



## Interest Rate Commitment

### How Does An Interest Rate Commitment Work?

#### Definition

An interest rate commitment is also known as a rate-lock or rate lock-in. It is a lender's promise to hold for you a certain interest rate and a certain number of points, usually for a specific period of time, while your loan is being processed. You are able to lock in the interest rate and number of points when you file your applications, during processing of the loan, when the loan is approved or later.

A lock-in is not the same as a loan commitment even though some of the loan commitments may contain a lock-in. (A loan commitment is the lender's promise to make you a loan in a specific amount, at some future time, after your loan application has been approved).

#### Purpose

A lock-in at loan application can be useful because it may take a few weeks or more to prepare, document and evaluate your loan application. During that time, if your interest rate and points are locked-in, you would be protected against rate increases while your application is being processed. But, a locked-in rate could also keep you from taking advantage of rate decreases.

A lock-in should be in writing and you might consider getting a blank copy of the lender's lock-in form to read or show to your attorney before applying for the loan. It may contain important information that is difficult to read or understand.

#### Cost

There may be a fee for locking in the rate of interest and number of points for your mortgage. Sometimes, the fee is charged up-front or it might be charged at closing. It can be a flat fee, a percentage of the mortgage amount, or a fraction of a percentage point added to the lock-in rate. The fee amount and how it is applied will vary from lender to lender. It may also depend on the length of the lock-in period. You may not be refunded the fee if you withdraw your application, if your credit is denied or if you do not close the loan.