What's Really Inside Your Mortgage Rate?

Why two borrowers get different rates on the same day — and how credit score, down payment, property type, occupancy, and loan purpose shape yours.

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Here's a situation we see every week: two borrowers apply for a mortgage on the same day, with the same lender, for the same loan amount. One is quoted 6.25%. The other is quoted 6.875%. Neither rate is a mistake — and neither borrower did anything "wrong."

So what happened?

The truth is that there is no single "mortgage rate." The rate you see advertised on TV or online is a starting point — usually the rate for a near-perfect scenario. From there, lenders apply a series of **pricing adjustments** based on the details of *your* loan: your credit score, your down payment, the type of property, how you'll use it, and what kind of loan you're getting. Every adjustment nudges your final rate (or your closing costs) up or down.

Once you understand how these adjustments work, you can make smarter decisions — and in many cases, meaningfully lower the rate you qualify for. Let's open the hood.

The Pricing Grid: How Lenders Actually Set Your Rate

For conventional loans, lenders don't guess. They use a standardized **pricing grid** — a table where one axis is your credit score and the other is your down payment (technically, your loan-to-value ratio). Your loan lands in one cell of that grid, and that cell tells the lender how much to adjust your pricing. Then additional adjustments stack on top for things like property type, occupancy, and loan purpose.

These adjustments are usually expressed in "points." One point equals 1% of your loan amount. On a $300,000 loan, one point is $3,000. You can pay adjustments as upfront closing costs, or — far more commonly — the lender absorbs them by giving you a slightly higher interest rate. That's why two identical-looking borrowers can walk away with very different rates: their loans landed in different cells of the grid.

Key idea: Your final rate = the market's base rate + the sum of every pricing adjustment your loan picks up. You can't control the market, but you *can* control several of the adjustments.

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Factor 1: Your Credit Score

Credit score is the single biggest lever you control. Pricing grids group scores into bands — typically 20-point steps — and every band you climb improves your pricing:

Credit Score Band	What It Means for Pricing
780+	Best available pricing on conventional loans
760–779	Excellent — very close to the best tier
740–759	Very good, modest adjustments begin
720–739	Good, adjustments grow with lower down payments
700–719	Noticeable adjustments in most scenarios
680–699	Meaningful cost added, especially with less equity
Below 680	Largest adjustments — every band matters a lot here

Here's the practical takeaway: **the difference between a 699 and a 700 is one point on paper, but it can be thousands of dollars on your loan**, because 700 puts you in a better band. If your score is sitting just below a 20-point boundary (699, 719, 739, 759, 779), it's often worth waiting 30–60 days to push it over the line before locking your rate.

Quick ways to climb a band

- **Pay credit card balances below 30% of the limit** (below 10% is even better). Utilization updates monthly, so this can move your score fast.
- **Don't close old cards** — age of credit helps you.
- **Don't open new accounts** in the months before applying.
- **Dispute errors** on your report — get your free reports at AnnualCreditReport.com.
- Ask us about a **rapid rescore** — if you've paid down balances, we can often get your score updated in days instead of months.

Factor 2: Your Down Payment

The second axis of the grid is how much equity you have — your down payment on a purchase, or your remaining equity on a refinance. More equity means less risk for the lender, which generally means better pricing. The common breakpoints are 5%, 10%, 15%, 20%, and 25% down.

But here's something that surprises almost everyone: **the relationship isn't a straight line.** Because loans with less than 20% down carry mortgage insurance (which protects the lender), the rate adjustments in the grid can actually be *smaller* in some low-down-payment cells than in the 20%-down cell — the insurance is absorbing part of the risk. Meanwhile, 25% down often prices better than 20%.

Real-world example: A borrower with a 740 score putting 20% down may see a very similar rate to a borrower putting 10% down — but the 10%-down borrower also pays monthly mortgage insurance. The borrower putting 25% down beats them both. If you're deciding between 20% and stretching to 22%, ask us to price both — sometimes the extra 5% to reach 25% is worth more than it looks, and sometimes it isn't. The grid decides, not the rule of thumb.

Where the Two Axes Meet

Credit score and down payment don't work independently — they multiply. A strong score can cushion a small down payment, and a big down payment can cushion a modest score. The most expensive corner of the grid is a lower score combined with high borrowing against the property; the cheapest corner is a 780+ score with 25% or more down.

This is why generic online rate quotes are almost useless. Until someone knows your score band *and* your equity position — plus the factors below — they cannot tell you your rate.

Factor 3: What Kind of Property Is It?

The property itself carries pricing weight:

- **Single-family detached home** — the baseline. No adjustment.
- **Condo** — typically adds cost when your down payment is smaller (usually less than 25% down), because condos historically lose value faster in downturns and the building's finances add risk.
- **2-unit (duplex)** — adds a moderate adjustment.
- **3–4 units (triplex/fourplex)** — adds more. Great wealth-building tools, but priced for the added complexity.
- **Manufactured homes** — carry their own adjustment.

None of this means you shouldn't buy a condo or a duplex — house-hacking a duplex is one of the best first moves in real estate. It just means the rate quote your friend got on their single-family house doesn't apply to your condo, and you should budget accordingly.

Factor 4: How Will You Use the Property?

Occupancy is one of the biggest adjustments on the entire grid:

- **Primary residence** (you live there) — the baseline and the best pricing.
- **Second home** — adds meaningful cost, and the adjustment has grown substantially in recent years.
- **Investment property** — the largest occupancy adjustment, often equivalent to several points depending on your down payment. This is why investor rates always look noticeably higher than the

rates you see advertised.

A word of caution: Never claim you'll occupy a property you intend to rent out just to get a better rate. That's occupancy fraud — a federal offense. The honest path costs a little more and is always worth it. And for investors, ask us about DSCR programs that qualify you on the property's rental income instead of your personal income.

Factor 5: Purchase, Rate & Term Refinance, or Cash-Out?

The purpose of your loan matters too:

- **Purchase** and **rate & term refinance** (replacing your loan without taking money out) — baseline pricing.
- **Cash-out refinance** (pulling equity out as cash) — adds a real adjustment that grows with your credit score band and how much of the home's value you're borrowing.

Cash-out adjustments stack on top of everything else. A cash-out refinance on an investment condo with a 690 score sits in one of the most expensive corners of the entire pricing system. Sometimes the smart play is to improve one factor first — wait for your score to climb a band, or take out slightly less cash to land in a better equity tier — before locking.

Other Ingredients in Your Rate

- **Loan term:** 15-year loans price better than 30-year loans.
- **Loan amount:** Very small loans and jumbo loans each price differently than standard loan sizes.
- **Points you choose to pay:** Separate from the automatic adjustments, you can voluntarily "buy down" your rate by paying points upfront. Whether that's worth it depends on how long you'll keep the loan — we'll do the break-even math with you.
- **Program type:** FHA, VA, and USDA loans use different pricing structures and are often gentler on lower credit scores — sometimes an FHA loan beats a conventional loan for the same borrower.

How to Get Your Best Rate: The Checklist

1. **Know your score before you shop.** If you're within 10–15 points of the next 20-point band, work on utilization first — it's the fastest lever.
2. **Run the numbers at multiple down payment levels.** Ask for pricing at 15%, 20%, and 25% down — the winner isn't always obvious.
3. **Be strategic about cash-out.** Taking a little less cash can drop you into a cheaper tier.
4. **Compare programs, not just rates.** Conventional vs. FHA can flip depending on your score.
5. **Time your lock.** If your score is about to improve or a debt is about to be paid off, tell us — a few weeks can change your band.

6. **Shop the wholesale market.** Every lender prices these adjustments slightly differently. As a broker, we run your exact scenario across 50+ wholesale lenders and let them compete — the same grid logic, but with dozens of chances to find your cheapest cell.

The advertised rate is a headline. Your rate is a story with at least six chapters: your credit, your equity, your property, how you'll use it, why you're borrowing, and who's pricing it. Control the chapters you can, and let us shop the rest.

Want to know where your scenario lands on the grid? Get your personalized rate →
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