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Some borrowers fear they could miss their chance if rates go higher.



TRAVIS DOVE/ BLOOMBERG NEWS Forecasters expect mortgage rates to remain elevated at least through year's end, leading more prospective buyers to seek interest-rate locks.

Home Buyers Rush To Lock In Rates

BY VERONICA DAGHER AND NICHOLAS G. MILLER

Prospective homeowners are rushing to lock in mortgage rates before they climb any further, and many are locking for longer than they did a year ago.

The average 30-year fixed rate has been floating above 7% the past few weeks, the highest in nearly three years. Many forecasters expect rates to remain elevated at least through the end of the year.

The rise is fueling anxiety among borrowers who fear they could miss their chance at homeownership if rates move any higher. Locks are a common feature of mortgages—to protect a borrower's rate during the home-buying process—but they can vary in their fees, their conditions and the amount of time they cover.

The average lock period in September rose to 40 days, up from 38 days a year ago, according to Optimal Blue, a mortgage technology and data company. The firm said 30- and 45-day locks both lost market share, while 60- and 90-day locks gained ground.

Joe Hood, a 70-year-old lawyer in Texas, locked in a 5.99% rate on a 15-year mortgage for 60 days in early September, figuring he wouldn't get a better rate. His lock included a float-down option—a feature that allows buyers to snag a lower rate if market rates drop before closing—but Hood didn't have his hopes up. “There was no way on God's green earth that rates were going to go down,” Hood said. “It dawned on me pretty clearly that mortgage rates were going to go up, period.”

Hood closed on a \$275,000 home purchase in San Antonio before his rate expired.

Lenders often advertise rate locks with no upfront fee. But the cost is frequently baked into the loan pricing via a slightly higher interest rate or reduced lender credits. Borrowers should get a written rate-lock confirmation to ensure the rate is secured, rather than floating.

Before locking in a rate, lenders typically require a signed purchase contract and a property address, though some allow buyers to lock before picking a home.

The lowest rate isn't always the best deal. A slightly higher rate with lower upfront costs might save money overall, especially if you move or refinance within a few years.

For example, paying \$10,000 in discount points to drop your rate from 7.375% to 6.875% on a \$500,000 loan saves around \$169 in monthly payments, said Michael Borodinsky, branch manager at LoanDepot in Edison, N. J.

But it takes nearly five years just to break even on that upfront cost, he said. If you move or refinance before then, you lose money.

Beyond raising expected monthly costs, a rise in rates before closing pushes up a borrower's debt-to-income ratio. In some cases, even a small increase in that ratio could mean the borrower no longer qualifies for the loan.

Borodinsky said interest in longer lock periods is growing, particularly among people buying homes that are being newly built.

While 30- to 60-day locks are standard, buyers might be able to lock for a year or longer, though the costs will be higher.

Buyers can add a float-down option to lower their rate if mortgage rates fall before closing. But some require rates to fall at least 0.25% and typically carry an added cost.

There are also extra costs if your closing is delayed and you want to extend your lock.

To extend the lock for another 30 days, for instance, a lender might charge a 0.50 point fee, or 0.5% of the loan amount. That would add \$2,500 to a \$500,000 loan.

If closing is delayed by only a few days, short-term extension options are usually available for smaller fees, said Melissa Cohn, regional vice president at William Raveis Mortgage.

Another consideration: If your financing situation changes, your rate lock can be voided.

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