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INTEREST RATE LOCK FAQ

The Q & A provided in this document is for *informational* purposes ONLY. Please do not make any decisions about locking your interest rate based on the information found herein. Please consult your Lender and attorney before making any decision regarding your rate.

You may find more information about real estate closings at <http://www.ylevinlaw.com>.

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What is an interest rate lock?

An interest rate lock is a binding agreement between you and the Lender, by which the Lender agrees to give you a mortgage at a certain interest rate.

Must I lock the interest rate?

No. You can choose to “float” the rate, which means that the interest rate will be the market rate at the time of the closing. However, please note that practically speaking the interest rate will be locked a sufficient amount of time before the Closing to allow the Lender to give the borrower the necessary legal disclosures and to prepare the closing documents.

Should I lock the interest rate?

Whether or not to lock the rate is a question best addressed to the Lender. The following are risks associated with locking the rate:

- 1) Having the interest rate decrease before the Closing, at which point you must either (a) pay to relock at a lower rate, (b) negotiate with the bank, (c) accept the higher rate or (d) reapply with a new Lender, OR
- 2) Having the rate lock expire before Closing, at which point you must either (a) pay to extend the rate lock, (b) negotiate with the bank, (c) accept a higher rate, or (d) reapply with a new Lender.

What happens if the interest rate changes after the rate lock?

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If the interest rate goes up, you are protected unless the rate lock expires, at which time the Lender will charge a fee to extend the rate. If the interest rate goes down, you are bound to go with the higher rate. You can discuss with the Lender the option to relock at the lower rate, but if an agreement cannot be reached, you must either proceed at the locked rate or reapply with a different Lender.

When should I lock the interest rate?

The answer to this question will depend on the terms of the Contract and the particulars of the transaction. Generally it is advisable for a borrower to not lock in an interest rate for the transaction types listed below unless a Closing date is imminent (because the following transactions, generally, take much longer than standard transactions).

- A) Short Sale
- B) New Construction
- C) Any other deal requiring longer than usual Closing times.

It is also advisable to get a longer rate lock for Coop transactions, since Coop transactions usually take longer to close than Condo or House transactions.

Why do I have to pay to extend my rate lock?

Generally speaking, if you lock in your rate at X% and then the rate goes up to X+1%, it is in the Lender's best interest to give you the higher rate. As such, if your rate lock expires, the Lender will charge you a fee to extend the lower rate (X%) because they could make more money by giving you the higher rate (X+1%).

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