Lending Rates (how determined/how to get lower)

What it is: The interest rate is the cost of borrowing money and is usually expressed as a percentage. Interest rates will fluctuate with market conditions and consumer interest rates are closely linked to the interest rates set by the Federal Reserve. The annual percentage rate, APR, will include the interest rate as well as points, broker fees, and certain other credit charges that you may be required to pay that will impact mortgage payments.

How it works: According to the Consumer Financial Protection Bureau there are seven factors that can influence the interest you would pay on a home loan:

1. Credit Score - If you are planning to buy a home check your credit report a year or six months prior to the purchase to correct any errors and look for ways to improve your credit score. If there is anything negative on your report, call the creditor and work out a payment plan. Also consider paying down credit card balances.
2. Home location – Mortgage interest rates can vary from state largely due to regulations that impact the cost of doing business.
3. Home Price and Loan Amount – It's important to know how much home you can afford and to calculate the monthly payment – including taxes and insurance.
4. Down Payment and Loan Term – A twenty percent down payment will get a better interest rate than a 15% or 10% down payment. A larger deposit indicates to the lender that you are willing to take some risk yourself. Also, compare the monthly payments of a fifteen year mortgage versus a 30 year mortgage. You may have higher monthly payment but you will pay a lower APR and lower overall interest charges.
5. Loan type - There are several loan types such as conventional, Federal Housing Administration (FHA), and Veterans Administration (VA) loans. Each type carries different fees, interest, and payment structures.
6. Interest Rate Type - There are two basic interest rate types of mortgages, adjustable and fixed and a sub category of fixed is the balloon payment mortgage. You can check get a ballpark figure for your mortgage interest rates at the Consumer Financial Protection website at consumerfinance.gov/owning-a-home/check-rates/.

Why it matters: The mortgage you choose has a big impact on the interest—how much you'll have to pay upfront, your monthly payment amount, and the total cost of your loan over time. You will want to shop around and compare rates and costs. Ask whether the rate is fixed or adjustable. An adjustable rate mortgage may seem like a bargain now but monthly payments could increase considerably over the life of the loan. Some questions to ask for an adjustable rate mortgage include:

- What is the initial interest rate?
- What are the rates and payment caps each year and over the life of the loan?
- What index will the lender use to determine rate increase and what margin will be used?
- How often can the lender change the interest rate and how often is it adjusted downward?

Who should care: Doing some homework will save you money in the long run and remember fair lending is required by law. The Equal Credit Opportunity Act prohibits lenders from discriminating against credit applicants in any aspect of a credit transaction and the basis of race, color, religion, national origin, sex, marital status, age or whether all or part of an applicant's income comes from a public assistance program.

For more information

- Consumer Financial Protection Bureau at www.consumerfinance.gov, "Understand Loan Options"
- Iowa State University Extension and Outreach website at www.extension.iastate.edu/humansciences/