

Federal law provides that you receive a federal Truth in Lending Disclosure Statement before consummating a consumer credit transaction. It should be studied carefully as well as other information given to you regarding the credit transaction.

Following are some of the most frequently asked questions about the Truth in Lending Statement and their answers.

### **WHAT IS A TRUTH IN LENDING DISCLOSURE STATEMENT AND WHY DO I RECEIVE IT?**

Your Disclosure Statement provides information set forth by federal law (Regulation Z, RESPA). The Disclosure is designed to give you information about the costs of your credit so that you may compare those costs with those of other loan programs or lenders.

### **WHAT IS THE ANNUAL PERCENTAGE RATE? (Box "A" front)**

This should not be confused with your note rate. The Annual Percentage Rate, or APR, is the cost of your credit expressed as an annual rate. Because you may be paying closing costs, also known as Prepaid Finance Charges (origination fee, discount points, mortgage insurance, interest), the APR on the disclosure is often higher than the interest rate on your loan. This APR can be compared to the APR of other loan programs to give you a consistent means of comparing rates and programs.

### **WHY IS THE ANNUAL PERCENTAGE RATE DIFFERENT FROM THE INTEREST RATE FOR WHICH I APPLIED?**

The APR is computed from the Amount Financed based on what your proposed payments will be on the actual loan amount credited to you at the time the loan is closed. For example, a \$50,000 loan with \$2,000 in Prepaid Finance Charges, a fixed interest rate of 12%, and a 30 year term, the payments would be \$514.31(principal and interest only). Since the APR is based on the Amount Financed, (\$50,000 - \$2,000 = \$48,000) while the payment is based on the actual loan amount (\$50,000), the APR would be 12.553% which is higher than the interest or note rate.

### **WHAT IS THE FINANCE CHARGE? (Box "B" front)**

The Finance Charge is the cost of credit expressed in dollars. It is the total amount of interest calculated at the interest rate over the life of the loan, plus Prepaid Finance Charges and the total amount of any required mortgage insurance charged over the life of the loan.

### **WHAT IS THE AMOUNT FINANCED? (Box "C" front)**

This should not be confused with your loan (mortgage) amount. The Amount Financed is the amount of credit provided to you or on your behalf, MINUS Prepaid Finance Charges. Prepaid Finance Charges include, but are not limited to, items paid at or before the loan closing, such as loan origination, commitment or discount fees (points), interest, and initial mortgage insurance premium. The Amount Financed represents a NET figure used to allow you to accurately assess the amount of credit actually provided.

The Amount Financed is lower than the amount you applied for because it represents a NET figure. If someone applied for a mortgage of \$50,000 and their Prepaid Finance Charges total \$2,000, the Amount Financed would be shown as \$48,000 (\$50,000 minus \$2,000).

### **DOES THIS MEAN I WILL GET A LOWER MORTGAGE THAN I APPLIED FOR?**

No, if your loan is approved for the amount you applied for, that's how much will be credited toward your home purchase or refinance at closing. The mortgage note will show the final amount you have borrowed.

### **WHAT IS THE TOTAL OF PAYMENTS? (Box "D" front)**

This figure indicates the total amount you will have paid if you make the minimum required payments for the entire term of the loan. This includes principal, interest, and mortgage insurance premium (if required), but does not include payments for real estate taxes or property insurance premiums.

### **I DON'T UNDERSTAND THE PAYMENT SCHEDULE.**

The payments shown in the disclosures represent principal, interest, and mortgage insurance premium (if required). The payment schedule does not include payments for real estate taxes or property insurance premiums. The payments can vary for a number of reasons. If you have an Adjustable Rate Mortgage for example, the payment schedule will show the payments due on the loan based on any adjustments noted in your program description. If you have mortgage insurance, the payments are effected by prepaid mortgage insurance premiums.

### **MY STATEMENT SAYS THAT IF I PAY THE LOAN OFF EARLY, I WILL NOT BE ENTITLED TO A REFUND OF PART OF THE FINANCE CHARGE. WHAT DOES THIS MEAN?**

This means that you will be charged interest for the period of time in which you used the money loaned to you. Your PREPAID finance charges are generally not refundable, nor is any interest which has already been paid. If you pay the loan off early, you should not have to pay the full amount of the "Finance Charges" shown on the disclosure. This charge represents an estimate of the full amount the loan would cost you if the minimum required payments were made each month through the life of the loan. If you have mortgage insurance you may be entitled to a refund of any unused portion of mortgage insurance paid at time the loan closed.

### **WHY MUST I SIGN THE DISCLOSURE STATEMENT?**

Lenders are required, by law, to provide the information on the statement to you in a timely manner. Your signature merely indicates that you have received the information and does not obligate either you or your lender in any way unless the disclosures are part of the contractual agreement.



The Indiana Department of Financial Institutions, Division of Consumer Credit has many other credit related brochures available, such as:

- Answers to Credit Problems
- Applying for Credit
- At Home Shopping Rights
- Bankruptcy Facts
- Buried in Debt
- Car Financing Scams
- Charge Card Fraud
- Choosing A Credit Card
- Co-Signing
- Credit and Divorce
- Credit and Older Consumers
- Deep in Debt?
- Equal Credit Opportunity
- Fair Credit Reporting
- Fair Debt Collection
- Gold Cards
- Hang up on Fraud
- High Rate Mortgages
- Home Equity Credit Lines
- How to Avoid Bankruptcy
- Indiana Uniform Consumer Credit Code
- Look Before you Lease
- Mortgage Loans
- Repossession
- Reverse Mortgage Loans
- Rule of 78s – What is it?
- Scoring for Credit
- Shopping for Credit
- Using Credit Cards
- Variable Rate Credit
- What is a Budget?
- What is the DFI?

Call our toll-free number or write to the address on the cover for a copy of any of the brochures listed or for further consumer credit information.



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# QUESTIONS AND ANSWERS ABOUT TRUTH IN LENDING DISCLOSURES

ANNUAL PERCENT- AGE RATE	FINANCE CHARGE	Amount Financed	Total of Payments
The cost of your credit as a yearly rate.	The dollar amount the credit will cost you.	The amount of credit provided to you on your behalf.	The amount you will have paid after you have made all payments as scheduled.
<b>A</b> %	<b>\$ B</b>	<b>\$ C</b>	<b>\$ D</b>

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