

The Cost of Your Mortgage Loan Locking-in the Rate

When shopping for a mortgage, the lender may give you a quote for the mortgage interest rate and points (additional fees charged by the lender usually paid at closing by the borrower). These only represent terms available at the time of the quote. They may not be available by the closing date (which may be weeks or months in the future). To ensure the rate and points are the same at closing as they are when quoted, you'll need to lock-in the interest rate (also known as a rate lock or rate commitment).

Obtain a Written Agreement

Most lenders will commit, in writing, to a mortgage interest rate for a specified time period while your loan application is processed - this is known as "locking-in" the rate.

If you elect to lock-in an interest rate, it is best to deal with a lender who provides a written lock-in agreement. Be sure to read this agreement carefully, some lock-in agreements become void due to actions beyond your control - such as a change in the maximum rate for VA-guaranteed loans.

Floating the Rate

Buyers opt to float the loan when they believe interest rates will drop after their loan application date and prior to closing. The risk is that rather than dropping, interest rates rise, increasing the mortgage payment.

Lock-in Options

The following lock-in options are common among lending institutions. Be sure to ask the mortgage lenders you are considering which lock-in options they offer.

- **Lock-in interest rates *and* points.**
This will give you a clear understanding of how much your mortgage will cost. Neither your interest rate nor points increase during the lock-in period. This protects you against rising market conditions.
- **Lock-in interest rates *and* floating points.**
Your interest rate is locked-in and will not change for the lock-in period, while your points may rise and fall with market conditions. With this option, your lender may allow you to lock-in the points at the current market condition some time between submitting the loan application and closing.
- **Floating interest rates *and* floating points.**
This gives you the option to lock-in the interest rate at some time between

submitting the loan application and closing. This puts you at risk if interest rates and points rise and may not be best for a homebuyer with a tight budget.

The Cost of Locking-in the Rate

It is not unusual for a lender to charge a fee for locking-in an interest rate and points. This fee may vary depending on the amount of time you want to lock-in the rate (the lock-in period).

The fee may be charged when you lock-in the rate (and is rarely refundable if you withdraw your application, if your credit is denied or if you do not close on the loan) or it may be included in your closing costs. The amount of the fee and when it is charged will vary among lenders.

The Lock-in Period

Most lenders will offer lock-in periods of 30-60 days. Some lenders may only have short lock-in periods. And still others may offer a longer lock-in period (expect higher fees for longer lock-in periods).

The lock-in period should be long enough for the loan approval process and to allow for any other contingencies that may delay closing.

The Lock-in Expiration Date

If unexpected circumstances prevent the loan from settling prior to the last day of the lock-in period (whether caused by you or others in the process - including the lender), you lose the interest rate and points that were locked. Prevailing interest rates and points are usually charged under these circumstances. Be sure to ask your lender *before you lock-in* what interest rates and points will be charged if the loan is not closed before the lock-in period expires.