Do you Know What that Interest Rate will Cost You? Mortgage Rates Matter!

If you're in the market for a house, you might think about the features the house has or the price, but how often do you think about the mortgage rate?

Many buyers I work with don't realize the importance of the mortgage rate, so I'm here to clear the air so you make an informed decision.

What is a Mortgage Rate?

The mortgage rate is the fee the lender charges you to borrow money. You borrow principal, or the amount of the loan and the interest is the fee they charge you. Your monthly mortgage payment includes both the principal (loan amount) and interest (the bank's fee).

How Much of a Difference Does the Mortgage Rate Make?

You might not think the mortgage rate makes that much of a difference. After all, if it's just 1%, how much more could you pay?

The difference is tremendous, especially if you're talking about a 30-year loan. When you borrow funds for 30 years, you keep the bank's money for that time. This means they charge you interest over 30 years versus 10 or 15 years on a shorter term loan.

Here's an example.

You borrow $230,000 at 4% for 30 years. Your principal and interest payment are $1,098 and over the life of the loan, you'd pay $165,299 in interest. That's in addition to the $230,000 that you pay back (the money you borrowed).

Now, if you borrowed $230,000 at 5% for 30 years, your principal and interest payment would be $1,234 per month and over the life of the loan, you'd pay $214,488 in interest.

That's a difference of $49,189! I'm sure there's a lot you'd rather do with that amount of money instead of paying the bank, right?

How to Lower your Interest Rate

So how do you make sure you get the lowest interest rate? While every lender is different, here are some ways to ensure you get the best rate possible.

- Pay your bills on time

- Don’t overextend your credit lines, keep your credit balances at 30% or less of the total credit limit
- Dispute any incorrect information on your credit report
- Keep a stable job and income
- Make sure your monthly debts including the new mortgage are 43% or less of your gross monthly income
- Don’t have any collections on your credit report
- Make a large down payment

Lenders like it when borrowers are a low risk of default. You can be this by providing great credit, a large down payment, and solid employment and income histories.

Final Thoughts

Your interest rate makes a big difference in your mortgage payment and even what house you can afford. Sometimes even an interest rate that ½ point higher can make you ineligible for a mortgage loan.

Don’t take a chance. Shop around and get the best interest rates possible all while ensuring that you present lenders with the least amount of risk as possible.