



How to Approach your Rate-Lock: The Pro's and Con's of different approaches

Like a pot watched too closely that refuses to boil, excessive concern with the "perfect moment" to lock an interest rate generally causes unnecessary frustration and poor results. Therefore it shouldn't seem too surprising that those borrowers who take a "shoot from the hip" approach seem to do better at achieving a great interest rate than those who stare at the movements of the 10-year Treasury Note on their computer screen, and immerse themselves in the minutiae of the financial press, trying to pin-point the ideal moment to lock. Perhaps this is a corollary to the idea that one should "wear life like a loose garment".

Each borrower's priorities are different. When it comes to choosing both the method and the time to lock your rate, the important thing is to know your tolerance for risk and your appetite for reward before choosing your path.

Some borrowers will be happier with a rate that is a few basis points higher (albeit with both immediate gratification and certainty) knowing that they can lock their rate on DAY ONE, versus getting a slightly lower spread that may not be "lockable" for four to six weeks. The U.S. Treasury market can easily make a 20 b/p advantage vanish in a single day! There is certainly no right or wrong approach-all that counts is that the borrower is comfortable with the chosen approach.

How much cash will it take to lock the rate?

All rate locks are not created equal. Some commonly require a 3% good-faith deposit, while others require only .5%. Whether the deal size is \$3,000,000 or \$30,000,000, having or not having the appropriate amount of cash available may trim the list of available choices for you.

Always bear your exit strategy in mind:

Of course, the very same borrower who hits a home run by locking in a 10-year fixed rate at 5%, but feels crestfallen and berates him/herself for missing the "bottom" when Treasuries drop another few basis points, should carefully consider what happens at the "back end" of the new mortgage. Thinking carefully about the implications of a yield maintenance prepayment penalty vs. a much, much friendlier fixed, declining penalty schedule is almost as important as locking in the best rate.

What's out there? What's available in today's marketplace?

Of course, many of the lenders offering the very lowest interest rates to Multifamily, Retail, Office and Cooperative Underlying Mortgage borrowers are securitizing their loans in the secondary market. This almost always translates into a yield-maintenance or defeasance prepayment penalty.

In an effort to effectively compete, some commercial banks and S&L's are pulling out all the stops in an effort to differentiate themselves from the conduits and the agencies and are offering super-attractive prepayment penalties as a way to attract borrowers. Here are a couple of examples:

- A flat 1% penalty during the entire 10-year loan term.
- A super-attractive 2%, 2%, 1%, 1%, 1% during the first 5 years of a 10-year fixed-rate loan term, followed by a 0% penalty in years 6 through 10!!! Now that's flexible!

How does the interest rate compare? Yes, it's a tad higher, let's say by 10 to 20 basis points -- but how do you measure the value added by such "back end" flexibility?

None of these are easy questions to answer, and each borrower has his or her own priorities and criteria. Our job has three main components: to 1) listen carefully, 2) inform fully, and then to 3) execute the borrower's plan of attack effectively.

In conclusion, when pondering your rate lock options, take a moment to consider all the variables before choosing which path you're going to pursue.