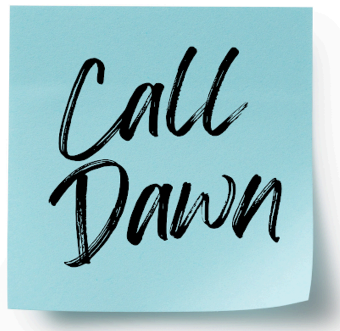
DIY Annual Percentage Rate (APR)



If our basic APR information hasn't satisfied your curiosity, you're in the right spot! Understanding your APR can sometimes require a hands-on approach. Fortunately, calculating your own APR is quite simple.

The Logic

The Annual Percentage Rate (APR) reflects the true cost of borrowing by including not only the interest rate but also certain closing costs associated with your mortgage. When evaluating different loan options, it's essential to factor in these additional loan costs alongside the interest you will pay. This comprehensive approach helps you make informed comparisons between various mortgage offers.

1. Calculate Your Payment

When it comes to mortgages, there are four critical elements you need to know:

1. **Loan Amount**: This is the initial principal balance of your mortgage.
2. **Term**: This refers to the length of your loan, typically expressed in months.
3. **Interest Rate**: Also known as the Note Rate, this is the percentage charged on your loan.
4. **Monthly Payment**: This is the amount you pay each month, covering both principal and interest.

If you have any three of these components, you can easily calculate the fourth. Using an amortization calculator makes this process straightforward. One reliable option is available at BrettWhissel.net, which I'll guide you through.

Step-by-Step Calculation

1. Visit BrettWhissel.net/amortization.
2. For the "principal," enter your loan amount.
3. Keep "12" for "payments per year."
4. Input your Note Rate in the "annual interest rate" field.
5. Enter your loan term (in months) under "number of regular payments."
6. Leave the "balloon payment" field blank.
7. Click on "calculate."

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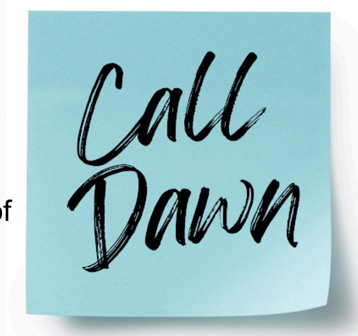
The calculator will then provide your monthly payment amount. Keep this page open, as we'll return to it shortly!



2. Calculate Your Finance Charges

The calculation of the Annual Percentage Rate (APR) is regulated under **Regulation Z** of the **Truth in Lending Act (TILA)**. Oversight and enforcement of these regulations fall under the **Consumer Financial Protection Bureau (CFPB)**. As part of this role, the CFPB specifies which transaction costs qualify as "finance charges" for APR calculations.

Most of these finance charges, often referred to as **APR fees**, are straightforward and intuitive. Common examples include **loan origination fees**, **administrative fees**, **discount points**, **interim interest**, and **mortgage insurance**—all of which are directly associated with securing a loan. Interestingly, the **appraisal fee**, though required by lenders, does not qualify as an APR fee.

It's also important to note that fees paid to third parties, such as those for **insurance**, **property taxes**, or **recording fees**, generally do not count as APR fees. However, the **settlement** or **escrow fee** charged by the title company is classified as a finance charge, which can be confusing since even cash buyers incur this expense.
Ultimately, we adhere to the guidelines set forth by the CFPB. Their comprehensive list of fees can be found online, specifically on page 12 of the linked document. For your convenience, refer to this list when assessing your APR fees.

Add up any of these APR fees applicable to your loan:

- Loan origination
- Discount Points
- Administrative
- Application
- Processing
- Document Preparation
- Underwriting
- Discount Points
- Tax Service
- Interest
- Mortgage Insurance
- FHA Up-Front MIP
- VA Funding Fee
- USDA Guarantee Fee
- Escrow Fee

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• Settlement Fee
• Courier Fee
• Wire Fee
• Tax Holdback Fee

Call Dawn

3. Calculate Your APR

How to Calculate Your APR:

Did you know your loan has four key components? When calculating your APR (Annual Percentage Rate), we'll keep two parts fixed, reduce one, and solve for the fourth: your interest rate. The constants in this process are your loan term and monthly payment, while we focus on determining your interest rate. To do this, we'll use the "Amount Financed" instead of your total loan amount.

Step 1: Determine the Amount Financed

Start by subtracting any APR-related fees from your total loan amount. The result is called the “Amount Financed.”

Step 2: Use an Amortization Calculator

Head back to the amortization calculator you set up earlier. Replace the “principal” with the Amount Financed you just calculated. Keep the following fields unchanged:

- Payments per year
- Number of regular payments
- Balloon payment (if applicable)
- Payment amount

Leave the “annual interest rate” field blank. Now, hit “Calculate.” The calculator will determine the “annual interest rate” for you, which is essentially your APR—or more accurately, *an* APR.

Why Doesn’t It Match?

It’s common for the APR on your official loan documents to differ from what you calculate on your own.

One key factor could be mortgage insurance. If your loan requires monthly mortgage insurance, those costs are included in the actual finance charges (assuming no

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early cancellation of the insurance and minimum loan payments). Since the manual calculation doesn't account for mortgage insurance, the APR you calculate will be lower than the real one. Calculating the APR for a loan with mortgage insurance can be quite complex.

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If your loan doesn't include mortgage insurance, you may have uncovered an industry secret: the APR calculation can vary. Different lenders and software providers interpret the APR formula in different ways, leading to multiple APR figures for the same loan. This is frustrating, especially since the APR was designed to provide a standardized way to compare loan costs.

One major factor affecting APR calculations is how lender credits are handled. For example, if you choose a loan rate that offers discount points as a credit, some APR formulas treat that credit as a "finance charge," which lowers your APR. Similarly, fees paid by the seller on your behalf are often excluded from the APR calculation because they aren't considered your expense. This can also result in a lower APR.

Our Software (and Attorneys)

The software we use to calculate the APR for your loan factors in all applicable fees while excluding seller credits and discount points that act as credits. This approach ensures we generate a "worst-case" APR scenario. If an APR is calculated below the government's allowable margin of error (0.125%), it would violate the Truth in Lending Act, exposing the lender to significant liability. To maintain compliance, our team—guided by legal experts—follows this method to ensure the APR we provide is accurate and compliant with regulations.

An Editorial Aside

We believe there's a strong argument for including negative discount points in the APR calculation. When you choose to lock in a higher interest rate, it's often because of the credit you're receiving, which reduces your closing costs. Since this credit directly lowers your loan expenses, it should logically reduce your APR as well. However, this is not the standard method for calculating and disclosing your APR.

Conversely, seller credits should not impact your APR. These concessions are typically part of negotiations related to your real estate transaction, like covering repair costs, and are not loan-related. Therefore, they shouldn't factor into your APR calculation.

For a detailed breakdown of what fees are included in your official APR, refer to your Truth-In-Lending form. This document is accompanied by an itemized list explaining your finance charges.

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