REAL-ESTATE

Five Ways to Shop for a Low Mortgage Rate

Rates are high this year, but you can still score a low mortgage rate with these tips.

Scoring a low mortgage rate is a top priority for many potential homebuyers, as owning a home has become increasingly more expensive over the last several years. Unfortunately, although mortgage rates fell significantly earlier this year — hitting their lowest level since February 2023 (6.09%) after the Fed's September rate cut — they've since crept back towards 7%. And according to Freddie Mac, they could still remain volatile following the Fed's anticipated rate cut this week.

High mortgage rates and home prices have long been pushing buyers out of the market and leading others to back out of deals. In June, as home prices hit an all-time high, 56,000 home purchases were canceled, equal to 15% of homes that went under contract, reports Redfin.

“I’m seeing some buyers pull out of the market because they can no longer afford a home loan,” Ralph DiBugnara, a senior vice president at Cardinal Financial, a national mortgage lender headquartered in Scottsdale, Ariz. said. “I’m also seeing a rise in the number of people who are getting cosigners, and I’m seeing a lot of buyers lowering their price range.”

According to Zillow, nearly one-quarter of listings (24.5%) received a price cut in June of this year as competition cooled and sellers looked to entice buyers. But a large swath of buyers are reassessing whether it's the right time for them to purchase a home. Many homebuyers are holding off on entering the market in case lower rates do materialise.

This makes sense because even a small change in mortgage rates can have a significant impact on how much homebuyers pay. To test that theory out, you can compare current mortgage rates with our tool, in partnership with Bankrate, below, or use our mortgage calculator to find your monthly payment.

How to score a low mortgage rate

If you're looking to purchase a home in this market, taking these steps can help you score a low mortgage rate:

1. Increase your down payment

To qualify for the lowest rates on a conventional loan backed by Fannie Mae or Freddie Mac — the nation’s two largest mortgage buyers — you’ll need a 20% down payment, said

Melissa Cohn, a regional vice president at William Raveis Mortgage, a national lender headquartered in Shelton, Conn. “The bigger your down payment, the better the rate,” Cohn said.

Need a little help piecing together a bigger down payment? DiBugnara recommended looking into national and local down payment assistance programs. You can research eligibility requirements for thousands of down payment assistance programs at DownPaymentResource.com.

2. Raise your credit score

Generally, consumers need a FICO score of 760 or higher to be eligible for the lowest mortgage rates on a conforming loan, said John Ulzheimer, a credit expert and author of "The Smart Consumer’s Guide to Good Credit". Raising your credit score by 20 points can potentially save you thousands on your mortgage, as shown in this data from MyFICO.

You may be able to get a free credit score estimate through your bank or credit card issuer, or from a website such as Credit Sesame or Credit Karma — or use MyFICO’s credit score estimator tool. If your credit score needs a boost, there are steps you can take to give it a quick lift. However, your best strategy will depend on why your score is lagging.

“Paying down some of your credit card debts can yield a higher FICO score in as little as two weeks,” said Ulzheimer, pointing out that your credit utilization ratio — the amount you owe on your credit cards, divided by your card limits — makes up a significant percentage of your FICO score.

A good rule of thumb: Keep your credit utilization ratio below 30%.

It’s also a good idea to check for errors on your credit report. With identity theft at an all-time high, “make sure all the information on your report actually belongs to you,” said Ulzheimer. “Someone could have opened a credit card in your name and run up a significant amount of debt.”

3. Shop around

Fannie Mae found that 36% of homebuyers in 2021 received only one mortgage quote. But you’re more likely to find a lower rate if you shop around.

Get quotes from at least three lenders. Local lenders and credit unions tend to offer lower mortgage rates than big banks. You can also shop at online lenders such as Rocket

Mortgage. Because underwriting requirements can vary, different lenders can give varying quotes.

Borrowers who received two rate quotes during the high-interest months of October and November 2022 could have saved $600 annually, according to a 2023 study by Freddie Mac. Borrowers who received at least four rate quotes could have saved more than $1,200 annually, the study showed.

4. Consider an adjustable-rate mortgage

ARMs — short for adjustable-rate mortgages — developed a bad reputation after the housing market crashed in 2008 because so many underqualified borrowers couldn't keep up with their ARM payment increases. But today's ARMs have more protections built in than pre-2008 ARMs and can be a good option for some buyers.

An adjustable-rate mortgage starts out at a lower interest rate than you would get with a fixed-rate mortgage. Then, after a specified period of time — usually three, five, seven or 10 years — the rate adjusts based on market indexes, though there are caps on how high-interest rates on ARMs can go.

“I like adjustable-rate mortgages when borrowers understand them,” DiBugnara says. “If you have an exit strategy, an ARM can be a great product.” For example, if you know that you're going to sell your home in the next four years, getting a five-year ARM can save you thousands of dollars in interest.

The typical home buyer would save an average of $15,582 over five years — or about $260 per month — by taking out a five-year ARM rather than a 30-year-fixed-rate mortgage, according to a May 2022 Redfin report.

5. Lock in the best rate

Qualified for a great interest rate? A mortgage rate lock allows you to lock it in for a set period — typically 30, 45 or 60 days — from the time you receive a conditional loan offer from a lender to when you close on a home.

Many lenders offer a free 60-day rate lock, but you usually have to request it, said Jacob Channel, senior economist at LendingTree. And there are a couple of caveats.

“If something about your financial status, like your income or credit score, changes before you close on a home, your rate can still change,” Channel said. “A lender can also change the terms of your loan if it finds that you've failed to disclose something, like additional debts."

In today's market, with 30-year mortgage rates fluctuating from week to week, Channel suggested buyers get a "float-down" rate lock. With this kind of lock, you can potentially get a lower rate than you initially locked in if interest rates fall, he said. Lenders often charge a fee of 0.5% to 1% of the total mortgage amount for a float-down lock.

Keep in mind that the future is uncertain. "Nobody — not even financial experts or your lender — knows where rates will end up 30 to 60 days from now," said Channel. "As a result, there will always be some risk in getting a rate lock." But, he said, a rate lock can also pay for itself, especially in an environment where rates are rapidly rising.

NYSUT NOTE: If you're trying to save even more money on your mortgage, the NYSUT Member Benefits Corporation-endorsed UnionDirect Mortgage Discount Program from Mid-Island Mortgage can save members up to $2,700. Whether you're looking for a new home or trying to lower your existing mortgage, this program may suit your needs.

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