on a conventional loan for a primary home) bought even more points in 2022 — 57.8% of these borrowers purchased points (compared with 48.4% in 2021, 44.2% in 2020 and 41.3 in 2019).

Mortgage points, also known as discount points, are an option for buyers to pay an upfront fee to buy down the interest rate on a loan. The term "points" is a common way of referring to a percentage of your loan amount. When buyers choose to purchase mortgage discount points, they are essentially pre-paying interest up front in exchange for a lower rate and monthly payment.

While buying points is more common now, it's most often used by borrowers who make less than their area's [median income](#) (between 30% and 50% of their area's median income) and are most concerned about monthly payments. Those who make less than 30% of an area's median income purchased the most points overall for homes in the bottom price tier.

Regardless of income level, borrowers were more likely to purchase points for homes in the top and middle price tiers, than for homes in the bottom price tier. This could be because the impact of lowering interest rates is greater

on more expensive mortgages.

Reducing interest rates doesn't come for free, and buyers need to determine if paying up front to reduce the fee in favor of lower monthly payments is worth it. Generally, mortgage applicants need to pay 1% of the loan amount to cut the interest rate by 0.25%. A [break-even calculator](#) can help buyers determine if paying more now to buy points could save them money in the long run.

"Buying points can be a great option to improve monthly affordability — there are many different mortgage products, including buying points and the 2/1 buydown buyers can explore," said Erika Kerry, loan officer at Zillow Home Loans. "These options are good examples of why it is so important to work with a knowledgeable loan officer. The loan officer should be a partner in the buying process, helping explain options so buyers can make an educated decision."

Affordability remains a top concern for home shoppers. A recent [Zillow analysis](#) found that nationally, home values are about 25% above where they would need to be for affordability to return to historical norms. These challenges should not be confused with a lack of desire to purchase a home. For those who can afford to buy now, they should find less competition than the buying frenzy of years past. This means buyers are more likely to get into the right house, as opposed to the only house they can find, which is important considering the majority of homeowners are in their home for about [15 years](#).

About Zillow Group

Zillow Group, Inc. (NASDAQ: Z and ZG) is reimagining real estate to make it easier to unlock life's next chapter. As the most visited real estate website in the United States, Zillow® and its affiliates offer customers an on-demand experience for selling, buying, renting, or financing with transparency and ease.

Zillow Group's affiliates and subsidiaries include Zillow®; Zillow Premier Agent®; Zillow Home Loans™; Zillow Closing Services™; Trulia®; Out East®; StreetEasy®; HotPads®; and ShowingTime+™, which houses ShowingTime®, Bridge Interactive®, and dotloop®. Zillow Home Loans, LLC is an Equal Housing Lender, NMLS #10287 (www.nmlsconsumeraccess.org).

(ZFIN)

View original content to download multimedia:<https://www.prnewswire.com/news-releases/more-buyers-are-purchasing-mortgage-points-as-a-way-to-ease-monthly-costs-301807861.html>

SOURCE Zillow Home Loans