

YOUR OPTION TO CHOOSE

Farm Credit Services gives you the option to pay either 0,1 or 2 points on any fixed rate loan of 5 or more years.

- The choice is strictly your personal financing decision. Points are never required.
- Each customer is unique, and a decision to pay points rests on individual circumstances that can make it financially beneficial to you.
- Always consult with your tax professional or CPA on paying points and their deductibility.

As always, our staff is ready to explain your financing options and help you through important considerations. Just call us!

FINANCING FOR ALL YOUR FARM NEEDS

- Operating Money
- Loans and Leases for Equipment, Facilities and Farm Improvements
- Mortgage Financing
- Crop Insurance
- Life Insurance



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MAKING WISE MORTGAGE DECISIONS



HOW POINTS
CAN LOWER
LOAN COSTS



PAYING POINTS SAVES YOU MONEY OVER THE LIFE OF YOUR LOAN

When negotiating the terms of a loan, one of the added features available from Farm Credit Services of Mid-America is the option of paying points to discount or lower your interest rate. This option can be a valuable financial tool to reduce the overall cost of credit, as well as a smart tax management strategy.

There are several reasons you may want to consider points, but first let's describe what a point is and how it works on a typical loan.

A point is equal to 1% of the loan amount (on a \$100,000 loan that equals \$1,000). This money could be paid in cash to FCS, but more frequently it is financed as part of the loan. In either case, in return for the point, your loan rate is discounted or lowered over the fixed rate period of the loan. Here is an example:

Say you have a lending rate of 6.50% + 0 points on a 15-year fixed rate loan. It would become 6.25% if you pay 1 point or 6.0% if you pay 2 points.

WHY POINTS?

To truly understand when this strategy makes sense, you have to consider a number of financial issues and how they apply to you individually:

TAX CONSEQUENCES

For example, points paid on a loan for either a new home or farm can usually be deducted immediately on your personal income tax return. Points paid to refinance an existing mortgage can be deducted evenly over the life of the new loan.* This is important because in addition to offsetting some tax burden, by paying points you can achieve a rate savings over the entire life of your mortgage.



TOTAL COSTS

Here's a good rule to consider when evaluating points — think about how long you anticipate holding the loan. If it is more than 5 years, you can save by paying points. Remember, too, you're more likely to hold a loan when rates are low (at the time you finance). That's because it is less likely that rates will go down enough in the future to make refinancing attractive.

OTHER CONSIDERATIONS

Paying points on a fixed rate loan lowers your interest rate for the entire life of the loan. That means, the only way you do not benefit is if you repay or refinance the loan within the first 5 years.

PERSONAL BENEFITS

There are also additional benefits to paying points that deal less with financial issues and more with personal money management, opportunities and future goals. For example:

- Many times, a seller may be willing to pay points to promote the faster sale of a property.
- Also consider that FCS loans are assumable to qualified parties. If you used points to establish a good fixed rate, it could be a benefit when you sell your property.

**We recommend you always seek the advice of a CPA or tax counselor regarding tax issues.*