

Congratulations on downloading Landmark Lending's whitepaper, "Proven Methods For The Lowest Interest Rate On Your Refinance." You may be looking to refinance your mortgage to take advantage of the current low interest rates. If so, it's a great time to refinance! Interest rates on home mortgages now are pretty close to the lowest they've been in the past 50 years. Or you may be looking to tap into the equity in your home to do some improvements, or to pay off other debt that you're carrying at higher interest rates. Either way, we know that you'll want to get the lowest rate you possibly can. Why else go through the time and effort of refinancing, right? We also know that there's a lot of confusing information about mortgages and interest rates out there. So we at Landmark Lending want to share some methods that we know will

help you get the best possible interest rates on your refinance.



Improve Your Credit Score

Most mortgage professionals will tell you that your credit score, often referred to as your FICO score, is one of the most important, if not the single most important factor in determining the interest rate you'll need to pay on your mortgage. While guidelines vary, many mortgage programs have minimum FICO score requirements (usually in the mid-to upper-600s, with better rates for higher scores).

Fair Isaac Corporation, who produces these scores, keeps an air of mystery as to precisely how they calculate a FICO score. But one thing we know for certain is that your payment history plays a big part. So, if you're considering a refinance, be sure to keep paying all your bills in a timely manner. (Of course that's good advice at any time). It's probably also a good idea to look at a credit report before you start the process. The major credit bureaus will all provide you with a free credit report at least once a year, so it's a good idea to peek in and see what's on file about you, to avoid any surprises that might pop up later on. It does happen that incorrect information could be reported about you, and if you have to contest anything on your report, you'll be better off starting to do so earlier in the process.

Lower your LTV

After your credit score, probably the next most important factor in determining what programs and interest rates are available to you is what's called the LTV, or Loan To Value ratio. This is the amount of the mortgage you're borrowing, divided by the value of your home. Let's say you have 30% equity in your home, then your LTV would be 70%. A lower LTV ratio means that you have more equity in the home, and statistics show that borrowers with a lower LTV are less likely to default on the loan. This makes your loan more attractive to lenders, and you'll often be rewarded with a lower interest rate.

While you can't change the current market value of you home, you may want to think carefully about the amount you'll be borrowing. It's appealing to "cash out" on the equity in your home, for home improvements, to finance your children's education, or a number of other reasons. But do keep in mind that increases in the loan amount may push you into a higher LTV that will result in a higher interest rate.



Lower your debt

When lenders qualify you for a mortgage, they compare your total monthly housing payment to your income. They will also do a second calculation which includes any other recurring monthly payments you're carrying. These include the monthly payments on any installment loans, like car loans or student loans, as well as the minimum payment on any credit cards or other "revolving" consumer debt. Since you're probably refinancing to a lower rate, it's pretty safe to assume that your housing payment is going to be decreasing, and you'll be fine as far as the first, ratio - housing-to-income. However, if you have too many other revolving monthly debts (car, student, credit card payments) you may want to consider bringing down the balances on your other debt obligations. Too much debt load will result in a total debt-to-income ratio which is too high (standard mortgage underwriting guidelines like to keep that ratio at or below 45%), and this could cause you to not be able to get your loan approved if your total debt to income is too high. It may not be possible to pay off or even pay down those debts before you apply for your refinance (and you may even be refinancing to pay off those debts), but be sure that you don't increase your debt prior to refinancing by taking out a loan to buy a new car, or running up your credit card bills with major purchases. Be prudent so that you don't jeopardize not only the possibility of getting the best rate available, but also that your loan could be approved or declined.

Find the best time to lock in your interest rate

When you apply for your refinance, most lenders will give you a number of options as to when your interest rate will be set. You should have the option of "locking in" the rate which is quoted to you when you file your application. You may also be able to lock in at any point in the process, or even keep the rate "floating" until the closing is set up. We can't tell you right now what will be the best option for you. You don't have a crystal ball that predicts the movement of interest rates, and your lender doesn't either. But you can watch the changes of the financial markets, both before and during your application process, and try to get a feel for the current trend. Mortgage rates are mostly closely tied to the bond market, so those are the indicators you can look for in the financial news. In particular, hone in on the 10-year Treasury Bond yield. And your lender should be willing to let you check the rates with them, even on a daily basis, so you can choose the moment at which you're comfortable locking in. Just keep in mind that when rates move downward, they tend to do so slowly. But when they increase, they can jump up quite quickly. It's important to understand when making the decision to lock or "float" your rate you are taking a risk either way. If you lock and rates go down you can lose the opportunity to get a lower rate. However if you "float" and rates go up you can get stuck with a higher rate than you were counting on.

Consider the term of the loan

Another factor you should look at is the length, or term of the mortgage. Lenders generally offer mortgages ranging in term from 10 years up to 30, and shorter terms loans tends to have lower interest rates. If your existing rate is sufficiently higher than current rates, you may be able to reduce the term of the loan, and keep the payments at the same level, or even lower them. If that's not the case, although your payment may increase if you shorten the term, but by decreasing the interest rate, you'll still save a lot of money over the life of the loan. That option may not work for everyone, so evaluate this one carefully.



Consider an ARM

ARMs, or Adjustable Rate Mortgages, tend to be more popular when interest rates are at the higher portion of the curve. The lower introductory, or starting rates on ARMS make them more attractive when fixed rates are at a higher level, historically speaking. And it's appealing at those times to hold out hope that the rate on an ARM will go down over time. But when rates are at historic low levels, it's easy to say, like Hemingway, "Farewell to ARMs!", and nail down a nice comfortable fixed rate. However, in some situations, it may still make sense to take an adjustable rate loan even at times like these. If you're only planning to stay in the home for a few more years, you can take advantage of those lower introductory rates, knowing you'll be done with that mortgage before it adjusts.



Pay Your Closing Costs "Out of Pocket

Many lenders advertise "no cost" refinances, and they're can be very appealing. After all, when you're looking to lower your payments, who wants to pay money out of pocket to get the loan? But keep in mind that lenders aren't giving money away for free. Loans with no points, or even no costs, are often accomplished by means of a higher interest rate. If you can afford to pay those costs out of pocket, you may come out ahead in the long run. Then again you may not. A great way to evaluate this is to ask the mortgage lender to give you the "Break Even" point for how long you need to keep the loan to break even if you pay your closing costs versus getting a credit from the lender at a higher rate to cover your closing costs. If you're sure you're going to be in the home and making payments for longer than that time period, you'll be better off paying the costs and getting the lower rate.



Shop around

This seems like a no-brainer, but we need to say it. Shop around, and compare the rates you find with different lenders and different mortgage programs. Make sure you do the comparisons on the same day to be certain it's a fair evaluation, and you're not just seeing the differences due to market fluctuations from one day to the next. While many lenders get their funds from the same sources, there is some degree of variation from one mortgage company to another, and there are some lenders who offer "portfolio loans" which they fund themselves, which may allow them to be more flexible and offer special promotions.

The most important questions to ask when shopping around and making your comparison are the following:

- 1) What is the rate?
- 2) What is the total in loan related closing costs at the quoted rate?
- 3) What is the lender credit (if any) at that rate?
- 4) Will my principal balance increase (and if so by how much) or stay the same?

Finally, and most importantly, find a lender you can trust. The lowest rate interest rates you hear quoted aren't worth a dime if the lender doesn't deliver what they promise. We've heard way too many stories about an experience with a previous lender who gave the borrower something very different at the end than what they were expecting when they started.

The best tip we can offer here is when you make the initial contact with the person helping you, do they give you clear answers to all your questions and take the time to make sure you're comfortable with moving forward in the loan process? If either they can't explain to your satisfaction what you're wanting to find out OR they PUSH you to make a decision you're uncomfortable with, the red flags should start to go up about working with that person and company. Two important questions to ask that person at the beginning is, 1. How long have been working in loan origination and also with your current company? And 2. "Will you be helping me throughout this process or will someone else?" If you are going to get passed along on the "assembly line" to get your loan you might want to re-think working with someone who actually stay with you to help you throughout the process.

