

## CONSUMER GUIDE: NAVIGATING MORTGAGE INTEREST RATE SHIFTS

When you're in the market for a home, fluctuations in mortgage interest rates can be unsettling. After all, the interest rate on your mortgage affects the price range you can comfortably afford. Approaching the issue with knowledge—including an understanding of how rate changes impact your monthly payment—can help keep your home purchase on track.

### What affects the interest rate that lenders charge you?

Individual lenders set interest rates based on economic conditions, their risk tolerance and other factors, including the yield on 10-year Treasury bonds and the price of mortgage-backed securities. Your credit score, debt-to-income ratio and down payment amount also impact your rate.

### What's the difference between fixed-rate and adjustable-rate mortgages?

Fixed-rate mortgages keep the same rate during the life of the loan. Adjustable-rate mortgages (ARMs) may offer lower initial payments (usually for five or seven years), but your rate could rise later based on market conditions. With an ARM you get early money savings for a share of the interest-rate risk down the road.

### What's included in your monthly mortgage payment?

Typically, your monthly payment includes a portion of the principal loan amount, interest, property taxes and homeowners insurance. If your down payment is less than 20% of the purchase price, it can also include private mortgage insurance. Most experts say your monthly housing costs should be about 25% of your net monthly income, but lenders may approve a higher percentage if you have good credit, a large down payment or high cash reserves.

### How do higher interest rates affect your monthly mortgage payment?

With a 20% down payment on a \$400,000 home, the monthly payment for a 6% interest rate on a 30-year fixed mortgage would be \$1,919. The payment would be \$2,023 at 6.5% interest and \$2,129 at 7% interest. So, a 1% increase in the mortgage interest rate would raise the monthly payment by \$210. Use an online mortgage calculator to see how changes in rates and down payments impact your monthly payment.

### What can you do to get the lowest rate?

- **Shop around.** Talk to a mortgage broker or check with different lenders. Multiple studies have shown that shopping could save you 0.1% to 0.5% off your mortgage rate.
- **Improve your credit score.** Paying off debt, making on-time payments and disputing inaccurate information on your credit reports can help you to repair or raise your score.
- **Lock in a rate.** When you find the best rate, enter an agreement with the lender to lock it in for a set period, typically 30 to 60 days, to protect yourself against rate increases before closing. If interest rates fall, lenders will typically let you "float down" once to the lower rate before closing.
- **Consider a refinance.** It's difficult to predict the direction of rates, but if you expect them to fall after you close on your home, refinancing later at a lower rate is an option. There is no time constraint on how soon you can refinance with most conventional loans, but cash-out refinances require you to wait six months; government-backed loans (such as FHA and VA) require you to wait 210 days; and USDA loans require you to wait a year after you close on the sale.
- **Buy discount points.** Points are a fee paid at closing to reduce the interest rate on your loan. Although costs can vary, one point typically costs 1% of the loan amount (so, on a \$400,000 loan, you'd pay \$4,000). Some lenders allow you to buy fractional or multiple points.

Mortgage products vary widely, and rates can change daily. Work with trusted professionals who can help you compare options and choose what best fits your needs.

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