



How Can I Get a Lower Mortgage Interest Rate?

When you start shopping around for a mortgage loan, one of the biggest questions on your mind is 'How can I get a low mortgage interest rate?' Assuming you have good credit and sufficient income to qualify for a home loan (not at all a given in today's credit crunched market!), there are several ways to go about bringing down the interest rate on your proposed mortgage loan.

Shop Around

First, do not limit yourself to working with one lender before you have checked out several lenders. You can get mortgage quotes from traditional banks, credit unions, mortgage lenders, and mortgage brokers. Compare the loans they offer you based on the annual percentage rate (APR) not on the interest rate alone. The APR includes the interest rate as well as the cost of the points and fees. It tells the whole story. Once you get several quotes, make the lenders compete for your business. Ask them if they can do better than your best offer. It might be a little intimidating to ask, but it will save you some big bucks in the end.

Points

One point is equal to one percent of the loan value. For example one point on a \$100,000 loan would be \$1000. Lenders will trade you upfront points for a lower interest rate. Paying points is essentially buying down the rate. Lenders offer their own point schedules, but generally the more points you pay the lower your interest rate will be. Be cautious however, about how many points you pay. The profitability of doing so depends heavily on how long you plan to stay in the home. If you only intend to stick with your current home and mortgage for a few years, paying points for a lower rate will not turn out to save you much money in the end.

Down Payment

You can typically score a lower interest rate by providing a larger down payment. The interest rate is a representation of the risk your lender is taking on by loaning you money. The more money you pay up front, the less the lender has to lose if you default and the more it shows you are serious about the loan. A sizeable down payment, preferably 20 percent, will significantly reduce the risk to your lender and she will feel confident offering you a lower interest rate.

Seller Financing

While getting the home seller to help cover some of your costs will not get you a lower interest rate on your mortgage in and of itself, it could lower your rate by enabling you to pay some points or contribute a larger down payment. Because there are so many homes on the market, prices are falling, and homes take longer to sell these days, many sellers are desperate to strike a deal to get out of their homes. That means they may be willing to pay for your closing costs, freeing up your own savings to be used for the down payment. Sellers are allowed to credit the buyer up to a certain dollar amount in each state, and in some cases this allotment also be enough to pay for some points to buy down the interest rate.



Don't be afraid to negotiate with both the seller and your lender for the lowest interest rate possible!