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# **How do lenders come up with the interest rates for mortgages?**

I want to know how banks set the interest rates for mortgages. All I know is that they move up and down with the fed funds rate and discount rate (Correct me if I am wrong). Does anyone know all factors that play into the rates that lenders come with? Is there a way to calculate or give more or less weight to any one of them? Thank you.

That is not to say that when the fed lowers rates the mortgage rates don't tend to fall slightly but not in unison.

The question i think you want to know is why the rate quotes differ so much does. The fact is all mortgage professionals are finding rates from the same pond so to speak.

Lenders and brokers have rate sheets it shows the rates that would be available to you what most people don't know....simply put it shows the rate with the borrower paying no points to get a lower rate and then the other which is it shows the lender or broker your rate that would pay him a yield spread! 1/2% of loan amount to as much as 3% of your loan amount

And in some cases the borrower has no idea of this! Or it is explained away when you see a high APR by saying the reason is because of the closing costs. Closing costs do move the apr higher but considering the apr is factored over the life of the loan 30 years or whatever your term is.

The term is yield spread or back end money. most brokers and lenders even banks split the amount they want to make between the lender fee and yield spread so if a lender wants to make 3% then they show half in the front of 1 1/2 % lender fee.

Borrowers should always focus on the rate. It is unfortunate that so many brokers use the raising of rates to make more money and that doing this can cost the borrowers tens if not hundreds of thousands of dollars in added interest.

The simple fact is you need to use a loan comparison calculator to show the differences in loan offers. 1/2 % higher rate on a 30 yr fixed with a 250k home loan is 48,750 in additional interest!

Remember that the majority of the first 10 years of mortgage payments go toward the interest you owe!

HERE IS A CALCULATOR TO SEETHE BIG PICTURE

You can also find this article published on [How do lenders come up with the interest rates for mortgages?](#), and on the tag pages [closing costs](#), [fed funds rate](#), [fed lowers rates](#), [how do lenders come up with the interest rates for mortgages](#), [hundreds of thousands](#), [interest rates](#), [loan comparison calculator](#), [mortgage rates](#), [thousands of dollars](#), [yield spread](#).