12 Ways to Get the Lowest Mortgage Refinance Rates

If you're considering refinancing your mortgage, you are likely eager to find the lowest possible mortgage refinance rates.

But before you start shopping around for the lowest rates, experts say you should establish your objectives and prepare your finances to improve your chances of qualifying for the lowest interest rate.

"First, figure out the best loan product to meet your financial goals, and then you can start looking for the most competitive mortgage rates," says Michael Jablonski, executive vice president and retail production manager for BB&T Mortgage in Wilson, N.C.

Here are 12 steps that will help lock in the lowest refinance rate possible.

No. 1: Raise your credit score
"Typically, a credit score of 740 or higher puts borrowers in the best tier for a conventional loan program," says Michael Smith, first vice president – business development manager for mortgage lending for California Bank and Trust in San Diego.

Most lenders require a minimum credit score of 620 to 640, but you'll pay a higher mortgage rate for conventional loans unless your score is 740 or above. However, some portfolio lenders set their own guidelines.

No. 2: Lower your debt
Paying bills on time and paying down your credit card balance can reduce your debt-to-income ratio, or DTI, which improves your chances of qualifying for a low mortgage rate, says Jablonski.

A good rule of thumb is to make sure your debt-to-income ratio is no more than 36%, and even lower is better.

"Don't buy a new car, make other major purchases or fill out multiple credit applications before you refinance, because all of those actions can hurt your credit profile," says Smith.

Even if you have a high credit score, you may be denied a refinance altogether or subjected to higher interest rates if your DTI ratio is too high, says Jablonski.

No. 3: Increase your home equity
Remember that your credit scores and the loan-to-value ratio of your property could have a much bigger impact on your refinance rate than a slight shift in average mortgage rates, says Malcolm Hollensteiner, director of retail lending sales for TD Bank in Vienna, Virginia.

"Both a lower-than-average credit score and a high loan-to-value can lead to a more expensive interest rate," he says.

If you are underwater on your mortgage, a Home Affordable Refinance Program (HARP) loan may be your best option. (See more: What is HARP and do I qualify for a HARP loan?)

No. 4: Organize your financial documentation
You should get your credit reports from all three bureaus to make sure there are no mistakes that need correcting before you apply for a refinance, says Smith.

A refinance application typically requires two years of tax returns with W2s, two recent pay stubs, and your two most recent bank and investment statements.

"Gathering these materials ahead of time can expedite the loan process and prevent you from paying extra for an extension of your rate lock," says Smith.

No. 5: Save cash for closing costs
Closing costs average about 2% of the loan amount.

"You can pay cash for the closing costs or, if you have enough equity, you can roll these costs into your new loan," says Hollensteiner. "Another option that some lenders offer is to pay a higher interest rate for a lender credit to cover those costs."

Shop smart for your refinance
Once your preparations are complete, you can begin to shop around for the refinance that works best for you.

No. 6: Start online
Deborah Ames Naylor, executive vice president of Pentagon Federal Credit Union in Alexandria, Va., recommends starting online with a refinance calculator that estimates your monthly payments at various loan terms.

"A shorter term loan will have a lower interest rate than a 30-year fixed-rate loan, but the payment will be higher because you're paying it off faster," says Naylor. "It's important to decide what payment you're comfortable making before you see a lender, because that payment could be much less than the payment you qualify for."

No. 7: Decide on a loan term
Barry Habib, founder and CEO of MBS Highway in New York City, says the loan term you choose needs to be made in the context of your other financial obligations and plans.

"If you have $30,000 in credit card debt and no savings for college, you may want to go for a 30-year loan to keep the payments as low as possible," says Habib. "Someone else may want a shorter term to build equity faster while another borrower might want a longer loan so they can keep their tax deduction as long as possible."

No. 8: Talk to multiple lenders
Once you've decided on your loan term ,it's time to research loan products available from a credit union, a regional or community bank, a direct lender and a national bank to find out what special programs they offer, says Naylor.

"Many lenders offer 'portfolio loans,' ones they keep in-house instead of selling on the secondary market," she says. "They can be more flexible with those loans and offer special promotions."

Instead of choosing a lender solely based on current mortgage rates, Russ Anderson, senior vice president and a centralized sales executive with Bank of America in Los Angeles, says you need to find a lender you can trust. "People get too wrapped up in the rate rather than finding someone who will communicate with them," he says. "You need to find someone you trust, who will be engaged in your family's financial situation."

No. 9: Review all your loan options

Lenders can discuss various loan products when you interview them.

"There's a broad product mix of conventional financing, government-backed programs like FHA loans and special refinancing programs through the Making Home Affordable program," says Anderson. "A good lender can present the pros and cons of each of these programs in the context of your individual finances."

No. 10: Decide how you will finance your refinance

You'll also need to decide how to pay for your refinance. Closing costs and lender fees can be paid at closing, wrapped into your loan balance or you can opt for a "no-cost" refinance.

"A no-cost refinance means that your lender will pay the fees and you'll pay a slightly higher interest rate of one-eighth to one-fourth percent," says Habib.

HSH.com's "Tri-Refi" refinance calculator can help you decide the best way to finance your refinance.

No. 11: Compare mortgage rates and fees

Advertised mortgage rates are sometimes based on paying points, so you need to make sure you compare loans with zero points or the same number of points.

"It's important to shop for the same loan on the same day to get a true comparison of mortgage rates, because mortgage rates change every day," says Smith. "You need to explain to each loan officer all the criteria for your refinance, not just ask 'what's today's rate on a $200,000 loan?' You should also ask about loan processing times."

Shopping by APR can be confusing, since different lender fees and policies can affect the outcome. It is possible for two loans to have identical rates and fees and different APRs. Conversely, two loans could have the same APR but different interest rates. Because of this, it is usually better for you to focus instead on the two most important components of APR: interest rate and fees.

The most important component of your refinance will generally be the interest rate, so you'll of course want to pay attention to that. Fees and closing costs matter, but whether you want or need to pay them will depend upon your situation. There are times when paying costs to obtain the lowest possible rate can make sense and times when it does not.

No. 12: Know when to lock in your rate

Once you've finalized your loan decision you should consult your lender about when to lock in your rate.

"Processing times for different lenders can range from 30 to 45 days to more than 90 days," says Smith. "Typically, lenders will do a 30- or 45-day rate lock, so you should be consulting with your lender to determine the appropriate day to lock your loan. If you have to extend the lock or relock your loan, that will likely cost you more money."

While shopping around for a refinance may take a little longer than refinancing with your current lender, the rewards can last as long as your loan.

http://www.fool.com/investing/general/2016/02/23/12-ways-to-get-the-lowest-mortgage-refinance-rates.aspx