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What if Interest Rates Fall After I've Locked in My Rate?

Mortgage rates are constantly changing. When you are ready to buy a home or refinance into a new mortgage, there is no guarantee that interest rates will be the same between the time you apply and the time your loan closes. There are some lenders, however, who will kindly let you “lock in” the certain rate and point schedule, for a fee, at the time you apply. While this does protect you against rising rates, it might also prevent you from getting a lower interest rate if the market drops before you close. So what happens if you lock in a rate, only to find that rates fall much lower by the time your loan processing is finished?

First, it might help to understand more about rate-locks. Rate-locks are a promise made to you by a lender at the time you begin applying or when your loan is approved. He promises to hold a certain interest rate and point combination for you until your loan closes. (A point is one percent of the loan total and is paid to the lender for the purpose of ‘buying down’ the rate.) To be truly effective, this agreement should in writing. Most will rate-locks will also come at a price. Lenders may require a flat fee, or a percentage of the mortgage amount as payment for the lock-in. They may charge an upfront fee or charge you at closing. If you paid upfront, many lenders will not refund your fees if you do not close the loan for any reason.

There are several different types of rate lock-ins and each lender may have his own policy for rate-locks. For example, one lender may allow you to lock in both the interest rate and points from your original good-faith estimate, while another may allow you to lock in the interest rate while letting the points “float.” This means the number of points you pay is allowed to change based on the movements of the market. Some companies have a policy that if their posted rates drop a by a certain percent by the time your mortgage loan closes, they will give you a rate somewhere in between the current rate and your locked-in rate.

So if you have already gotten a rate lock but interest rates have fallen significantly, making your locked rate seem unreasonably high, you should first check to see what your lender’s rate-lock policy stipulates. If the policy does not allow exceptions for falling market rates, you may have a hard decision to make. All of your choices involve paying fees. You can try begging your lender to lower the rate, but even if he does he will most likely charge you an extra fee to compensate for his potential earnings. You can also decide to pull out of the loan contract and go with another lender, but you will lose any upfront you have paid and may be charged a fee for backing out. Finally, you can continue with the loan at the higher interest and then refinance as quickly as possible into a home loan with a lower rate. This of course will require new closing costs and possibly points.

The word to the wise is to be cautious in obtaining rate-locks. Be sure you know the terms of the contract. You should also do your homework to get a sense of the general trend of interest rates and whether they may be falling in the coming weeks.