What Can Affect Your Mortgage Rate?

There are several factors that can influence your mortgage rate. One primary factor of mortgage rate movement is inflation. Inflation is a growing economy and increasing prices of goods and services. A growing economy means a higher demand for goods and services, allowing producers to increase their prices. This increase in prices therefore results in higher real-estate prices, higher apartment rents, and higher mortgage rates.

In an effort to reduce inflation and slow down economy, the Federal Reserve decreases interest rates, and in the process, lowers mortgage rates. Although mortgage rates have the propensity to move in the same direction as interest rates, their actual movements are also based on the supply and demand for mortgages.

Mortgage rates have a slightly different equation in their supply and demand when compared with interest rates. This slight difference is the reason why sometimes, mortgage rates move differently from other rates. For example, a lender has a commitment to make and is forced to close additional mortgages. To do so, they would have to decrease the mortgage rates even if interest rates are going up.

Additional Factors Affecting Mortgage Rates

Mortgage rates are influenced by several other factors besides inflation. Mortgage rates tend to increase when the amount of the loan increases. This expansion in mortgage rates is especially true if the loan amount exceeds the established loan limits of Fannie Mae and Freddie Mac. Loan limits typically change at the beginning with each year to conform with the trend mortgage rates have established.

The duration of the loan may also affect mortgage rates. Shorter loans usually equate to lower mortgage rates and longer loans can cost you higher mortgage rates. Loans with a 20-year or 15-year note can let you to save thousands of dollars on mortgage rate payments. However, this shorter time period also means that your mortgage rate payments every month will also be much higher.

To avoid this high payment, an adjustable mortgage rate may help you begin with a lower mortgage rate, but if interest rates grow, your monthly mortgage payments will rise as well. Fixed mortgage rates are typically higher than adjustable mortgage rates but they can save you money also, especially if the interest and mortgage rates go up.

Greater down payments can help you save up on your monthly mortgage rate payments. You can get the best possible mortgage rate with a down payment that is more than 20 percent. Higher mortgage rates are typical if the down payment is less than 5 percent since the beginning equity is smaller and provides less collateral.

Discount points are another thing that affects mortgage rates. Lower mortgage rates generally means higher points paid on your loan. The same rule applies for closing costs, which are fees that the lender must pay. Higher closing costs paid to them results in lower mortgage rates. However, if you do not want to pay for all the closing costs upfront, the lender will increase your mortgage rate in order to cover it.

The concept is quite simple. Lenders are generally willing to lower mortgage rates as long as more money is paid upfront. More money down results in lower mortgage rates. And less money down results in higher mortgage rates.