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| **Mortgage Rates: The Question To Lock Or Not To Lock?**    **Some facts you should know before you decide.**   1. Today many banks have become part of a global financial network. Your neighborhood lender may now answer to a chief financial officer in another state. The loan officer across the desk from you may have very little to say about what interest rate you'll be charged. In fact, the rate may move up or down a quarter of a point in the time it takes to complete your application. 2. There are safeguards that the loan officer can offer you. These safeguards are called rate locks or lock-ins. When a good interest rate appears in the marketplace, the loan officer can secure the rate for you. The lock-in may include both the mortgage interest rate and the points (one point equals 1% of mortgage amount charged by the lender) or just the interest rate--with the points allowed to rise and fall (float). 3. Whatever kind of lock-in situation you use, it is wise to get the lock-in agreement in writing, since verbal agreements are virtually impossible to prove in case of a dispute. In some cases, both the interest rate and the points are allowed to float until some time after the application has been completed, but they are locked before settlement, or the closing. 4. Generally speaking, when a loan officer locks in a rate, all borrower provided documentation should be given to the lender within a week. This documentation includes pay stubs; w-2 forms or other proof of employment and salary; bank account numbers, your latest bank statement, and your bank branch address; all loan and credit card account numbers, the names and addresses of your creditors; and evidence such as canceled checks of your mortgage or rental payments. 5. A competent loan office can complete the processing transaction in 30 days. Locks are available for varying lengths of time, from as brief as 10 days to as long as 120 days, with small increments in the interest rate from the shortest to the longest period. The briefest lock period is only used with loans that have already been approved. Such a loan can be handled within ten days. Locks of 30 or 45 days are typically used when your loan officer has most of the information that they need and they have already begun processing your loan. 6. If the market is declining, you may decide not to ask for a lock-in. Locks longer than 30 or 45 days are generally used when there are external factors that may delay the loan closing. One reason may be the need to sell an existing home before the new loan can close on the purchase of another home. Another reason may be a delay in the completion of a new home that is under construction. Long locks begin to involve greater costs in rates or points. 7. Economic changes elsewhere in the world can cause the stock market to rise and fall and rates to do the same. Competition in the loan industry has now induced some lenders to offer a "float down option," which would let the rate drop even if it had been previously locked. Some lenders feel however that the benefits of such an option are limited and are not cost effective. The institutional lenders who do offer the “float down option” have rates that are often slightly higher than the market. If you decide to use the float down option, be sure to ask your lender if there is a charge for this option and also what the interest rate is. 8. Work with a lender that you trust. Together you can watch the market to see if mortgage rates are changing fast enough to warrant a lock-in rate or not. If the mortgage rates are fluctuating, then decide for how long a period you need to lock a rate. Hopefully you will make the right decision and choose what will prove to be the best course of action for you financially. |