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OFFERPREP GUIDE · LOAN COSTS

Lender Credits vs. Discount Points

How to trade cash today for a lower rate, or a higher rate for less cash at closing, and how to tell which side of the trade fits you.

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On most loans, the interest rate and the cash you pay at closing are linked. Discount points and lender credits are the two dials that move them. Neither is "good" or "bad." The right choice depends on your cash, your budget, and how long you'll realistically keep the loan.

01 The Basics

Discount points

An upfront fee paid at closing in exchange for a **lower interest rate**. **One point equals 1% of the loan amount.** For example, one point on a $100,000 loan is $1,000. Points don't have to be whole numbers: half a point or less is common.

Lender credits

Points in reverse. You accept a **higher interest rate**, and the lender gives you money to offset closing costs. You pay less upfront but more over time. Worksheets sometimes call them "negative points."

02 The Trade-off Spectrum

For the same lender and the same kind of loan, you can usually choose a spot along this spectrum:

	Pay points	Zero points ("par")	Take lender credits
Cash at closing	Higher	Baseline	Lower
Interest rate	Lower	Baseline	Higher
Over time	Pay less, if you keep the loan long enough	Simplest to compare	Pay more the longer you keep the loan
Often fits	Long-term owners with extra cash after closing and reserves	Buyers who want a clean comparison	Cash-tight buyers, or those expecting to sell or refinance soon

How much rate does a point buy?

It varies by lender, loan type, and market conditions. Sometimes each point lowers the rate a lot, sometimes only a little. Always ask the lender to show you the exact rate at each option.

03 The Break-Even Idea

Break-even is the point where the monthly savings from a lower rate have paid back what you spent on points. The basic math:

Months to break even = upfront cost of points ÷ monthly savings

EXAMPLE ONLY

A conceptual illustration. It contains no real costs, rates, or payments, and it is not a quote.

Step 1	Find the upfront cost of the points on your Loan Estimate (page 2, Section A).
Step 2	Compare the monthly principal & interest at zero points with the amount at the points option. The difference is your monthly savings.
Step 3	Months to break even = upfront cost of points ÷ monthly savings.
What it means	If you expect to keep the loan longer than the break-even period, the points come out ahead. If you expect to sell or refinance sooner, you'd likely be better off without them.

The same logic runs in reverse for lender credits: the credit is cash saved now, and the higher payment slowly "pays it back" each month.

Keep it in perspective: simple break-even leaves out things like what else that cash could do for you, tax effects, and the chance you'll refinance. Treat it as a starting point, not the final answer.

04 How Long Will You Keep the Loan?

This is the biggest factor. The CFPB suggests asking a lender to show two options (with and without points or credits) and to calculate total costs over three timeframes: the **shortest**, the **longest**, and the **most likely** time you'll keep the loan. If you're unsure how long you'll stay or when you might refinance, the CFPB notes that you might not want to pay points *or* take credits.

Life events to weigh	A job move, a growing family, plans to upsize, or an expected refinance. Each of these shortens the time you'll keep the loan.
Cash cushion	Paying points shouldn't drain the reserves you'll need after closing for repairs, moving, and emergencies.

05 Where to Find Them on the Loan Estimate

Page 2 · Section A	**Points** appear under Origination Charges as a percentage of the loan amount and a dollar amount. By law, points listed on the Loan Estimate and Closing Disclosure must be connected to a discounted interest rate.
Page 2 · Section J	**Lender credits** appear as a negative number on the Lender Credits line, lowering your cash to close.
Page 1 · Loan Terms	The interest rate you're getting in exchange.
Page 3 · Comparisons	"In 5 Years," APR, and TIP help show the longer-run cost of each option.

> **Watch the wording**
>
> Some lenders use "points" for any fee calculated as a percentage of the loan, whether or not it lowers your rate. When comparing lenders, ask each one to quote the **same** points or credits, and ask exactly what rate each option buys.

06 Seller Concessions Can Pay for Points

In a purchase, you can negotiate for the seller to pay part of your closing costs, and that money can often go toward points. Each loan program caps how much an interested party (like the seller) can contribute:

Loan type	Maximum seller concessions
FHA	6% of the sales price. The cap includes discount points and buydowns.
VA	4% of the home's reasonable value. Normal closing costs and market-standard points don't count toward the 4%.
Conventional: primary or second home	Down payment under 10% (over 90% LTV): 3% · 10% to under 25% down (75.01–90% LTV): 6% · 25% or more down (75% LTV or less): 9%
Conventional: investment property	2% at any LTV
USDA	6% of the sales price

Checked October 17, 2026 against HUD Handbook 4000.1, VA guidance, the Fannie Mae Selling Guide (B3-4.1-02), the Freddie Mac Guide, and USDA HB-1-3555. Concessions can't exceed your actual costs, and lenders may set stricter limits. Confirm with your lender before you write the offer. **For details, see the OfferPrep guide *Seller Concessions by Loan Type*.**

07 Permanent vs. Temporary Buydowns

	Permanent buydown (discount points)	Temporary buydown
What changes	Lowers the rate for the life of the loan	Lowers the payment for a limited time, usually one to three years, with payments rising each year until it ends
Paid by	Buyer, or seller through concessions	An upfront fee (often seller- or builder-paid), or a higher rate later
Watch for	Break-even and how long you'll keep the loan	The payment once the buydown ends. The long-term rate may be higher than a loan without the feature.

Plan for the full payment

The CFPB suggests comparing loans with and without a temporary buydown, using the APR to see which is cheaper over the life of the loan. Make sure you're comfortable with the payment after the buydown ends. For VA loans, lenders must qualify you on that full payment.

08 A Note on Taxes

According to IRS Topic No. 504 (Home Mortgage Points), points are a form of prepaid interest. If you itemize, points that meet certain criteria may be deductible as home

mortgage interest. Points on a loan to buy your principal residence may be deductible in the year paid. Points on a refinance or second home are generally deducted over the life of the loan. Seller-paid points can be treated as paid by you, but they reduce your cost basis in the home. **Rules have conditions, so consult a tax professional.**

09 Questions to Ask Your Lender

- ☐ What's my rate at zero points?
- ☐ What rate does each point (or half point) buy?
- ☐ What rate comes with a lender credit, and how much credit?
- ☐ Can you show total costs over 3, 5, and 10 years?
- ☐ Is this fee true discount points, or a different charge?
- ☐ What seller concessions does my loan type allow?
- ☐ If I use a temporary buydown, what's my payment after?
- ☐ Will you re-quote all options if my rate lock changes?

10 Checklist

- ☐ Estimate how long you'll realistically keep the loan
- ☐ Get quotes at points, at par, and with credits
- ☐ Ask every lender to quote the same points or credits
- ☐ Run a break-even for each option
- ☐ Confirm Section A points and Section J credits on each Loan Estimate
- ☐ Keep enough cash reserves after closing
- ☐ Ask about seller concession limits before writing the offer
- ☐ Ask a tax professional about points

11 FAQ

Are points always worth it if I can afford them?

No. They pay off only if you keep the loan past the break-even point. If you sell or refinance early, the upfront cost may not be recovered.

Are lender credits "free money"?

No. You pay for them through a higher rate for as long as you keep the loan.

Can I compare points between two lenders?

Yes, but only fairly if both quote the same loan and the same points or credits. Pricing structures differ, and some lenders cost more overall either way.

Is a temporary buydown the same as buying points?

No. Points lower the rate for the life of the loan. A temporary buydown lowers the payment only for the first year or few years.

Can the seller pay for my points?

Often, yes, through negotiated seller concessions, within limits that depend on your loan type and program. Ask your lender before you make the offer.

Do points affect the APR?

Yes. The APR reflects the interest rate plus points and other charges, so it can help you compare options. But it assumes you keep the loan for its full term, so pair it with your own break-even estimate.

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Based on CFPB guidance on lender credits and points, the Loan Estimate Explainer, and temporary buydowns; IRS Topic No. 504, Home Mortgage Points; and VA Home Loans guidance on temporary buydowns. The example is hypothetical and for illustration only. This guide is for informational purposes only and is not financial or tax advice. Work with licensed professionals before making decisions about specific loan products.

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