

3 Tips to Getting a Low Home Loan APR Rate

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Your average APR for a home loan will depend on the mortgage details and other expenses relating to purchasing your property. If you want to pay less for your new home in the long run, then you want to have a low APR (annual percentage rate).

APR and other loan terms will vary greatly between borrowers. For instance, prospective homeowners with higher credit scores and better lending history will receive lower rates than those with bad to average scores and negative marks. In addition to getting a lower APR based on credit score, borrowers may have better terms such as a lower down payment.

However, there are options if you want to lower your overall home loan APR. While having a high credit score helps eligibility for a low-interest rate, you may also buy a lower-interest rate than you are eligible for.

Current APR for Home Loan Information

First-time homebuyers may confuse home loan APR rates with interest rates. Mortgage interest rates are just for home loans, which fund a home's purchase amount. The annual percentage rate (APR) you are responsible for includes:

- The loan amount, its interest rate and the loan term.
- The origination fee.
- Other fees.

Home loan APR rates are influenced by the above as well as by points, which are fees paid by the borrower to reduce the mortgage interest rate. One point costs one percent of the loan amount, and lenders will reduce the interest rate by a fraction for each point.

For example, a lender may reduce the interest rate a quarter of one percent for each point. In that case, one point is \$1,000 on a \$100,000-mortgage, and paying one point would reduce the interest rate of 4.5 percent to 4.25 percent. If you have specific questions about how these points work, speak with a lender.

To get the lowest home loan APR rates, borrowers will need to find a low-interest mortgage and reduce closing costs. If homebuyers cannot obtain a loan with a low-interest rate, then they can reduce the rate by paying points.

However, these are not the only ways to obtain a low home loan APR. The following sections provide additional ways you can reduce your costs.

1. Better APR by Credit Score

Having a good credit score is the biggest factor lenders consider when they offer APR rates. Therefore, you should make sure your credit score and history are in good standing before applying for a loan. This is because having a high credit score increases your chances of obtaining a low rate.

For instance, if you have a credit score of 700 or more, then you could qualify for a home loan with a 4.5-percent interest rate. With a score between 600 and 700, you might only qualify for a 5-percent rate. You may need to have a greater down payment if you have a credit score that is less than ideal or if you have no credit history.

Lenders will look into your credit history when reviewing your application for a home loan. If you are trying to get a better APR based on credit score, then you can improve your score by:

- Limiting the number of hard inquiries made on your behalf.
- Reducing your debt-to-income ratio.
- Paying your bills on time.
- Avoiding collection agencies.

Whenever a lender checks your credit, it is called a hard inquiry. Having multiple hard inquiries lowers your credit score. It may indicate to other lenders that you may soon have large amounts of debt.

Furthermore, lenders will also consider your debt-to-income ratio. Paying off existing debts, like credit cards, will improve your credit score and make you appear as a less risky candidate.

To maintain your score before submitting a home loan APR application, always pay your bills on time. Even worse than having late payments on your credit report is not making payments on your bills. If you have debt in collections, then lenders may not trust you to pay them back. Or, they may only loan you funds at a very high rate.

2. Lower Home Loan APR With Closing Costs

If you cannot lower your APR based on credit score, then you can try to reduce the other expenses. For example, you can lower your closing costs by paying out of pocket.

Closing costs include the origination fee that your lender charges you for establishing the mortgage. The average origination fee is one percent of the purchase price of the home. It is usually part of a home loan APR, but you may be able to pay it outright.

Closing costs can include other fees such as those for home inspections, state-required certifications and escrow accounts. Property tax and homeowners insurance can also be a part of closing costs.

As part of the loan agreement, you may need to purchase lender title insurance to protect your lender. This is a one-time fee that may cost thousands of dollars. If you can pay this out of pocket, then your home loan APR will be lower.

3. Lower Your Average APR for a Home Loan With Points

If you have the best APR by credit score, then you can still lower your APR by buying points. When you buy mortgage points, you are paying funds to the lender to reduce the loan rate.

A mortgage point is one percent of your home's purchase price. If you have cash to buy a point, then you can save money long term by lowering the interest rate on your loan. However, this may not be a good strategy if you plan to sell your home after only a few years.

For example, if you purchase a \$100,000 home with a mortgage rate of five percent and an origination fee of one percent with \$1,000 in closing costs, then you will have an APR of 5.17 percent. However, if you pay one point to the lender, it may reduce the mortgage rate to 4.75 percent and, therefore, set the APR at 5.01 percent.

However, by lowering your home loan APR by buying a point, you are increasing your closing costs. Higher out-of-pocket closing costs may not be possible if you are on a fixed budget. Keep this in mind when determining which option is best for you.