What's Really Happening With Mortgage Rates?

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To say mortgage rates are volatile right now is an understatement. Every few days for the past two months, there have been heavy swings in mortgage pricing, translating to strong gyration in mortgage rates.

Nothing can be more frustrating for a pre-approved potential homebuyer than knowing their ability to qualify and their subsequent proposed payment could change in an instant. But there are other options that can help take the volatility out of your house hunting.

Should You Lock In a Mortgage Rate?

Most lenders will not lock in your interest rate until you have a ratified purchase contract or a bona fide legitimate purchase agreement. Mortgage lenders offer interest rate locks for 30 days, 45 days, 60 days and some even as long as 90 days, with the majority of buyers doing 30-day rate locks to match the traditional 30 days for close of escrow.

Locking in an interest rate means you've committed to an interest rate that will be used for the term of the loan, e.g. 360 months for a 30-year fixed-rate mortgage.

Pros:

- Payment clarity upfront.
- More time to budget and plan your finances during the escrow process.
- More time for the lender to get your loan package through the underwriting process.
- More allowance to focus on other aspects of your purchase offer, i.e. contractual obligations.

Cons:

- Missed opportunity for a reduction in the interest rate, which means a lower monthly payment.

Should You Float?

Floating your rate is defined as simply not locking in your interest rate. Floating essentially allows your interest rate and payment to move on a daily basis until you fully commit to your lender on an interest rate.

Pros:

- The opportunity for a lower interest rates and costs.
- Depending on your individual lender's policies/procedures, the opportunity to switch loan programs during the loan process, such as going from a 30-year fixed-rate mortgage to a 15-year fixed-rate mortgage.

Cons:

- This can be a risky position to be in during a volatile interest rate environment.

Which Is Right for You?

It depends on your personal threshold for how much risk you're willing to take on by floating for interest rate opportunity. If you can qualify for the mortgage loan even if rates were to rise during your loan process, you would have the luxury of being able to take advantage of a favorable market reaction the next time the bond market rallies.

On the flipside, you'd be entering into a purchase contract with thousands of dollars on the line in exchange for what may or may not come to fruition with rates. This is why it solely depends on your appetite for risk and how much you're willing to gamble in the market. If you have a 30-day close of escrow, that's not much time for floating in an attempt to seize something better.

Other Timing Considerations

Don't forget interest rates aren't the only consideration to take during the home-buying process. Some other factors include:

- Ordering an appraisal, or making sure value comes in at purchase price.
- Inspections.
- Releasing any inspection contingencies.
- Providing updated financial documentation in a timely manner to the lender. (This is a big one!)
- Releasing any loan contingencies.

While these steps in the purchase process seem relatively small, they can very quickly become task-heavy, which otherwise can change your focus from interest rates to making sure everything else is in order. Granted, your loan officer and real estate agent will be handling a lot of these steps in conjunction with you, but these are things to be mindful of in addition to trying to time the market.

Strategy for Locking In a Mortgage Rate

In a perfect situation, locking ahead of major economic news is generally the most conservative approach. It is expected that before large economic market mover information comes out, an idea of how the market will react is typically released beforehand.

For example, whenever the Federal Reserve makes a statement about the financial markets, usually there is information and analysis leading up to the speech before the news actually hits the markets. This gives you and your lender an opportunity to examine the market and discuss whether not it makes sense to float or lock the interest rate prior to the official announcement. Keep in mind that the speculation beforehand is just that — speculation — and you will need to make your own call based on the information.

Economic Reports to Watch

- The jobs report on the first Friday of the month sets the tone for mortgage rates that month with many lenders.
- Anytime the Federal Reserve makes a statement, especially lately due to the Fed's position on the tapering of buying mortgage-backed securities.

When you get into contract to purchase a home, if you can justify locking in a rate upfront, take advantage of it. Interest rate volatility is not something you want to gamble with, as there are many other aspects to purchasing a home most might not realize.

Mortgage Tip: Most lenders would be happy to refinance you down the road anyway in the event rates drop. Typically, most lenders require you to wait 6 months to refinance your purchase loan.

- The Smart Way to Pay Off Your Mortgage