



Locking in Your Interest Rate: Part I

The interest rates and amount of points on a mortgage loan can make a huge difference in the amount of money you'll end up paying for a home. The tricky thing about both costs of the loan are that they are variable, based on the up and down trends of the national market. You might get quoted certain rates when you're shopping around for a loan and end up with higher rate at the time of closing. Shouldn't there be a way for brokers to pause the market and guarantee you a certain rate?

Fortunately, there is a way to do this. Its called a rate lock-in, rate lock, or rate commitment. A rate lock is a way to secure rates at a certain level. It is a promise from a lender to charge you a certain rate and points schedule on your mortgage loan. It is not available with all lenders, so you might have to look around to find local lenders that will allow rate locks. Do not confuse a rate commitment with a loan commitment. A loan commitment is a promise from a lender to loan you a certain amount of money within a certain space of time in the future. A rate lock or rate commitment only ensures a certain interest rate at closing.

Rate locks can be very helpful when you have reason to believe that interest rates are going to rise in the coming weeks. The loan application process from start to finish can take up to several weeks, during which time the mortgage interest rate may fluctuate greatly. If you predict that rates will go down during your loan process however, a rate lock may prevent you from taking advantage of any lower rates that come along. You should definitely monitor the Federal Reserve rate policy and forecast to make a wise decision about a rate lock.

Once you've called around and got quotes on loans and found a lender who does lock-ins, discuss your options about the rate with the lender. You can usually start the rate lock at several points during the loan process. You could lock in a rate at the time you file a loan application, sometime during the handling of your application, or when the loan is approved. When you lock in the rate might depend on what you think will happen with the rate during the time it takes to process your application. You can also typically lock in the number of points you'll pay on a loan. The rate/point combinations will be explained in Part II of this article.

There will generally be fees associated with acquiring a rate lock. This is because lenders might lose a little money by locking you into a certain rate. The fees will vary from lender to lender and might be either a flat rate or a percentage of the loan total. They might also be added on as a portion of your points. Payment of lock-in fees could be charged at the beginning of the process or once the loan is closed.

Make sure you get any rate commitment from lenders in writing. Some may only want to give you an oral promise, but this would be hard to prove in a court of law. It's a good idea to read over the proposed lock-in document before signing, as there may be clauses included that could void the promise. You'll want to be aware of these conditions so that you'll know how to avoid them.

Watch for Part II to learn more details about rate locks.