

EP 7: LOCKING YOUR MORTGAGE RATE

Jason 00:00:03 Hello, and welcome to the New Home Owner podcast. This is a podcast for first time home buyers who are building a brand new home. In this episode, we'll be talking about everyone's favorite party conversation, starter interest rates and podcast listeners, put your floaties is on because we're diving into the deep end of the pool to talk about interest rate locks. Our guest today is Mike. He's a regional manager for NVR Mortgage, and he's an expert on all things related to locking your interest rate. And keep your ears open because at the end of the episode, Mike has a brilliant tip that you can use to avoid rate lock anxiety. Amy, Kelsea, welcome to the show. It's good to see you guys again.

Amy 00:00:43 It's fun to see you too.

Kelsea 00:00:43 Yeah. You as well. Yeah. I'm already envisioning Jason at his next party. Starting off a conversation and talking about this podcast episode.

Jason 00:00:50 I have, I had, I started off a conversation talking about interest rates and I feel like an old man, boy rates are really low today. We're in a new studio. This is kind of cool down here. It's the same for, for you listeners. It's just a conference room. There's nothing special about it, but it's two floors lower, a little bit bigger. And Kelsea has a cool sign on the door that says recording in progress. It's pretty official. Yeah. So, um, you know, it's nearly fall and it's everyone's favorite time for pumpkin spiced, whatever pumpkin spice lattes. I have to say, I'm not a big fan. I know some people are, are you guys into pumpkin spice flavoring?

Kelsea 00:01:32 It's not my thing personally.

Amy 00:01:35 I don't drink it either.

Jason 00:01:36 Wow, none?

Kelsea 00:01:37 I, I wouldn't say that I strongly dislike it, but it's not my go-to. Um, I might get one just to feel festive and seasonal.

Amy 00:01:44 I've had one in my life.

Jason 00:01:45 Mike, what do you think?

Mike 00:01:47 A little too much for me.

Jason 00:01:48 Too sweet. Yeah, but it is a sign of fall and now I look for it. It's usually like the third week in August someone brings it up that they're having one and it's 110 degrees.

Amy 00:01:56 I do have a pumpkin candle out at home.

Jason 00:02:00 Yeah. So I heard some news. Kelsea, I heard that you bought a house.

Kelsea 00:02:04 We did.

Jason 00:02:05 Is this true? Or we, yeah, I don't want to you, maybe you did do it on your own. I don't know, you did it with your new husband?

Kelsea 00:02:12 Yeah, we did.

Jason 00:02:13 Did you buy new construction or used?

Kelsea 00:02:16 Yeah, we went new construction.

Jason 00:02:18 Good, okay. Check mark and Ryan Homes or somebody else?

Kelsea 00:02:20 Ryan Homes

Jason 00:02:21 Great, that's exciting. Congratulations

Amy 00:02:23 Congratulations

Kelsea 00:02:26 Yeah. How could we not Ryan Homes? It's been, um, it's been exciting and I'm going through all the same, you know, feeling the emotions that everyone tuning in goes through. And it's funny, my husband, it seems like every time I get home from work, he has at least five questions ready to hit me with. And I'm like, I, every single time I tell him, listen to the podcast. That's my answer.

Jason 00:02:48 It's so funny that, I mean, we didn't plan this. We started the podcast idea a year ago and you were here and, and then Amy, we're like, let's get Kelsea on the podcast project. That'd be great. And we had no idea, you know, you were buying a house. I I'm guessing. So

Amy 00:03:01 No, this is a new development

Kelsea 00:03:03 Yeah, no, not at all. And to be honest, I feel like, you know, new construction, wasn't something we were necessarily considering before. But I think just being involved in this process and in the podcast has kind of led us in that direction because it even made me feel more comfortable, you know, going through all of these episodes and I'm learning more than one thing new every time that we have, uh, you know, uh, our guest speaker in here, who's the expert on the topic. So yeah, it's been great.

Jason 00:03:31 What's been the response from your family and friends.

Kelsea 00:03:34 They're all excited. I mean, our goal was to have a house where we could say, Hey, everyone come to us for the holidays. So I think they're looking forward to that.

Jason 00:03:43 That's an aggressive, aggressive goal.

Amy 00:03:43 I always had the same goal. I get it.

Kelsea 00:03:45 Yeah. Well we have huge, a huge, huge family. And so right now it's like Christmas time, we're going to four different houses in a matter of a few days. So now with our new house, I can say, oh, come to us.

Amy 00:04:00 See, I have a small family. We're talking two first cousins small, but I still just always want people at my house.

Jason 00:04:06 Now our, our Thanksgiving count is like 23. So my goal is to get them out of my house and go to my sister's house.

Kelsea 00:04:12 I might regret this decision cause yeah, we're that big too. So we'll see.

Jason 00:04:16 All right. So you, you're buying a new house, you're building new. What do you know about locking your interest rate?

Kelsea 00:04:21 So it's funny, uh, just to give everyone kind of an idea of where we are in the process, we're kind of going through that bit of a quieter period where they're doing are pulling our permits and ordering our materials. And my husband just being the type of personality that he is, is already talking about locking interest rates and has had all these questions for me. And I'm like, gosh, I don't know. Thank goodness I have a podcast scheduled for that though. So I'm very much looking forward to this episode.

Jason 00:04:51 Good, good. Well, Mike is here. Mike, tell us a little bit about yourself.

Mike 00:04:54 Yeah, thanks. I've been with the company for 16 years. I originated loans with NVR. I have been in the management ranks now for about eight years and I'm really focusing on my region, which is heavily focused on leadership development, branch development, employee experience, and creating efficiencies for our home buyers to receive the best possible customer experience that we can provide

Jason 00:05:19 And originate a loan means to like to make one. Right.

Mike 00:05:23 So to actually take the loan application. It'd be the loan officer.

Jason 00:05:24 Okay. Gotcha. Gotcha. So a few episodes ago, we talked about payment. What's your monthly payment going to be? And we talked about interest and principal and those things. We talked a little bit about rate and we'd said, Hey, we're going to come back to rate locking. Cause it's, it's a, it's a moment in time during the build process. That's kind of unique because I, I can't think of another product like a car or a credit card where you kind of are waiting and you as the consumer, get to decide when you want to lock in your rate. I mean, with a credit card, you get the rate they offer and if change it, they change it. You can leave if you want, but most people don't. Same thing with a car. So what does it mean to lock your rate? I mean, is it, do I go on a website? Can I unlock it later and change it up? What does that mean, exactly.

Mike 00:06:12 It's a great question. So normally when you purchase an automobile, you select the automobile, you go through the qualifying process, you close on the rate that they offer you on the same day. Most frequently, when you finance a mortgage, it's normally a larger transaction where you're going to secure your interest rate well in advance of settlement so that you have the time to get comfortable with the terms and get to a place where you are prepared for the settlement date, which may be 60 days from that timeframe. So once you lock it, you're securing a commitment from the lender and that lock will be good through closing. And then for if it's a 30 year fixed rate mortgage for the term of your loan.

Jason 00:06:51 And to be clear, we're talking about your interest rate. That's what we're locking, which, you know, has varied over time from, in the seventies, 16% down to 3%, even a touch under at certain times. So it can make a big difference certainly in your payment, sometimes not as big as people think. And I think people get really worried over a 10th of a point or, and we'll talk about the whole point system, but it just means an amount of money. So it's helpful, I think for the, for your loan officer and you to discuss, well, what does this mean in dollar amounts? Right? And so I think that's an important conversation to have.

Mike 00:07:25 Absolutely, so for Kelsea's experience right now, that's an ultimate variable still taking place. So we're wondering what's going to happen with the rates when can I secure this variable so that I know what to expect with my financing and, and it does, it leads us to some anxiety until we can get to that place of securing that on a purchase this size, that's understandable.

Jason 00:07:44 Now we, um, our previous episode, we kind of were working up to the pre-drywall meeting. And so now we're talking interest rates is this around the time

that people start either locking their rate or talking about locking their rates and why, why pre drywall? Why does this, is this the moment?

Mike 00:08:01 So drywall, and that conversation begins around the drywall period of time because the house is under roof at that time. So we can more easier project when we're going to be able to settle on the home. So lock terms are in 30 day segments. So once we get to drywall, we're about 45 to 60 days out, it's typically when we're talking about locking in an interest rate. So at that time, our loan officer can then confirm with our home buyer that we're within 45 days. These are your lock options, and they'll begin that process.

Jason 00:08:31 So when I settle on the house, it's locked for good until the house is done and I've signed everything, the lock can expire and then you would get a different rate at that point. So you really want to know, okay, when's it going to be done? All right, let's start the clock. And the reason you have to lock it from what you were telling us in the pre-call is just look to lock a rate, cost money for every company, a, uh, for NVR Mortgage, for any mortgage company. It cost them money to guarantee that this rate is still there because rates change every day. You can, you can go online and you can see what today's rates are and they go up and down based on what's happening in the world. And, and a lot of other factors.

Mike 00:09:08 Absolutely. So when you take your loan application, you're issued an interest rate so that we can qualify you and get your loan approved. That rates considered floating. That's how we described that.

Jason 00:09:17 The floaties, I knew there was a reason I used that word.

Amy 00:09:18 Floaties in the pool, floating rates.

Mike 00:09:19 Floating is a, is a term we use until we get to the point where we can lock. So, you know, generally where we are with the market, when we start the process, and then when we come up to locking the rate, we can then secure it and move forward. But in the meantime, our loan officers sharing the trends, sharing what we're reading to offer that information to our home buyers. So they can make the most informed decision once they get to that place where they're released to lock. Once we get through that drywall meeting.

Amy 00:09:46 So you talked a little bit about the timing of when you lock, but my husband's kind of like Kelsea's husband, he's watching rates. He knows what's going on. I'm blissfully unaware and don't want the responsibility. So whose responsibility is it to initiate this conversation about locking your rate?

Mike 00:10:04 That's a good question. So one of the benefits to working with NVR Mortgages, our loan officers are interacting with the sales and marketing representative on a regular basis, the project manager on a regular basis, they work in between the loan processor and underwriting on a regular basis. So they're really to say, uh, how we describe this in previous episodes, the quarterback of the financing side of this process, the loan officer's going to be asking those questions. Our loan officers are going to be eager to get you to that place because we know what a relief it is to once you get within that window to start having those conversations, everybody's anxious and looking forward to having that conversation. So the loan officer's going to be asking the project manager, are we in a place where we can lock these customers based on the delivery dates? And we confirm at that point, and then we will make those outgoing phone calls.

Amy 00:10:48 Okay. So we don't have to be obsessively really watching the calendar, watching the rates. You guys will take care of that for our customers.

Mike 00:10:57 Absolutely right.

Amy 00:10:58 Gotcha. And I imagine that's different than other lenders people might consider. They don't have that level of communication.

Mike 00:11:05 We're so unique because of the build cycle being a couple of months. So NVR Mortgage only focuses on NVR homebuilding brands. So we understand the process more than most because this is the only business that we do. So we want to be the process expert. We want to be the product expert, and we want to be the market expert as a loan officer team and the quarterback and the quarterback, all the roles that comes through and to summarize that would be the quarterback. So we know what the major milestones are. We're looking forward to those milestones and then we're able to set expectations with our home buyer. So that allows us a little bit more confidence in, in those discussions or those communications as to when you're going to be approaching these locked terms. And yes, we're, we're excited to make those phone calls when we have the opportunity to do so.

Jason 00:12:20 So did your kids have floaties, like the swim things that you put on their arms?

Amy 00:12:25 Well of course, we're extra. So we went with the rescue swimming that never had floaties, but I had them as an eighties child.

Jason 00:12:33 Yeah. My niece, she had like a jacket on like these high quality fabric floaties that look like actually could save your life. And I was looking at a picture of

myself as a kid. Plastic, like cheapest thing in the world that someone blew up with their mouth and maybe hopefully put the thing in properly.

Mike 00:12:51 How that kept you above water. We don't know.

Jason 00:12:53 Maybe that's why I'm such a good swimmer now, because I realized the danger I was in. So what a rate can float up or down, but so when you lock it, it's not going to go up and you're, you're protecting yourself against, okay. What if it skyrockets? You know, we're so close to finishing, you know, in swimming, you don't want to float down that's bad, but with interest rates, that would be nice. So is that, is that an option and what does that entail to turn that on, if you will?

Mike 00:13:20 Good question. So locking is the typical lock at a 60 day timeframe. You're going to secure your rate. And at that point, your rate is secured. So we're taking that out of the market. There's no more up or down exposure and we're satisfied with where we are and we're going to take that all the way through closing. On our extended lock program. So we do a typical 60 day lock, and then we have an extended lock program that will offer 180 days of security on that program that will come with a higher rate because of the added security of the additional 120 days that the is taking on in terms of responsibility. But we will offer a float down option with that program. So you'll have the option between 60 and 30 days to float down on that rate.

Jason 00:14:02 Interesting. So a couple of options just for, um, sake of conversation. What do you, if, if we had to say what most people pick, what do most people pick? If I'm like, well, what does everybody normally pick? Is it the 180 with float down? Is it, Hey, 60 days, we're going to be done. Just lock it in.

Mike 00:14:19 Most people are taking the 60 day lock.

Jason 00:14:21 Okay, cause it's a little bit less expensive?

Mike 00:14:23 It is, correct. So instead of taking on assuming the risk or that the market's going to increase in paying the money upfront, they'd rather wait until the 60 day timeframe without the upfront expense.

Jason 00:14:34 But if you're interested in the other and that's a big thing for you or your husband talk to the loan officer, right?

Mike 00:14:39 Absolutely right. It's all about peace of mind. So how much do you value peace of mind? Some folks would rather, you know, what, take me out of the market. I don't want the stress of it. This rate is great the way it is and we can secure it

can sleep well at night, I'm happy and that's great. Some folks would rather take advantage of a better price and are more willing to take on that risk.

Kelsea 00:15:00 Yeah. I think that's something that my husband's brought up to our loan officer who, gosh, I mean, we just submitted our loan application maybe two weeks ago and we're already pretty deep into the conversation of when can we lock. You know, he just, he does what we mentioned at the beginning of the episode, a little bit of that lock angst or anxiety, he definitely experiences that. So, um, yeah, definitely looking forward to having them tune into this episode, to understand that, you know, it, it is more so the norm to go with the 60 day. But of course, if you want that peace of mind, that 180 is the option.

Mike 00:15:34 And it's a matter of perspective. So we try to offer perspective. So if you look at where rates were in the seventies, or even, you know, four years ago, whatever that might be, are you satisfied with where we are today? And are you willing to move forward with, with the rate as, as it's offered because rates change every day and it's, it's really, it's impossible. A lot of folks want to hold out to, I'm going to wait until I can get the best rate. Nobody knows when that's going to be very hard to get, to land on.

Jason 00:16:01 If you could guess the rates you'd probably be a rich, rich, rich man.

Mike 00:16:04 That's absolutely right. Yeah, absolutely right.

Jason 00:16:07 And they do change, but they don't, normally they're not going to go up an entire percent in one day, they're not going to skyrocket out of control or we wouldn't, we wouldn't have any stability in the housing market. So

Mike 00:16:16 That's correct. And we have tools that we utilize that we can find trends so that we can inform our customers now that we have the exact answer, but we can give you an idea as to what's taking place or how much it could move and what that would mean in terms of your payment. And is it worth taking that risk or are you just willing to let's put this to rest?

Kelsea 00:16:33 Yeah, I think for me so far in this experience, you know, I could gosh, dwell on what the rate is every single day and, and, you know, spend time keeping up to date with that. But for me, it's am I comfortable with my monthly payment? So I think that that's a good message just to share with our list listeners as to, you know, maybe not get too overwhelmed with the rates varying, but are you comfortable with that monthly payment as it stands with this rate

Mike 00:17:00 That's exactly right. Every month we're going to be making this payment. So if I'm comfortable with it and that's what I signed up for, that was my expectation. And I want to put this behind me and it does make sense.

Jason 00:17:10 Okay Mike, so how long can I wait until I have to pull the trigger to lock? Can I do like an hour before settlement and be like, Hey, I'm ready. Is there a big red button at the table?

Mike 00:17:18 Great question. So we want to lock 30 days outside of closing, at a minimum.

Jason 00:17:24 30 days prior to closing, which is when I get my keys, sign in the houses, that's mine.

Mike 00:17:30 That's an absolute minimum because we're going to take those terms and then we have to repackage your loan and resubmit to underwriting. So we want to make sure we have everything finalized.

Jason 00:17:36 There's the underwriter. I knew he'd be back.

Mike 00:17:39 There he is again. Looming.

Jason 00:17:41 And he wants it repackaged, huh?

Mike 00:17:42 He's going to want it repackaged.

Jason 00:17:43 Wow. This guy is very demanding and I'm guessing that means like, give me all your documents again, print everything out. Maybe a few of them, is that repackaging is?

Mike 00:17:53 That's what repackaging means. So from when you took application, you provided all these initial documents for initial loan approval. The underwriter reviewed that loan. So you have a really rock solid loan approval.

Jason 00:18:03 So you guys didn't lose those files. You have them, we still need updated.

Mike 00:18:06 And now we know what to ask for in terms of updates. So we want your updated pay stubs, asset statements, credit report will have to be updated so that we know everything is consistent from where it was when we started the process. So it may seem like repetition, but it's not, these are updates.

Jason 00:18:21 But if I did go and buy that boat, it would show up now and you guys would be like, what did, what happened here?

Mike 00:18:28 What, what kind of boat would that be? If you did go out and buy that?

Jason 00:18:29 Definitely like a three or four level yacht for me. That's what I need. I need space. I've got to have all the toys that come out spot for my helicopter land, floaties, floaties for everyone, the good kind.

Mike 00:18:41 Of course high quality. But yes, if you were to make that major purchase, we'd have to uncover that. Yes, please don't do that.

Jason 00:18:47 Don't do that. Okay. So that's why we repackage it, send it to the underwriter and all, most of the time he should be saying, looks good.

Mike 00:18:54 Yeah. This is the way we expected to look.

Jason 00:18:56 This is how we expected it to look. Amy, what kind of boat would you get?

Amy 00:19:01 Ya know, I never really thought about that before. Definitely not a yacht. It wouldn't be my thing. I think I'm more of a cruiser. So whatever the equivalent in boat terms to that would be.

Kelsea 00:19:13 Pontoon. Expert over here. Yeah. You're pontoon girl.

Jason 00:19:18 The other end is the one where you have to use your feet to peddle to get anywhere. Have you ever been so far out because you were so excited and then you realize how far you have to go back?

Amy 00:19:28 I actually have been. Yeah. Once my brother and I got rescued in one of those.

Jason 00:19:32 You're kidding me

Amy 00:19:33 It was in the middle of a storm in DC where you can do it outside the monuments. Yeah

Mike 00:19:36 This past summer?

Amy 00:19:37 Last weekend.

Jason 00:19:40 No, the worst is when you get out there and the person you went with is like, no, I'm too tired, I'm not going to pedal. And you're like what? We came out here together. So I would just divide, you know, just go in circles, right near the dock. That's the best thing. If you're going to have that kind of a boat. Okay. 30 days prior to settlement, we're locking it up. I'm big on research. When I go on Amazon, I read every

review. I read all the questions I look around. What's better. What if I go look around and I see another rate, a cool, lower rate. What am I seeing typically? And how do you guys feel about, I bring that up every week?

Mike 00:20:13 Welcome that obviously we understand that there's a competitive market there. And with those competitive offers, I want to remind everyone that an interest rate will vary based on your loan product or your credit score or your loan to value. So it's, it's hard to decipher what rate would apply to your scenario without asking some questions. And we would welcome that offer in that discussion so that we can review it and answer any questions that you may have. So we obviously want to partner up with you and support you throughout the process.

Jason 00:20:45 I know on the website we have, um, we have an estimated payment and if you scroll down, you'll see all the, all the terms. So we have to, by law with reveal, kind of how did we come up with this payment? And there are a lot of other factors besides the rate that impacted, I was part of the team that helped develop the calculation for it. And I think that project took me two months to get right. And there's a diagram. That's like four pages long. So not, not that anyone can't go and shop rates and compare. It's just, it's definitely worth a conversation. Absolutely. There's a reason they call them teaser rates is because they're teasing you in and then hoping you don't understand the full breadth of what's going on.

Mike 00:21:22 And normally there's an exchange. So the lower, the rate means you're coming out of pocket for a little bit more money and the higher the rate, the less you're coming out of pocket. So it really does depend on what's important to you.

Jason 00:21:32 I know doctors love it when you come in and you say, you know what? I Googled it. So I'm pretty sure it's this.

Amy 00:21:37 I'm definitely guilty of having done. Especially with my kids.

Jason 00:21:41 Do you print, do you print it out and like, bring it with you?

Amy 00:21:43 You know I'm not big on printing things, but I'll, I'll bring up photo screenshot.

Mike 00:21:48 Yeah. All right. Are you sure you thought about this?

Amy 00:21:51 Ma'am, we got this.

Jason 00:21:55 Right, right. Okay. Kelsea, do you feel a little bit better? Yeah.

Kelsea 00:21:59 You know what I do? I do. Yeah. This was very helpful. Thank you, Mike.

Jason 00:22:04 Of course. Is there anything we're missing, Mike?

Mike 00:22:07 No, I think one most important piece is to celebrate this time when you lock that rate, that should be a celebration. That's an exciting time in the process. And knowing that things are coming together and that you're on to next steps, which is coming to close.

Jason 00:22:19 Yeah, I've seen on some of the different Facebook groups and blogs people, you know, rate locked and it's another milestone. And now you can sort of, um, look forward to knowing what that payment's going to be. And one less thing to, to lose sleep over though. I never lose sleep over interest rates before, but I guess if you're about to have a new house mortgage payment, you might, that certainly could be stressful.

Mike 00:22:40 And give yourself a break. Once you lock that rate and you're satisfied and you're really excited, don't torture yourself by looking and then staying on the every day search.

Jason 00:22:49 Right. Cause if it goes down, you're like

Mike 00:22:52 You're gonna drive yourself crazy. Right. And you made a decision to the best of your ability

Jason 00:22:55 And they go, they go down and they go up, uh, you know, over time. So that's exactly right.

Amy 00:23:00 It's kinda like, you know, you just got married Kelsea. So it's like looking for your wedding dress once you make that decision, it's made.

Jason 00:23:07 Oh, I thought you were going to say, looking at another like boyfriend or something. You meant wedding dress.

Amy 00:23:12 I was going in a different direction, but you just have to move on don't search any more. You've committed. You made the right decision.

Kelsea 00:23:20 I guess either example there works. We'll go with Amy's

Amy 00:23:24 True. Of course Jason would try to corrupt it.

Jason 00:23:26 So we, we talked about the tip at the beginning of the episode, you know, how do you avoid that rate anxiety? Is that, is that kinda what you mean? Which

is, do you have a different tip or you're talking about, Hey, just once you have it locked in, it's done.

Mike 00:23:37 I think for a peace of mind, I think it's so important to all of us thinking about it and all of the stress that we manage on a daily basis, that peace of mind is so critical. And, and another thing to add to that is when rates move it, a lot of folks are concerned like, oh my goodness, my payment just went to a hundred, \$200. Like what, tell me what's happening. And it's, it's not normally it could be the cost of going out to lunch. It's not extraordinary. So just to stay calm with that, it's not always going to be so overwhelming.

Jason 00:24:04 Okay. Well I think that's going to wrap it up. That was great. Um, in the next episode, we're going to pick back up in the building process and talk about the final stages of construction from flooring to cabinetry, to exterior siding, we're getting close to the end. This is definitely coming together. Very exciting time. Be sure to subscribe to our podcast, stay in the loop with future episodes and visit newhomeowner.com. If you want, you can submit questions there or ideas for future episodes and topics. And if you have a friend in the market for a new home, share a podcast with them, let them know that they can understand exactly what to expect. If they, they buy a new construction, especially from Ryan Homes and have them visit Ryanhomes.com and they can browse communities in their area. See you guys next week.