**“Mortgages: To Lock or Not?,”** How to decide whether to seek an interest-rate guarantee. AnnaMaria Andriotis, WSJ.com, Feb. 28, 2014 3:04 p.m. ET.

Banks are encouraging home buyers to lock in mortgage rates to guard against rising borrowing costs.

But borrowers should be cautious: Interest-rate locks often come with fees that can eat into savings and can prove costly if rates go down instead of up.

Rate locks allow home buyers to guarantee a certain interest rate on their mortgage if they close on the home sale within a set period—no matter what happens to rates in the open market. That way, home buyers can avoid a larger monthly payment than they anticipated when they applied for the loan.

The appeal of locking in a rate has grown over the past year, as interest rates reversed what had been a prolonged downward trend.

Since March 2013, the weekly average rate on a 30-year fixed-rate mortgage has climbed from a near-record low of 3.49% in May to as high as 4.69% in September, according to HSH.com, a mortgage-information website. Mortgage rates averaged 4.43% for the week ended Feb. 21.

But the drawbacks can be significant. "Rate locks are a two-edged sword," says Keith Gumbinger, a vice president at HSH.com.

To begin with, rate locks come at a cost. While many lenders offer free rate locks for as long as 45 or 60 days, the amount of time they typically need to process a mortgage, they often charge borrowers who want to buy protection for a longer period.

Moreover, lenders typically lock in interest rates above the current market rate, often by an eighth to a quarter of a percentage point, depending on the lender and duration of the lock. Longer-term rate locks typically cost more.

Lenders also can require a deposit, typically from 0.25% to 1% of the total mortgage amount, which is applied toward the home buyers' closing costs or refunded to them after the mortgage is approved.

Borrowers who decide not to go ahead with a home purchase and cancel the mortgage application likely will lose that deposit. Lenders that don't require a deposit often charge a cancellation fee that can cost borrowers about the same amount.

In recent months, lenders have made a renewed push to encourage mortgage applicants to sign up for a rate lock. The effort comes as lenders compete for a share of a shrinking pie—the number of applications associated with home purchases dropped in the week ended Feb. 21 to the lowest level since 1995, according to the Mortgage Bankers Association, a trade group in Washington.

Several lenders, including Toronto-Dominion Bank's TD Bank unit, which is based in Cherry Hill, N.J., and EverBank Financial, based in Jacksonville, Fla., last year added longer rate-lock periods of up to 180 days and 270 days, respectively. In March, Pittsburgh-based PNC Financial Services Group will stretch rate locks to as long as 180 days from a maximum of 90 days.

Some lenders, including EverBank and Mid-Atlantic Federal Credit Union, which is based in Germantown, Md., also recently began offering rate locks to consumers who haven't yet found the home they want to buy.

Longer rate locks could make sense for buyers who are in the process of building a new home and don't want to run the risk of incurring higher rates. They can also help borrowers trying to buy a foreclosed home, which can take several months.

To decide whether the costs are worth it, borrowers should first consider what would happen if they didn't lock in their rate.

For some home buyers, rising rates could mean they would only be able to borrow a smaller sum, which could derail the home purchase. A higher rate for homeowners who are trying to refinance a mortgage could diminish the savings they would get from a new loan.

On the other hand, home buyers could end up locking in a rate that is higher than the market rate when the purchase is completed.

To address that concern, several lenders allow borrowers to break the rate lock and get the lower interest rate, in most cases if rates have declined by at least a quarter of a percentage point.

Yet lenders often charge for this service as well, either with a fee of around 0.25% of the mortgage amount or by raising the interest rate they lock in by around an eighth of a percentage point.

Borrowers who are considering locking in an interest rate should start by checking with their everyday bank, which might offer a discount. Home buyers who are looking at different lenders should compare the various charges and penalties.

Another option is to avoid rate locks and, if interest rates rise, consider paying a fee to secure a lower interest rate. Borrowers who pay 1% of the mortgage amount—known as a point—can lower their interest rate by as much as a quarter of a percentage point.

The strategy can lead to greater savings than a rate lock if the borrower holds the loan for a long period.

Write to AnnaMaria Andriotis at AnnaMaria.Andriotis@wsj.com

