

Mortgage Interest Rates: What They Are, How They're Determined & What Affects Them

Opening Question

- “Why can two buyers applying on the same day receive different interest rates?”
 - Briefly explain why understanding rates matters:
 - Impacts monthly payment
 - Affects buying power
 - Influences long-term wealth
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Section 1: Mortgage Interest Rates Basics (5 Minutes)

What Is a Mortgage Interest Rate?

- Definition:
 - The cost of borrowing money from a lender
- Expressed as a percentage
- Paid over the life of the loan

Example

- \$300,000 loan at 6.5%

On a **\$300,000 mortgage loan** at a **6.5% fixed interest rate** over **30 years**, the estimated totals would be:

- **Monthly Principal & Interest Payment:** approximately **\$1,896**
- **Total Paid Over 30 Years:** approximately **\$682,560**
- **Total Interest Paid:** approximately **\$382,560**
- Difference between principal and interest
 - Principal = the amount of the payment going towards paying down your loan balance
 - Interest = the amount that gets paid to the creditor lending you the money up front that is covering the risk and funding of the loan file

Fixed-Rate Mortgage

- Rate stays the same

- Predictable payments
- Common terms:
 - 15-year
 - 30-year

Adjustable-Rate Mortgage (ARM)

- Initial fixed period
 - Rate can change later
 - Lower starting rate possible
 - Best for short-term ownership in some cases
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Section 2: How Mortgage Rates Are Determined

The Big Picture: The Mortgage Market

Lenders do not randomly choose rates.

Rates are influenced by:

- Financial markets
 - Investor demand
 - Economic conditions
 - Risk
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The Role of the Bond Market

Mortgage-backed securities (MBS)

- Mortgages bundled and sold to investors
- Investors influence pricing

Treasury Yields

- Especially the 10-Year Treasury
- Mortgage rates often move in the same direction

Key Point

- Mortgage rates can change daily—even multiple times per day
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Federal Reserve Influence

What the Fed Controls

- Federal Funds Rate

Important Clarification

- The Fed does NOT directly set mortgage rates

How the Fed Impacts Rates

- Inflation control
 - Economic policy
 - Market expectations
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Inflation's Impact

Higher Inflation Usually Means:

- Higher mortgage rates

Why?

- Investors demand higher returns
 - Money loses purchasing power over time
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Section 3: Factors That Affect a Borrower's Interest Rate

Credit Score

Higher Scores Usually Mean:

- Lower rates
 - Less lender risk
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Down Payment

Larger Down Payments Can:

- Reduce lender risk
 - Improve rate options
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Loan Type

Conventional Loans

- Often best rates for strong borrowers

FHA Loans

- Flexible credit requirements
- Mortgage insurance included

VA Loans

- Often competitive rates
- Benefits for eligible veterans

USDA Loans

- Similar to FHA & USDA for rates
 - Highest credit score requirement & property specific eligibility
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Loan Term

15-Year Loans

- Usually lower rates
- Higher monthly payments

30-Year Loans

- More affordable monthly payments
 - Higher total interest paid
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Occupancy Type

Primary Residence

- Best pricing

Second Homes & Investment Properties

- Typically higher rates
 - Greater perceived risk
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Debt-to-Income Ratio (DTI)

Lower DTI:

- Stronger borrower profile
 - Better pricing opportunities
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Discount Points

What Are Points?

- Optional upfront fee to lower rate

Explain:

- “Buying down the rate”

Good Discussion Topic:

- When paying points may or may not make sense
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Why Rates Fluctuate Daily

- Investor reactions
 - Global events
 - Stock market movement
 - Federal Reserve commentary
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Rate Locks

What Is a Rate Lock?

- Lender guarantees a rate for a set period

Common Lock Periods:

- 15 days
 - 30 days
 - 45–60 days
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Section 5: Navigating Rates:

Improve Credit Before Applying

- Pay down debt
- Avoid new credit inquiries

Work With Trusted Professionals

- Loan officer
- Realtor
- Financial advisor when appropriate