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Terms to Know to Land the Best Mortgage Interest Rate

Buying a home is a great investment and you will want to make the most of that investment by getting the very best interest rate available. Obtaining the best rate on your first or next mortgage loan is careful collaboration of several different factors. Before you start applying for a home mortgage, you should know the interest rate buzz words and what they will mean for your interest rate.

ARM vs. Fixed Rate Loan: Your mortgage interest rate will depend in some degree upon the type of loan program you choose. If you finance your home purchase with an adjustable rate mortgage (ARM), you will receive a low initial rate, but your interest rate will be subject to increases after the first year or so. If you get a fixed rate loan, your interest rate will stay exactly the same during the entire loan, but it may be higher than the initial rate you'd receive on an ARM. Many economists+ says that an ARM loan will actually cost you less interest in the long run, but you do have to be able to make the payment jumps as they come along.

Comparison Shopping: One of the most important factors of getting a great interest rate is how much you shop around. It is no secret that the more options you look at and compare, the better odds you will have of finding the best available deal. Be sure to check out several different mortgage lenders and their offerings. Make them compete for your business to drive down the promised interest rate.

Credit Score: No matter how much you shop around or which type of loan program you choose, the interest rate you receive will be in part determined by your credit score. In fact, if you have poor credit you may have to deal specifically with sub-prime lenders, limiting your available options. Your credit score and history is basically a report card of your previous money-handling activity. If you have good credit, creditors believe that you will be a responsible borrower. They will reward you for this good track record with a lower interest rate. If you have poor credit, start making some serious changes in your money habits before you apply for a loan. (This includes trying to reduce your debt-to-income ratio.) As your credit improves, so will your chances of a good mortgage interest rate.

Down Payment: The amount of money you are able to lay down at the beginning will significantly influence your interest rate. The bigger your down payment, the lower your interest rate will be. This is because interest rates are really a calculation of your risk factor as a borrower. You are viewed as less of a risk for default or foreclosure if you invest a sizeable contribution into the house from the beginning. If increasing your down payment is a possibility, it may be a great way to bring down your mortgage rate.

Points: Lenders will also exchange a lower interest rate for points. A point is one percent of the total loan value and it is paid directly to the lender for profit. Generally the more points you pay, the lower your interest rate will be. Just make sure the rate is worth the high upfront cost.

Getting a good mortgage interest rate is not so confusing once you know the vital issues to consider. The vocabulary in this article will give you a great foundation in your search for the perfect rate!

