



How to Get the Lowest Mortgage Rate

One of the most important parts about choosing a home mortgage loan is finding the right interest rate. The difference that just one percent higher or lower can make can sometimes be measured in tens of thousands of dollars. Keep in mind that even just a quarter-point difference can mean thousands less in interest payments. While there are many things to consider when trying to find the best loan, make sure you take a look at the following suggestions to get a nice low interest rate.

Make a Large Down Payment. There are loans that will allow you to pay “little or no money down,” but you should be aware that these programs usually come with much higher interest rates. Lenders offer you a certain interest rate based on how risky your loan is to them. Loans that start off with a sizeable down payment are less risky because a good chunk of the loan has already been repaid. This gives your lender more security and peace of mind about getting the rest of the funds back. If you can afford to do so, make a down payment that is 20% or more of the total value of the loan. This will significantly lower the interest rate you receive. **Get Rid of Debt.** At the very least, pay off as much of your debt as possible. Most lenders will use a formula called the debt-to-income ratio to help calculate if and how much of a mortgage payment you can afford. The more debt you have, the worse your ratio will be. Too much debt may actually disqualify you from getting a home loan. Lenders want to be sure you have enough income to continue to pay off all your current financial obligations as well as take on a new, large mortgage debt. The less debt you have, the less you will be viewed as a financial risk and will be eligible for better interest rates. **Know the Difference Between Loan Types.** Sometimes naïve borrowers may be confused by the different rates offered on different programs. Rates on adjustable rate mortgages (ARMs) will always be lower at the beginning, but will jump up after the initial period. Fixed rate loans will have higher rates but the rate remains constant during the entire loan term. Keep this in mind as you search for the best rate. **Make sure you learn all the differences between the loan programs before being lured in by a too-good-to-be-true rate.** **Ask About Points and Other Fees.** Remember that a very low interest rate may be hiding other fees to be added in at closing. Many lenders will charge points, or a percentage of the loan total. The more points you pay, the better your interest rate. The opposite is also true. There are also often hundreds or thousands of dollars worth of closing costs that you will have to pay. Realize that the lowest quoted rate may not be the best total loan package for you. **Shop Around.** One of the best ways to secure a great interest rate on your next mortgage loan is by shopping around and comparing loans from several different lenders. Make lenders compete for your business and provide you with their best packages. Do not be afraid to tell lenders what you were offered by others.

Getting the best interest rate possible involves many factors including your credit history and your current financial situation. There are several things you can do in the loan search process though to find the best rate for your situation. Before you start, do your homework and learn what lenders want in return for a good interest rate.