

Rate and Points Breakeven Worksheet

The lowest rate is not the same question as the lowest-cost loan.

Every rate you are quoted comes paired with a cost. A lower rate almost always means a higher upfront cost; a rate with no points almost always means a higher monthly payment. Neither is simply better — the right answer depends entirely on how long you will be paying that rate.

FIRST — THE QUESTION THAT COMES BEFORE RATE

How long do I realistically expect to keep this mortgage?

☐ Under 3 years ☐ 3–7 years ☐ 7–10 years ☐ 10+ years Why

Loan amount being quoted

THE OPTIONS ON THE TABLE

Option	Rate	Points	Upfront cost	Monthly P&I	Saved vs. Option 1

| Option 1 should be your zero-point quote — everything else gets measured against it.

BREAKEVEN — UPFRONT COST ÷ MONTHLY SAVINGS

How many months of the lower payment it takes to recover what you paid upfront.

Option	Upfront cost ÷ monthly saved	Breakeven, in months	Breakeven, in years

WHERE EACH OPTION NETS OUT

Points paid against payment savings alone, at three holding periods. A negative number means still behind the zero-point loan.

Option	At 2 years	At 5 years	At 10 years

IF YOU ARE CONSIDERING AN ARM

Fixed period (7/1, 10/1, etc.)

Start rate

Margin

Index, and its value today

Fully-indexed rate today (margin + index)

.....

First adjustment cap / periodic cap / lifetime cap

Lifetime ceiling (start rate + lifetime cap)

.....

Monthly payment at that lifetime ceiling

.....

\$

Can my budget absorb the worst-case payment above?

☐ Yes

☐ No

☐ Need to run it

Notes

If the fully-indexed rate today is already higher than the ARM start rate, even a rates-stay-flat scenario points to an increase at the first adjustment. That is normal ARM pricing, not a red flag — but it is exactly the detail that gets lost if you only look at the attractive start rate.

THE DECISION

Which option, and why — in my own words

This example isolates rate and points. Your real comparison should run on your full monthly payment — principal, interest, taxes, insurance, and mortgage insurance if it applies — not rate alone. Ask your loan officer for a full side-by-side on your actual numbers before deciding.

Prepared by

Date