



# LOAN AUDIT EXPERTS™

## FORENSIC COMPLIANCE AUDIT™

**Prepared for:**

Borrower

123 Main Street

Anytown, US 10000



# Contents

|  |    |
|--|----|
| Document Review.....                           | 5  |
| Summary of Findings.....                       | 6  |
| Compliance Review .....                        | 8  |
| Compliance Details.....                        | 11 |
| Loan Details.....                              | 18 |
| Loan Review.....                               | 23 |
| Truth In Lending Act.....                      | 30 |
| Real Estate Settlement Procedures Act .....    | 45 |
| Demand Letter – Qualified Written Request..... | 49 |
| Property Details.....                          | 70 |
| Market Analysis.....                           | 74 |
| Transaction History.....                       | 75 |
| Glossary.....                                  | 77 |

## Document Review

1. Uniform Residential Loan Application (1003)
2. Good Faith Estimate
3. Fixed Rate Note
4. Deed of Trust
5. Closing Instructions
6. HUD-1 Settlement Statement
7. Federal Truth-In-Lending Disclosure
8. Financial Analysis and Mortgage Questionnaire

## Summary of Findings

**This loan failed the initial TIL disclosure date test due to one of the following: (12 CFR §226.17(b), 226.19(a), as amended in 2009)**

The application date of the loan is on or before July 30, 2009, and:

The loan is a "residential mortgage transaction" subject to the Real Estate Settlement Procedures Act (12 U.S.C. §2601 et seq.); and

The initial TIL disclosure date is on or after consummation or three business days after the creditor receives the consumer's written application, whichever is earlier.

Calculations take into account a submitted preference that this test treat the creditor's office as being open to the public on Saturdays for carrying on substantially all of its business functions, as described in §226.2(a)(6) and as it relates to §226.19(a)(1)(i) (early disclosures three business days after application).

**This loan failed the Good Faith Estimate disclosure date test. (24 CFR §3500.7)**

The loan has a Good Faith Estimate disclosure date that is not within three business days after the application date, or is after the closing date.

The lender shall provide all applicants for a federally related mortgage loan with a good faith estimate of the amount of or range of charges for the specific settlement services the borrower is likely to incur in connection with the settlement. The lender shall provide the good faith estimate required under this section either by delivering the good faith estimate or by placing it in the mail to the loan applicant, not later than three business days after the application is received or prepared. Calculations take into account a submitted preference that this test treat the creditor's office as being open to the public on Saturdays for carrying on substantially all of its business functions, as described in 24 CFR §3500.2.

Based on the information reviewed in the documents provided it is evident the lender failed in its due diligence to ensure and document the borrower could afford or had an ability to repay this loan. The loan was originated as an Expanded Ratio or Alternative Stated loan failing to determine the borrowers' repayment ability. When this occurs, typically, the lender provides such credit and the loan is underwritten predominantly on the basis of the liquidation value of the collateral, without regard to the borrower's ability to service and repay the loan according to its terms absent resorting to that collateral.

"Predatory Lending" can be defined as any lien secured by real estate which shares well known common characteristics. The terms "abusive lending" or "predatory lending" are most frequently defined by reference to a variety of lending practices. Although it is generally necessary to consider the totality of the circumstances to assess whether a loan is predatory, a fundamental characteristic of predatory lending is the aggressive marketing of credit to prospective borrowers who simply cannot afford the credit on the terms being offered.

Constructive Fraud should apply under the law, although deceptive intent may be missing, but because it has the same consequences as an actual fraud would have. The lender failed to evaluate this loan with any true benefit to borrower. There is a lack of fairness and justice, such as to prevent violation of a public or private trust or confidence, the breach of a fiduciary duty, or the use of undue influence. Thus

# Compliance Review

## Federal HOEPA (Sections 32, 35)

|  | Result     | Loan Data | Comparison Data | Variance |
|--|------------|-----------|-----------------|----------|
| HOEPA Higher-Priced Mortgage Loan:                       | N/A        |           |                 |          |
| HOEPA Higher-Priced Mortgage Loan Prepayment Term Test:  | N/A        |           |                 |          |
| HOEPA Higher-Priced Mortgage Loan Document Type Test:    | N/A        |           |                 |          |
| HOEPA High Cost Mortgage APR Threshold Test:             | N/A        |           |                 |          |
| HOEPA High Cost Mortgage Points and Fees Threshold Test: | N/A        |           |                 |          |
| HOEPA High Cost Mortgage:                                | NO         |           |                 |          |
| HOEPA High Cost Mortgage Timing of Disclosure Test:      | N/A        |           |                 |          |
| HOEPA High Cost Mortgage Balloon Payment Test:           | N/A        |           |                 |          |
| HOEPA High Cost Mortgage Negative Amortization Test:     | N/A        |           |                 |          |
| HOEPA High Cost Mortgage Prepayment Term Test:           | N/A        |           |                 |          |
| HOEPA High Cost Mortgage Document Type Test:             | NOT TESTED |           |                 |          |

## Federal TILA

|  | Result | Loan Data    | Comparison Data | Variance    |
|--|--------|--------------|-----------------|-------------|
| TILA Finance Charge Test:                        | PASS   | \$273,234.31 | \$268,585.05    | +\$4,649.26 |
| TILA Foreclosure Rescission Finance Charge Test: | N/A    |              |                 |             |
| TILA APR Test:                                   | PASS   | 7.906%       | 7.625%          | +0.281%     |
| TILA Right of Rescission Test:                   | N/A    |              |                 |             |
| Initial TIL Disclosure Date Test:                | FAIL   |              |                 |             |

## Federal RESPA

|  | Result     | Loan Data | Comparison Data | Variance |
|--|------------|-----------|-----------------|----------|
| RESPA GFE Disclosure Date Test:  | FAIL       |           |                 |          |
| RESPA "Your Credit or Charge" (802) Disallowed Credit and Charge Test: | NOT TESTED |           |                 |          |

## Standard & Poor's

|                     | Result | Loan Data | Comparison Data | Variance |
|---------------------|--------|-----------|-----------------|----------|
| S&P High Cost Loan: | NO     |           |                 |          |
| S&P Covered Loan:   | NO     |           |                 |          |
| S&P Home Loan:      | NO     |           |                 |          |

# Compliance Details

## Federal HOEPA (Sections 32, 35)

|   |                   |
|---|-------------------|
| <p><b>The HOEPA higher-priced mortgage loan threshold is not applicable to this loan for one of the following reasons: (12 CFR §226.35(a)(3) as enacted in 2008)</b></p> <ul style="list-style-type: none"> <li>➤ The loan has an application date before the effective date of October 1, 2009; or</li> <li>➤ The loan is a transaction to finance the initial construction of a dwelling; or</li> <li>➤ The loan is a temporary or "bridge" loan with a term of 12 months or less, such as a loan to purchase a new dwelling where the consumer plans to sell a current dwelling within 12 months.</li> </ul> | <p><b>N/A</b></p> |
| <p><b>The HOEPA higher-priced mortgage loan prepayment term test is not applicable to this loan. (12 CFR §226.35(a)(3), (b)(2) as enacted in 2008)</b><br/>The loan is not a higher-priced mortgage loan.</p>   | <p><b>N/A</b></p> |
| <p><b>The HOEPA higher-priced mortgage loan document type test is not applicable to this loan. (12 CFR §226.35(a) as enacted in 2008)</b><br/>The loan is not a higher-priced mortgage loan.</p>  | <p><b>N/A</b></p> |
| <p><b>The HOEPA high cost mortgage APR threshold test is not applicable to this loan. (12 CFR §226.32(a)(1)(i) as enacted in 1995, 12 CFR §226.2 as enacted in 1995)</b><br/>The loan is a residential mortgage transaction.</p>  | <p><b>N/A</b></p> |
| <p><b>The HOEPA high cost mortgage points and fees threshold test is not applicable to this loan. (12 CFR §226.32(a)(1)(i) as enacted in 1995, 12 CFR §226.2 as enacted in 1995)</b><br/>The loan is a residential mortgage transaction.</p>  | <p><b>N/A</b></p> |
| <p><b>High Cost Mortgage (12 CFR §226.32(a)(1)(i), (ii) as enacted in 1995, and amended in 2001) (12 CFR §226.2 as enacted in 1995)</b><br/>The loan is not a high cost mortgage due to one of the following findings:</p> <p style="padding-left: 40px;">The loan passed both the high cost mortgage APR threshold test and the high cost mortgage points and fees threshold test; or<br/>The loan is a residential mortgage transaction.</p>  | <p><b>NO</b></p>  |
| <p><b>The timing of disclosure test is not applicable to this loan due to one or more of the following findings: (12 CFR §226.31(c) as enacted in 1995) (12 CFR §226.32(a) as enacted in 1995)</b></p> <p style="padding-left: 40px;">Pre-close audits do not pertain to the consummation of a loan.<br/>The loan is not a high cost mortgage.</p>  | <p><b>N/A</b></p> |
| <p><b>The balloon payment test is not applicable to this loan. (12 CFR §226.32(a) as enacted in 1995)</b><br/>The loan is not a high cost mortgage.</p>   | <p><b>N/A</b></p> |
| <p><b>The negative amortization test is not applicable to this loan. (12 CFR §226.32(a) as enacted in 1995)</b><br/>The loan is not a high cost mortgage.</p>   | <p><b>N/A</b></p> |
| <p><b>The prepayment term test is not applicable to this loan. (12 CFR §226.32(a) as enacted in 1995)</b><br/>The loan is not a high cost mortgage.</p>   | <p><b>N/A</b></p> |

# Loan Details

## Client

|           |           |            |       |              |          |
|-----------|-----------|------------|-------|--------------|----------|
| Audit ID: | 409F43000 | User Name: | 17542 | Client Name: | Borrower |
|-----------|-----------|------------|-------|--------------|----------|

## Lender

|                     |                    |   |  |
|---------------------|--------------------|---|--|
| Lender Name:        | Wells Fargo        | : |  |
| Lender Loan Number: | 0000000000         | : |  |
| Originator Name:    | LoanSource Funding | : |  |
| MIN:                | N/A                | : |  |

## Borrower

|               |                    |            |                 |
|---------------|--------------------|------------|-----------------|
| First Name:   | Borrower           | Last Name: | Borrower        |
| Total Income: | \$5,172.00 / month | DTI Ratio: | <b>52.000</b> % |

## Property

|            |                   |                      |                  |        |
|------------|-------------------|----------------------|------------------|--------|
| Address:   |                   |                      |                  |        |
| Number     | Street Name       | Type (St, Ave, etc.) | Direction        | Unit # |
| 123        | Main              | Drive                |                  |        |
| City       | County            | State                | Zip              |        |
| AnyTown    | Any               | US                   | 10000            |        |
| Type:      | Detached SFD      |                      | Number of Units: | 1      |
| Occupancy: | Primary Residence |                      |                  |        |

## Loan Information

|   |              |                                    |              |
|---|--------------|------------------------------------|--------------|
| Loan Amount: (exclude PMI, MIP, Funding Fee financed) | \$172,800.00 | Loan Amount: (with Finance Charge) | \$172,800.00 |
| Program Type:   | Fixed        | Interest Rate:                     | 7.625 %      |
| Loan Purpose:   | Purchase     | Undiscounted Rate:                 | %            |
| Purpose of Refinance:                                 |              | Disclosed APR:                     | 7.906 %      |
| Refinancing Portfolio Loan:                           |              | Disclosed Finance Charge:          | \$273,234.31 |
| LTV Ratio:  | 80.000 %     | Irregular Payment Transaction:     | No           |
| CLTV Ratio:   | 100.000 %    | Maturity Term:                     | 360 months   |
| Loan Type:  | Conventional | Amortization Term:                 | 360 months   |



# Loan Review

Please be aware that as part of our forensic audit process – errors and potential fraud violations may have been discovered from many different parts of your loan.

There are many different types of Loans – the most common are:

- Fixed rate 30 year mortgage fully amortized
- Fixed rate 30 year mortgage amortized but partially negative – i.e. borrower pays less than the full payment and the balanced owed on the note goes up
- Fixed rate mortgage interest only, negative amortization. Clear TILA violation in most cases
- Adjustable rate mortgage fully amortized. First adjustment after teaser rate in 1, 3, 6, 12 or more months. Borrower “qualifies” for mortgage because income amount supports paying the teaser rate. After the first or second adjustment borrower no longer qualify and the lender knows this by definition
- Adjustable rate interest only, negative amortization – Option Arms, Teaser Rates, Sub Prime 2/28, 3/27etc.

According to the Interagency Guidance Final Decision on Nontraditional Mortgage Products for all nontraditional mortgage loan products, a lending institution’s analysis of a borrowers’ repayment capacity should include an evaluation of their ability to repay the debt by final maturity at the fully indexed rate, assuming a fully amortizing repayment schedule.

The agency further believes that lending institutions should maintain qualification standards that include a credible analysis of a borrower’s capacity to repay the full amount of credit that may be extended. That analysis should consider both principal and interest at the fully indexed rate.

**At a fully indexed rate of 7.625% your required income for a \$172,800 mortgage is \$90,536.**

An income of \$90,536 provides for a maximum Principal, Interest, Taxes and Insurance (PITI) payment of \$1,723.07. After taxes and insurance your principal and interest payment (PI) of \$1,223.07 would pay for a \$172,800 mortgage, with an interest rate of 7.625% and a term of 30 years.

| Mortgage Required Income Results |          |
|----------------------------------|----------|
| Term                             | 30 years |

# Truth In Lending Act

## CONSUMER PROTECTION

### CONSUMER CREDIT PROTECTION ACT

#### § 1. Short title of entire Act

*[Codified to 15 U.S.C. 1601 note]*

*[Source: Section 1 of title I of the Act of May 29, 1968 (Pub. L. No. 90--321; 82 Stat. 146), effective May 29, 1968]*

### TITLE I—CONSUMER CREDIT COST DISCLOSURE

| Chapter | Section                 |
|---------|-------------------------|
| 1.      | GENERAL PROVISIONS 101  |
| 2.      | CREDIT TRANSACTIONS 121 |
| 3.      | CREDIT ADVERTISING 141  |
| 4.      | CREDIT BILLING 161      |
| 5.      | CONSUMER LEASES 181     |

#### CHAPTER 1—GENERAL PROVISIONS

Sec.

- 101. Short title.
- 102. Findings and declaration of purpose.
- 103. Definitions and rules of construction.
- 104. Exempted transactions.
- 105. Regulations.
- 106. Determination of finance charge.
- 107. Determination of annual percentage rate.
- 108. Administrative enforcement.
- 109. Views of other agencies.
- 110. [Repealed.]
- 111. Effect on other laws.
- 112. Criminal liability for willful and knowing violation.
- 113. Effect on governmental agencies.
- 114. Reports by Board and Attorney General.
- 115. [Repealed.]

#### § 101. Short title

This title may be cited as the Truth in Lending Act.

*[Codified to 15 U.S.C. 1601 note]*

# RESPA – Real Estate Settlement Procedures Act

## Introduction

The **Real Estate Settlement Procedures Act (RESPA)** is a consumer protection statute, first passed in 1974. The purposes of RESPA are

1. to help consumers become better shoppers for settlement services and
2. to eliminate kickbacks and referral fees that unnecessarily increase the costs of certain settlement services.

## Details about RESPA

Corresponding with the above purposes:

1. RESPA requires that borrowers receive disclosures at various times. Some disclosures spell out the costs associated with the settlement, outline lender servicing and escrow account practices and describe business relationships between settlement service providers.
2. RESPA also prohibits certain practices that increase the cost of settlement services. **Section 8** of RESPA prohibits a person from giving or accepting any thing of value for referrals of settlement service business related to a federally related mortgage loan. It also prohibits a person from giving or accepting any part of a charge for services that are not performed. **Section 9** of RESPA prohibits home sellers from requiring home buyers to purchase title insurance from a particular company.

## RESPA in general

RESPA covers loans secured with a mortgage placed on a one-to-four family residential property. These include most purchase loans, assumptions, refinances, property improvement loans, and equity lines of credit. HUD's Office of RESPA and Interstate Land Sales is responsible for enforcing RESPA.

## RESPA required disclosures:

### At the time of loan application

When borrowers apply for a mortgage loan, mortgage brokers and/or lenders must give the borrowers:

- a Special Information Booklet, which contains consumer information regarding various real estate settlement services. (Required for purchase transactions only) and
- a Good Faith Estimate (GFE) of settlement costs, which lists the charges the buyer is likely to pay at settlement. This is only an estimate and the actual charges may differ. If a lender requires the borrower to use a particular settlement provider, then the lender must disclose this requirement on the GFE.
- a Mortgage Servicing Disclosure Statement, which discloses to the borrower whether the lender intends to service the loan or transfer it to another lender. It also provides information about complaint resolution.

**If the borrowers don't get these documents at the time of application**, the lender must mail them within three business days of receiving the loan application.

**If the lender turns down the loan within three days**, however, then RESPA does not require the lender to provide these documents.

The RESPA statute does **not** provide an explicit penalty for the failure to provide the Special Information Booklet, Good Faith Estimate or Mortgage Servicing Statement. However, bank regulators may choose to

## Demand Letters - Qualified Written Request

A Qualified Written Request (QWR) is a formal request for documentation and answers to questions that have been raised as part of this audit process. Please follow these instructions for mailing your QWR.

1. Carefully Review the document for your understanding and Sign.
2. Make 4 to 5 copies (you will need to keep a copy for your records).
3. Mail additional copies to the address below- Mail registered certified mail and keep all receipts.

Original Signature – Wells Fargo Home Mortgage  
P.O. Box 10335  
Des Moines, IA 50306-0335  
Attn: Account Manager

Copied QWR - Federal Trade Commission  
600 Pennsylvania Avenue NW  
Washington, DC 20580

Office of Housing Enterprise Oversight (OFHEO)  
1700 G Street, NW, Fourth Floor  
Washington, DC 20552

Office of RESPA and Interstate Land Sales  
Office of Housing, Room 9146  
Department of Housing and Urban Development  
451 Seventh Street, SW  
Washington, DC 20410

Government National Mortgage Association  
451 Seventh Street, SW  
Washington DC 20410

According to RESPA 12 USC Section 2605(e) your lender has 20 days to acknowledge receipt of your Qualified Written Request and 60 Days to provide you with answers to your question.

**Borrower**  
**123 Main Street, Anytown US 10000**

Wells Fargo Home Mortgage  
P.O. Box 10335  
Des Moines, IA 50306-0335  
Attn: Account Manager

September 30, 2010

**RESPA QUALIFIED WRITTEN REQUEST, COMPLAINT,  
DISPUTE OF DEBT & VALIDATION OF DEBT LETTER, TILA REQUEST**

**This letter is a “qualified written request” in compliance with and under the Real Estate Settlement Procedures Act, 12 U.S.C. Section 2605 (e) and Regulation X 24 C.F.R. 3500, and The Gramm Leach Bliley Act.**

REF: Alleged Account # 000000000  
123 Main Street, Anytown US 10000

Dear Madam or Sir:

Please be advised of your legal obligation to answer this additional Qualified Written Request and to obtain all records and documents pertaining to the above-mentioned Loan No. This request is made pursuant to the Real Estate Settlement and Procedures Act (RESPA). I have reason to believe that certain disclosures and documentation have been withheld in violation of the Truth in Lending Act (TILA) and that various Real Settlement Procedures Act (RESPA) loan servicing errors may have occurred.

To ensure legal claims are brought against the appropriate parties I am requesting evidence to support or exclude WELLS FARGO HOME MORTGAGE and to satisfactorily provide me a good clear and clean hands understanding and clarification from you, of various sale, transfer, funding source, legal and beneficial ownership, charges, credits, debits, transactions, reversals, actions, payments, analyses and records related to the servicing of this account from its

# Property Details

## Property

**Primary Owner:**  
Borrower

**Secondary Owner:**

**Mail Address:** 123 MAIN ST ANYTOWN US 10000

**Site Address:** 123 MAIN ST ANYTOWN US 10000

**APN :** XXXXXXXX      **Lot Number :** Page Grid : 598-F7

**Housing Tract Number:**

**Legal Description :** Abbreviated Description: SEC/TWN/RNG/MER:

## PROPERTY DETAILS

**Bedrooms :** 3      **Year Built :** 1960      **Square Feet :** 996 SF

**Bathrooms :** 1      **Garage :** Attached 2      **Lot Size :** 7,405 SF

**Total Rooms :**      **Fireplace :** 1      **Number of Units :** 0

**Zoning :** LR7      **Pool :**      **Use Code :** Single Family Residential

## SALE & LOAN

**Transfer Date :** 05/03/2007      **Seller :** R BORROWER

**Transfer Value :** \$216,000      **Document # :** XXXXX      **Cost/Sq Feet :** \$216

## ASSESSMENT & TAXES

**Assessed Value :** \$108,090      **Percent Improvement :**      **Homeowner Exemption :**

**Land Value :**      **Tax Amount :** \$2,246.33      **Tax Rate Area :** 406

**Improvement Value :**      **Tax Status :** Current      **Tax Account ID :** R119269

**Market Improvement Value :** \$83,310      **Market Land Value :** \$92,500      **Market Value :** \$175,810

## COMPARABLES

1      124 MAIN ST  
ANYTOWN US 1000      08/27/2010      \$156,700      \$144      1,088      /3/2      1956 6,970 SF

## Transaction History

### Mortgage Record

|                          |                     |                          |                         |
|--------------------------|---------------------|--------------------------|-------------------------|
| <b>Recording Date</b>    | 05/03/2007          | <b>Document #</b>        | XXXXXXXX                |
| <b>Loan Amount:</b>      | \$43,200            | <b>Loan Type</b>         | Credit Line (Revolving) |
| <b>TD Due Date</b>       | 05/15/2022          | <b>Type of Financing</b> |                         |
| <b>Lender Name</b>       | WELLS FARGO BANK NA |                          |                         |
| <b>Lender Type</b>       | Bank                | <b>Vesting</b>           |                         |
| <b>Borrowers Name</b>    | BORROWER            |                          |                         |
| <b>Legal Description</b> | : Lot: 9            |                          |                         |

### Prior Transfer

|                          |                     |                      |                     |
|--------------------------|---------------------|----------------------|---------------------|
| <b>Recording Date</b>    | 05/03/2007          | <b>Document #</b>    | XXXXXX              |
| <b>Price</b>             | \$216,000           | <b>Document Type</b> | Warranty Deed       |
| <b>First TD</b>          | \$172,800           | <b>Type of Sale</b>  | Full Amount on Deed |
| <b>Mortgage Doc #</b>    | 2007-079322         | <b>Interest Rate</b> |                     |
| <b>Lender Name</b>       | WELLS FARGO BANK NA |                      |                     |
| <b>Buyer Name</b>        | BORROWER            | <b>Seller Name</b>   | BORROWER            |
| <b>Buyer Vesting</b>     | N/A                 |                      |                     |
| <b>Legal Description</b> | : Lot: 9            |                      |                     |

### Prior Transfer

|                       |            |                      |                                  |
|-----------------------|------------|----------------------|----------------------------------|
| <b>Recording Date</b> | 04/18/2007 | <b>Document #</b>    | BK-PG: -                         |
| <b>Price</b>          | \$216,000  | <b>Document Type</b> | N/A                              |
| <b>First TD</b>       | N/A        | <b>Type of Sale</b>  | Per Assessor Transaction History |
| <b>Mortgage Doc #</b> |            | <b>Interest Rate</b> |                                  |
| <b>Lender Name</b>    | N/A        |                      |                                  |

## Glossary

Banks will often shower you with confusing terms and legal language. It's important that you be an informed consumer. Listed below are commonly used terms that you should be familiar with when dealing with your lender.

### **Acceleration Clause**

A provision that allows the lender to demand the entire balance of the mortgage loan when the borrower fails to make some installment payments.

### **Affidavit**

A written statement, usually given while under oath or in the presence of a notary.

### **Amortization Schedule**

(Payment Schedule, Monthly Schedule) The dollar figures in the Payment Schedule represent principal, interest, plus Private Mortgage Insurance (if applicable) over the life of the loan. These figures will not reflect taxes, insurance, escrows, or any temporary buy down payment contributed by the seller.

### **Amortize**

Loan payment by equal periodic payment calculated to pay off the debt at the end of a fixed period, including accrued interest on the outstanding balance.

### **Amount Financed**

The loan amount applied for less the prepaid finance charges (found on the Good Faith Estimate). For example, if the borrower's note is for \$100,000 and the Prepaid Finance Charges total \$5,000, the amount financed would be \$95,000. The Amount Financed is the figure on which the Annual Percentage Rate is based.

### **APR (Annual Percentage Rate)**

This is not the Note rate for which the borrower applied. The Annual Percentage Rate (APR) is the cost of the loan in percentage terms, taking into account various loan charges of which interest is only one. Other charges used to calculate the Annual Percentage Rate are Private Mortgage Insurance or FHA Mortgage Insurance Premium (when applicable) and Prepaid Finance Charges (loan discount, origination fees, prepaid interest, and other credit costs). The APR is calculated by spreading these charges over the life of the loan, which results in a rate higher than the interest rate shown on your Mortgage/Deed of Trust Note. If interest were the only Finance Charge, the interest rate and Annual Percentage Rate would be the same.