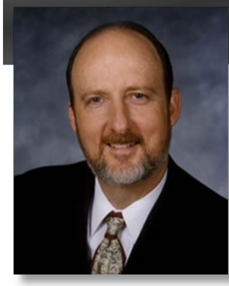
The Business Booster Collection



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MARK1 MORTGAGE OF ORANGE COUNTY

Annual Percentage Rate

What is the Real Cost of Financing?

Annual Percentage Rate (APR) is a tool that consumers can use as a starting point to compare loan programs. However, it's important to keep in mind that APR is not a perfect system, and not all lenders calculate APR in the same way. While the Federal Truth−in−Lending Act does require any mortgage broker or lender to disclose APR to the consumer, there is no rule written in stone for calculating this number that each and every lender agrees upon.

The point of calculating APR is to let the consumer know what the actual cost of their financing is in the form of a yearly rate. APR factors in certain closing costs and fees associated with the loan, and spreads this total over the life of the loan along with the actual note rate. The objective is to give the consumer a clearer picture of what their actual costs are, and this inhibits lenders from hiding fees or upfront costs behind low interest rates in their advertising.

Fees that are generally included in the APR calculation are points, pre−paid interest, loan processing fees, underwriting fees, document preparation fees, and private mortgage insurance. On occasion, lenders will include a loan application fee and/or credit life insurance. Fees that are normally not included in the APR calculation are fees from Title, Escrow, attorney, notary, document preparation, home inspection, recording, transfer taxes, credit report and appraisal.

Remember, all lenders do not perform the calculation the same way. Moreover, APR does not consider the possibility of making pre−payments, moving or refinancing. Unless the interest rate is tied to a fixed instrument, APR is even more confusing. Calculating APRs on adjustable rate and balloon mortgages is more complex because we really have no way of knowing what future rates will be.

If all lenders calculated APR the same way, we could make easy comparisons when deciding on what loan program to go with. Since they don't, the consumer should know that APR is simply a starting point for comparison. They should rely on the skills of a well−versed loan professional to assist them in obtaining the loan that meets their specific needs. The more important things to consider are how long the loan is needed. What are the long−term goals of the borrower? If the homebuyer only expects to stay in the home for five years, there's not a lot of sense in looking exclusively at 30−Year Fixed rates because the APR seems more reasonable. If a young couple is buying a home, knowing they will refinance in eight years to pay for their son's college education, then once again, APR is not a realistic factor to take into consideration.

The Loan Executive should be prepared to answer questions about APR once the lender provides the Truth−in−Lending Disclosure Statement (Reg Z), such as why the “amount financed” listed in Box C is not the same as the actual loan amount, and why the APR is higher than the interest rate on the loan in most cases. The consumer will get a clear definition about the fees associated with their loan in the good−faith estimate, but the Truth−in−Lending Disclosure is often an area that is confusing to the borrower.

Stay tuned for more Business Boosters coming your way!