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Locking in Interest Rates

The rate sheet on the previous page was incomplete. Time is a factor in pricing interest rates, too. Because interest rates change daily (and sometimes during the day) the longer a lender locks in a rate, the more risk that they have the market will move against them. Therefore, you pay more (in points) for a longer guarantee.

If interest rates are trending up, it makes sense to lock in your rate. If interest rates are trending down, it makes sense to "float" your interest rate so that you can take advantage of a shorter lock-in period. When rates are fairly stable, it also makes sense to "float" your loan to take advantage of a lower price for a shorter lock-in.

Rate 15 days 30 days 45 days

6.250%	2.000	2.125	2.250
6.375%	1.500	1.625	1.750
6.500%	1.000	1.250	1.375
6.625%	0.500	.625	.875
6.750%	0.000	.250	.375
6.875%	(.500)	(.250)	(.125)
7.000%	(1.000)	(.750)	(.500)
7.125%	(1.500)	(1.250)	(1.000)
7.250%	(1.875)	(1.625)	(1.375)
7.375%	(2.125)	(2.000)	(1.750)
7.500%	(2.375)	(2.250)	(2.000)

Risk and Market Fluctuation

Even when it is easy to predict a trend in interest rates, choosing not to lock in is a risk. That is because, even in the middle of a trend, the daily fluctuations of interest rates can be extremely volatile. Daily economic news affects interest rates, sometimes dramatically.

For example, if more new jobs were created in the previous month than the prognosticators expected, that could indicate the economy is speeding up faster than expected, which could be inflationary. Interest rate markets fear inflation. The day new employment figures are announced (the first Friday of each month) rates could swing wildly to the up side. A few days later the Purchasing Managers Index might show a smaller number than expected and rates will fall again.

You may reach a day when you have to lock in -- because you cannot draw the loan documents without locking in a rate. That might be a day when rates are up, even though they are trending downward. Locking in your rate provides a nice safe guarantee -- providing you close on time. It makes sense to build in a cushion because no one can guarantee you will close on time, even though everyone tries their best.