06/24/2007

How to Get the Best Mortgage Rate When Rates are Rising

Getting a good rate on a mortgage loan these days might seem like a tough task, especially as national averages on mortgage rates continue to climb. Those with less than perfect credit may find it particularly difficult to get a good interest rate, as subprime or poor credit financing has tightened. You know that the difference of even a quarter of a point in a mortgage interest rate will cost you thousands more in interest. So how do you negotiate a good rate in today’s home loan market?

Check and Improve Your Credit

Your credit score is a huge factor in determining the interest rate you are offered, no matter where you go for a loan. Mortgage lenders use your credit score as a measure of your responsibility with other people’s money. The higher your score, the more they believe they can trust you to repay them.

In order to get the best interest rate, you need to first find out what your credit score is and then see if you can do anything to correct it. Knowing your score will first give you an idea of what kind of interest rates borrowers with similar credit scores are being offered. For example, as of June 24, according to myFICO.com, borrowers with a credit score of 700-719 can expect to receive an interest rate of 6.679 percent on a 30-year fixed loan. Borrowers with credit scores of 620-674 however, will get a rate of 8.366 percent for the same loan program. And if your credit is really poor, say a score in the range of 500-559, you could expect to get a rate of 11.671 percent. Each of those rate jumps means a difference of several hundred dollars more in monthly payments, and tens of thousands of dollars more in interest charges over the course of the loan.

If your credit score is lower than you would like, there are a few things you can do to boost it by a few points fairly quickly. You could try paying off the balance on one or more of your credit cards. You should also examine a copy of your credit report to see if there are any errors, correcting these may make a notable difference within 30 to 60 days.

Choose the Right Loan Program

Once you have done all you can to improve your credit score, turn your efforts to figuring out which type of loan program is right for your needs. Different types of mortgage home loans offer different interest rates and you may be able to save money depending on your situation. For example, if you do not plan to stay in your home for more than a couple years, you may can usually get a lower initial interest rate on adjustable rate mortgages. If you time it right, you can sell your home and pay off the mortgage loan before the interest rate adjusts higher.

If you are planning to stick around for the foreseeable future however, you will probably do better with a fixed rate loan. The rate may be slightly higher than the initial rate you’d get on an ARM loan, but over the long run you enjoy a nice fixed, never-changing rate, while ARM loans can have skyrocketing rates and payments after the initial fixed period.

Shop Around

Finally, the key to getting a good interest rate in any type of market, booming or slumping, is to shop around. Make your potential home loan lenders compete for your business by letting them know what others have offered you. Make sure you compare not only the interest rates you are offered but whether the rate is locked and for how long, and also the annual percentage rate (APR) which includes the cost of the rate plus closing costs and additional fees. If you decide to go with an ARM loan, it is important to compare how much the rate could change in the future and how often. Even if you do nothing else to get a good interest rate, be sure to shop around and compare offers – this will at least help you know that you are getting the best deal out there.