Title:
How Morgage Rates Work

Word Count:
493

Summary:
How mortgage rates are determined and how the money for these mortgages are obtained for the home buyer.

Keywords:
mortgage, loan, financing, banking, interest rates

Article Body:
Interest rates all start with the Fed rate. Basically, what the fed rate is, it is a rate that banks are offered as their borrowing rate from their local federal reserve. This fed rate is adjusted regularly by the Federal Reserve Board so that growth of an economic nature is achieved. For example, if the supple of money is reduced and the interest rates are increased, this usually means that there is oncoming inflation.

This causes the effect on mortgage rates to be not be immediate or direct from inflation or recession.

When you go to a bank in order get get a loan or mortgage to buy a new house or refinance your current house, they take that loan and sell it to various agencies. From there, the money that they get from selling the loan will go into allowing them to repeast the process and hand out more home loans.

The money that the agencies use to buy the loans come from other lenders that sell mortgage backed securities bonds. These are made of of many mortgages put together into a single bond. In the end, these bonds are considered one of the most secure investments allowing a lot of various people to invest in them. It should also be noted though, that sometimes the stock market competes with the same money that is sometimes invested in the bonds.

The competition between the stock market and the bonds depends on a number of different factors. When there are higher interest rates on the bonds, they get the upper hand and attract more investors. When the opposite happens and the stock markets are performing positively, the bulk of the investor money can go into the stock market.

Sometimes, in order to attract money and investors to the bonds that are backed by mortgages, they are given higher return on investment rates. Of course, this can in turn causes higher rates up the line to the home buyer.

Most of the time when you look at a bank's mortgage interest rate, it is an average calculated between all the different lenders across the United States. When you are looking to get a mortgage and working with your lender, the lender uses a set of criteria to determine the final rate that you will end up paying in the end. Usually, the more rick there is in the mortgage, the higher the interest rate you will end up paying.

The set of criteria that they consider are the lendee's debt income ratio, credit score rating and mortage to value ratio. This means that just because you see a specific rate posted at a bank or online, it does not mean that you will actually get that rate. Sometimes it can be more and other times it can be less. It just depends on how you fall into the criteria used. Basically, every loan is different and is done on a case by case basis.